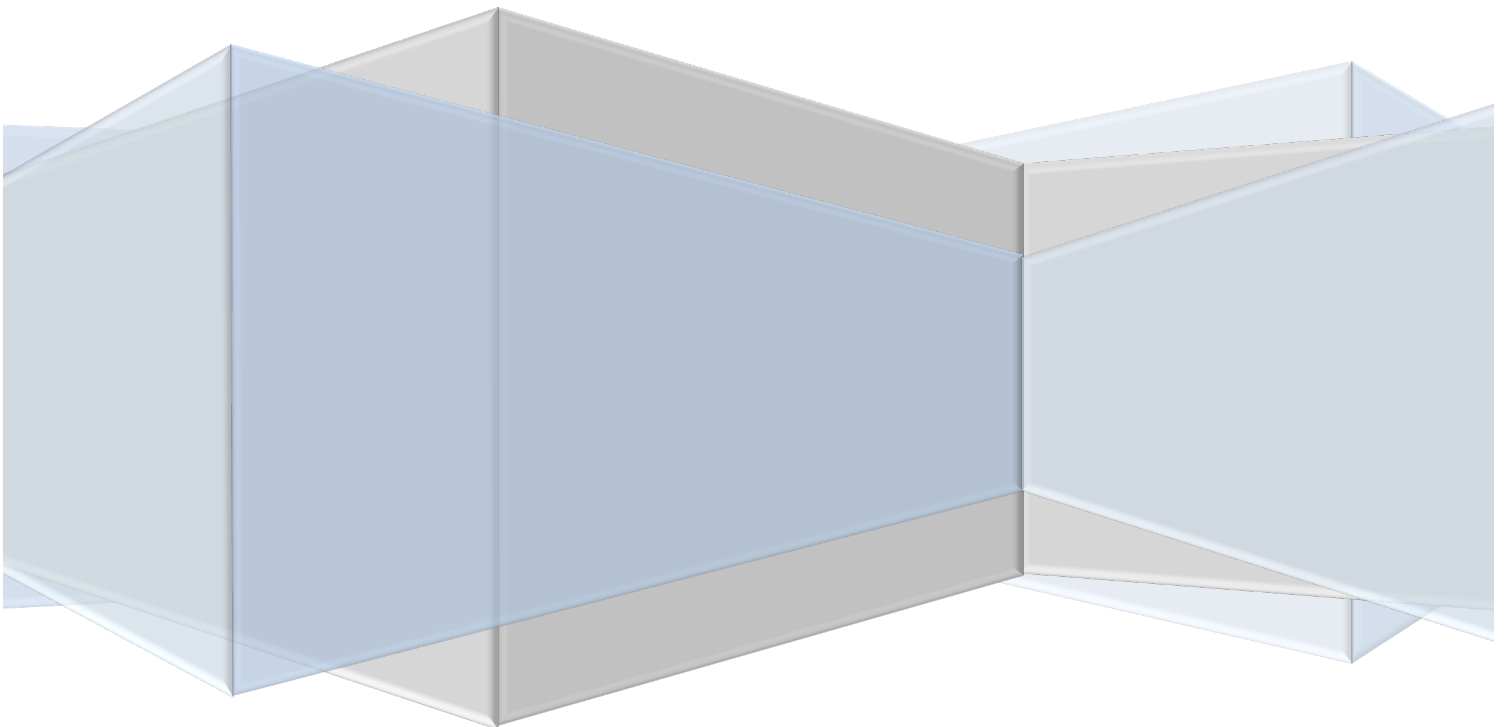




# Inequality

Jesus College,  
Cambridge  
Thursday, 19 March 2015

**Rapporteur: Nathan Brooker**





# Rustat Conferences

## Inequality

Jesus College, Cambridge

Thursday, 19 March 2015



### Contents

<b>Introduction</b>	<b>Page 4</b>
<b>Rustat Foundation Members</b>	<b>Page 5</b>
<b>Agenda</b>	<b>Page 6</b>
<b>Participants List</b>	<b>Page 8</b>
<b>Speaker Profiles</b>	<b>Page 11</b>
<b>Conference Report:</b>	
<b>Executive Summary</b>	<b>Page 17</b>
<b>Overview and Session One</b>	<b>Page 21</b>
<b>Session Two</b>	<b>Page 26</b>
<b>Session Three</b>	<b>Page 32</b>
<b>Session Four</b>	<b>Page 37</b>
<b>Session Five</b>	<b>Page 40</b>



## Rustat Conferences Jesus College Cambridge

The Rustat Conference is an initiative of Jesus College, Cambridge, and chaired by Professor Ian White FREng, Master of Jesus College. The Rustat Conferences provide an opportunity for decision-makers from the frontlines of politics, the civil service, business, the professions, the media, and education to exchange views on the vital issues of the day with leading academics.

Founded in 2009, Rustat Conferences have covered a variety of themes including: *The Economic Crisis; The Future of Democracy; Cyber Security; Manufacturing in the UK; The Geopolitics of Oil and Energy; Drugs Policy; Organisational Change in the Economic Crisis; Cyber Finance; The Understanding and Misunderstanding of Risk; Food Security; and Transport and Energy*. In addition to acting as a forum for the exchange of views on a range of major concerns, the Rustat Conferences provide outreach to a wider professional, academic, student and alumni audience through the publication of reports. The conferences are named after Tobias Rustat (d.1694), a benefactor of Jesus College and the University.

### **Acknowledgements**

We thank the Rustat Conferences Foundation Members for their generous support and the following for their advice and assistance with the Rustat Conference on Inequality: Dr Duncan Kelly, Professor Martin Daunton, Dr Elisabeth Schimpfoss, Dr Pedro Ramos Pinto and Professor Peter Williamson.

### **Chatham House Rule and Rustat Conference Report**

The conference was conducted under the Chatham House Rule (this also applied to tweets). The conference report however reveals the identity and affiliation of speakers and discussants unless they requested otherwise. The procedure is as follows: conference rapporteur Nathan Brooker circulated a draft version of the report and anyone mentioned or quoted had the chance to remove the attribution. Once this procedure is complete the report is published via the Rustat Conferences website.





## Rustat Conferences Foundation Members

The Rustat Conferences are supported through a mix of sponsorship and a membership scheme that was launched in 2013-14 - details of this can be found at [www.Rustat.org](http://www.Rustat.org). We are very grateful to the Rustat Conferences Foundation Members for their generous support:

**Dr James Dodd** - James's career has concentrated on the financing and management of companies in the fields of telecommunications and technology. He serves on a number of boards in these areas and is active in supporting a number of academic projects and charities.

**Harvey Nash** is an executive recruitment and outsourcing group. Listed on the London Stock Exchange, and with offices across the world, we help organisations recruit, source and manage the highly skilled talent they need to succeed in an increasingly competitive and innovation driven world.

**KPMG** is a global network of professional firms providing Audit, Tax and Advisory services. It has more than 155,000 outstanding professionals working together to deliver value in 155 countries worldwide.

**Laing O'Rourke** is a privately owned, international engineering enterprise with world-class capabilities spanning the entire client value chain. We operate an integrated business model comprising the full range of engineering, construction and asset management services delivering single-source solutions for some of the world's most prestigious public and private organisations.

**McLaren Racing Ltd** has a reputation for efficiency and professionalism. Working within a fast-paced environment and to the highest standards, our highly skilled workforce operates primarily in the areas of manufacturing, engineering and race team as well as logistics and support.

**Mr Andreas Naumann** is a senior executive in the financial industry. Outside the professional sphere, he is keenly interested in subjects like urbanisation, youth unemployment, education and foreign policy. He supports the Rustat Conferences as a private individual.

**Sandaire Investment Office** - SandAire and Lord North Street came together in April 2014 to combine their businesses, both of which specialise in looking after the investment assets of very wealthy families, charities and endowments.

**Maria and David Willetts**



# Inequality

Thursday 19 March 2015

**08.30-09.20: Registration and Refreshments, Prioress's Room, Cloister Court**

All move to Upper Hall by 09.30 for conference start

**09.30-09.40: Introduction and Overview:**

**Conference Chair: Dr Duncan Kelly** *Reader in Political Thought, Fellow, Jesus College, Cambridge*

Piketty's popularity in 2014-15. Recent reports by IMF, OECD: what do they tell us about effects and risk of high levels of social inequality? Cross-national comparisons, the rich and super rich, education, public health, gender, migration, environment. Does inequality even matter if poverty is minimized? Does targeting it make much difference?

**09.40-10.35: Session 1: The rich and the powerful**

Do the rich stimulate the economy and initiate technical innovations, or do they undermine progress and democracy? Should the rich be made poorer to reduce inequality? Does income inequality lead to economic stagnation? Is shareholder capitalism to blame for rising inequality? Is management power too great and executive pay excessive and harmful? What are the moral responsibilities of the 1% and 0.1%?

**Chair: Anatole Kaletsky** *Chairman of the Governing Board, Institute for New Economic Thinking*

**Ferdinand Mount** *former Head of Policy Unit, 10 Downing Street, author of *The New Few: Power and Inequality in Britain Now or A Very British Oligarchy**

**Deborah Hargreaves** *Director, High Pay Centre*

**10.35-11.30: Session 2: Education and social mobility**

Education is supposed to provide a route out of poverty and disadvantage. Why has education failed to counteract inequality? How to encourage educational mobility? What other ways are there to boost social mobility? Are there any other means than education to increase meritocracy? Is meritocracy in its current form any fairer than the alternatives?

**Chair: Professor Pauline Rose** *Professor of International Education, University of Cambridge*

**Professor Anna Vignoles** *Professor of Education, University of Cambridge*

**Professor Madeleine Arnot** *Professor in Sociology of Education, University of Cambridge*

**Rt Hon David Willetts MP** *MP for Havant, former Minister of State for Universities and Science*

**11.30-11.45: Break - Gallery, Upper Hall**

**11.45-12.55: Session 3: Old and new poverties**

How are we to tackle the consequences of the new and returning forms of poverty and disadvantage in society? What are the implications of current patterns of inequality/inequalities for poverty? Examples from public health, housing and inequality at work.

**Chair: Professor the Baroness Lister of Burtersett**

*Emeritus Professor of Social Policy, Loughborough University*

**Inequalities in health and life expectancy - Professor Theresa Marteau**

*Director, Behaviour and Health Research Unit, University of Cambridge*

**Inequality at work - Professor Richard Sennett**

*Professor of Sociology, London School of Economics*

**Housing - Steve Trusler** *Accommodation Sector Leader, Laing O'Rourke*

**13.00-14.00: Lunch - Master's Lodge**

**14.00-15.00: Session 4: Inequality over time and space. Justice, inheritance and the role of taxation**

How are contemporary inequalities shaped by the past? What has the relationship been in history between inequality, economic performance, financial crises and other economic indicators? What to learn from countries with lower levels of inequality and how to position the UK in a global context? Inheritance and taxation: intergenerational and distributive justice.

**Chair: Lord Hastings of Scarisbrick** *Global Head of Corporate Citizenship, KPMG*

**Dr Pedro Ramos Pinto** *Director of Inequality and History Network, University of Cambridge*

**Professor Martin Daunton** *Head of the School of the Humanities and Social Sciences, Professor of Economic History, University of Cambridge*

**15.00-15.15: Break - Gallery, Upper Hall**

**15.15-16.00: Session 5: Prescriptions and policy: managing or challenging unequal society?**

What to expect from inequality in the future and what type of new inequalities? What are the social and ethical institutions in society that can be most effective in fighting inequalities? Prescriptions to fight inequality: wealth taxes, wage and inheritance legislation, philanthropy, changes in business culture on pay and reward?

**Conference Chair: Dr Duncan Kelly**

*Reader in Political Thought, Fellow, Jesus College, Cambridge*

**Professor David Runciman** *Head of Department of Politics, University of Cambridge*

**Dr Pramila Krishnan** *University Senior Lecturer, Faculty of Economics; Fellow, Jesus College*

**Revd Dr Malcolm Brown** *Director, Mission and Public Affairs, The Church of England*

**Conference Close**

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# Participants List

Thursday 19 March 2015

Professor Madeleine Arnot	<i>Professor in Sociology of Education, Fellow, Jesus College</i>	<i>University of Cambridge</i>
Nathan Brooker	<i>Journalist, FT and Evening Standard; Conference Rapporteur</i>	<i>Rustat Conferences, Jesus College, Cambridge</i>
Dr Jude Browne	<i>The Jessica and Peter Frankopan Director of the University of Cambridge Centre for Gender Studies; Fellow, King's College</i>	<i>University of Cambridge</i>
Revd Dr Malcolm Brown	<i>Director, Mission and Public Affairs, The Archbishop's Council</i>	<i>Church of England</i>
Richard Brumby	<i>former Director and Head of Corporate Governance</i>	<i>Credit Suisse Asset Management</i>
Professor Sarah Colvin	<i>Schröder Professor of German; Fellow, Jesus College</i>	<i>University of Cambridge</i>
Jonathan Cornwell	<i>Director, Media Symposia; Rustat Conferences</i>	<i>Jesus College Cambridge</i>
George de Courcy-Wheeler	<i>Foundation Member, Rustat Conferences; Deputy Chief Investment Officer</i>	<i>Sandaire Investment Office</i>
Professor Martin Daunton FBA FRHistS	<i>Head of the School of Humanities and Social Sciences, former Master, Trinity Hall; Professor of Economic History</i>	<i>University of Cambridge</i>
Dr James Dodd	<i>Foundation Member, Rustat Conferences; Director</i>	<i>Oriel Securities</i>
Albert Ellis	<i>Foundation Member, Rustat Conferences; Chief Executive</i>	<i>Harvey Nash</i>
Professor Peter Garnsey FBA	<i>Professor of the History of Classical Antiquity</i>	<i>University of Cambridge</i>
David Goodhart	<i>Founder, Prospect Magazine; Director</i>	<i>Demos</i>
Christian Guy	<i>Director</i>	<i>Centre for Social Justice</i>
Deborah Hardoon	<i>Senior Researcher</i>	<i>Oxfam</i>
Deborah Hargreaves	<i>Founding Director</i>	<i>High Pay Centre</i>
Dr Michael Hastings CBE, Lord Hastings of Scarisbrick	<i>Foundation Member, Rustat Conferences; Global Head of Corporate Citizenship</i>	<i>KPMG</i>
Dr Tudor Jenkins	<i>Artificial Intelligence specialist; Director</i>	<i>Wide Eyed Vision</i>



Dr John F. Jungclaussen	<i>London Correspondent</i>	<i>Die Zeit</i>
Anatole Kaletsky	<i>Author, Journalist; Chief Economist, Gavekal Dragonomics; Chairman</i>	<i>Institute for New Economic Thinking INET</i>
Dr Katharina Karcher	<i>Schroder Research Associate, Jesus College</i>	<i>University of Cambridge</i>
Dr Duncan Kelly	<i>Reader in Political Thought, and Fellow, Jesus College</i>	<i>University of Cambridge</i>
Eli Keren	<i>Wolfson College, Cambridge; Research Assistant</i>	<i>Rustat Conferences, Jesus College, Cambridge</i>
Dr Pramila Krishnan	<i>University Senior Lecturer, Faculty of Economics; Fellow, Jesus College</i>	<i>University of Cambridge</i>
Baroness Lister of Burtersett CBE FBA	<i>Labour peer; former Director, Child Poverty Action Group; Emeritus Professor of Social Policy</i>	<i>Loughborough University</i>
Clifford Longley	<i>Writer, author of Just Money: How Catholic Social Teaching Can Redeem Capitalism</i>	
Andy Macey	<i>Head of Origination</i>	<i>Social Stock Exchange</i>
Professor Theresa Marteau	<i>Director, Behaviour and Health Research Unit, Institute of Public Health</i>	<i>University of Cambridge</i>
Professor Alan Morrison	<i>Professor of Law and Finance; Fellow, Merton College, Oxford</i>	<i>Oxford Said Business School</i>
Ferdinand Mount	<i>Novelist and political essayist; former Head of Number 10 Policy Unit. Author, The New Few (2012)</i>	
Professor John Naughton	<i>Professor of the Public Understanding of Technology, Open University; Senior Research Fellow, CRASSH; Vice President, Wolfson College</i>	<i>University of Cambridge</i>
Andreas Naumann	<i>Rustat Conferences Foundation Member; Managing Director</i>	<i>Moody's</i>
Baroness O'Neill of Bengarve CH CBE FBA FRS	<i>Emeritus Professor of Philosophy, University of Cambridge; Chair</i>	<i>The Equality and Human Rights Commission</i>
Professor Pauline Rose	<i>Professor of International Education</i>	<i>University of Cambridge</i>
Dr Pedro Ramos Pinto	<i>Lecturer in International Economic History, Director of the Inequality and History Network; Fellow, Trinity Hall</i>	<i>University of Cambridge</i>
Nick Ray	<i>Fellow in Architecture, Jesus College</i>	<i>University of Cambridge</i>
Lady Gayle Robinson	<i>Advisory Board, Rustat Conferences; Foundation Governor, University of Northampton</i>	
Dr Anna Rowlands	<i>Lecturer in Catholic Studies, Department of Theology and Religion</i>	<i>University of Durham</i>
Professor David Runciman	<i>Professor of Politics and Head of Department; Fellow, Trinity Hall</i>	<i>University of Cambridge</i>
Conor Ryan	<i>Director of Research and Communications</i>	<i>The Sutton Trust</i>

Dr Elisabeth Schimpfoss	<i>Adviser to Rustat Conference on Inequality; Leverhulme Fellow, School of Slavonic and Eastern European Studies SSEES</i>	<i>University College London</i>
Professor Richard Sennett	<i>Sir Arthur Marshall Visiting Professor, Jesus College, Cambridge; Professor of the Humanities, New York University; Centennial Professor of Sociology</i>	<i>London School of Economics</i>
Andrew Simpson	<i>Director</i>	<i>Goldfinch Community Developer</i>
Adrian Sington	<i>Director</i>	<i>DCD Media</i>
Heather Stewart	<i>Economics Editor</i>	<i>The Observer</i>
Dr Andy Sumner	<i>Co-Director, International Development Institute</i>	<i>King's College London</i>
Professor Simon Szreter	<i>Professor of History and Public Policy</i>	<i>University of Cambridge</i>
Christine Toomey	<i>Foreign Correspondent, features writer</i>	
Steve Trusler	<i>Foundation Member, Rustat Conferences; Accommodation Sector Leader</i>	<i>Laing O'Rourke</i>
Professor Anna Vignoles	<i>Professor of Education (1938)</i>	<i>University of Cambridge</i>
Paul Westbury CBE FREng	<i>Foundation Member, Rustat Conferences; Group Technical Director</i>	<i>Laing O'Rourke</i>
Adam Wethered	<i>Foundation Member Rustat Conferences; Vice Chairman</i>	<i>Sandaire Investment Office</i>
Rt Hon David Willetts MP	<i>Member of Parliament for Havant; former Minister of State for Universities and Science</i>	
Professor Peter Williamson	<i>Advisory Board, Rustat Conferences; Fellow, Jesus College; Professor of International Management</i>	<i>Cambridge Judge Business School</i>
Professor Ian White FREng	<i>Master, Jesus College; Chair, Rustat Conferences; Van Eck Professor of Engineering</i>	<i>University of Cambridge</i>
Professor Jo Wolff	<i>Professor of Philosophy</i>	<i>University College London</i>



# Inequality

Thursday 19 March 2015

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## Speaker Profiles

### Professor Madeleine Arnot

Professor Madeleine Arnot is a Professor of Sociology of Education at the University of Cambridge, a Fellow of the Academy of Social Sciences, and Fellow of Jesus College. Her primary interest is in the promotion of social equality and democratic citizenship through education. She is internationally known for her research on socio-cultural reproduction theory, gender and education, pupil voice, and recent projects on youth, gender and citizenship research in Africa and South Asia. She has contributed to gender education policy agendas of, for example, DFID, OFSTED, UNGEI, UNESCO and the EOC. Her major publications include: (co-ed) *Gender Education and Equality in a Global Context* (2008); *Educating the Gendered Citizenship* (2009); *Reproducing Gender?* (2002); and *Closing the Gender Gap* (1999). She co-authored the prize-winning book *Education, Asylum and the Non-Citizen Child: the politics of compassion and belonging* (2004), co-founded the Cambridge Migration Research Network (Cammigres) and recently co-directed research on school approaches to the language development, social integration and achievement of Eastern European children.

### Revd Dr Malcolm Brown

The Revd Dr Malcolm Brown is Director of Mission and Public Affairs for the Church of England. He leads a team which includes the church's Parliamentary Unit, and specialists in medical ethics, criminal justice, international affairs, interfaith matters, chaplaincy, and the church's mission. Malcolm's own background is in Christian ethics and political economy. Having worked in inner-city ministry he was, for ten years, Executive Secretary of the William Temple Foundation in Manchester, a think tank concerned with the churches, economics and urban communities, before becoming Principal of the Eastern Region Ministry Course in Cambridge. His recent publications include: *After the Market* (Peter Lang, 2004), *Tensions in Christian Ethics* (SPCK, 2010) and (ed.) *Anglican Social Theology* (CHP, 2014). Malcolm has key responsibility for the Archbishop of Canterbury's work on Credit Unions and responsible credit, and contributed to the recent Pastoral Letter from the House of Bishops on the General Election. He lives near Cambridge.

### Professor Martin Daunton FBA FRHistS

Martin Daunton is Professor of Economic History and Head of the School of Humanities and Social Sciences. He previously taught at the University of Durham and University College London, before moving to Cambridge in 1997. He was chairman of the Faculty of History and of the School of Humanities and Social Sciences before he was elected to the Mastership of Trinity Hall in 2004, from which he retired in 2014. He was President of the Royal Historical Society from 2003 to 2007 which involved him in debates over the role of history in education. He was a Trustee of the National Maritime Museum from 2002-2010 where he was active in discussion of how to interpret events in British history such as Trafalgar and the end of the slave trade. He is currently Chair of the academic awards committee of the Leverhulme Trust and a Commissioner of English Heritage. Since 2012, he has been head of the School of the Humanities and Social

Sciences. He continues to teach, write and research in modern economic history. His current project is a book on the economic government of the world since 1933 for Penguin.

### **Deborah Hargreaves**

Deborah is Director of the High Pay Centre, an independent non-party think tank established to monitor pay at the top of the income distribution and set out a road map towards better business and economic success. Deborah was the Chair of the independent High Pay Commission. She is the former business editor of the Guardian, a post she held from 2006 to 2010. She has written extensively about executive remuneration and other business issues both in print and online. She previously worked at the Financial Times where she was news editor and before that, financial editor. She held a variety of posts over 19 years at the FT including personal finance editor and as a foreign correspondent in Brussels and Chicago.

### **Dr Michael Hastings, Lord Hastings of Scarisbrick CBE**

Michael Hastings is KPMG International's Global Head of Corporate Citizenship. He was previously the BBC's Head of Public Affairs then the first Head of Corporate Social Responsibility. He first represents KPMG International at the World Economic Forum. In 2005, Michael was awarded an independent peerage to the House of Lords by Her Majesty The Queen. In the same year he also received the *UNICEF* award for his 'outstanding contribution to understanding and effecting solutions for Africa's children'. Michael is *President of ZANE* - a development aid agency focused on Zimbabwe. In 2014, Michael was conferred with a Doctorate in Civil Law from the University of Kent, Canterbury in recognition for his leadership at KPMG, and the BBC on the work he has led towards International Development and Corporate Responsibility. Michael is Chairman of *Millennium Promise UK* and a member of the global Millennium Promise Board. In 2010 he was a leading advisor to the Chatham House enquiry into the *Future Role of the UK in Foreign Affairs*. Michael sat on the *Council of the Overseas Development Institute* in the UK and previously on the Centre for Global Development in the USA. In 2011 he became Vice President of *UNICEF* - the UN Children's and Education Fund. In January 2003, Michael was awarded a CBE in recognition of his services to crime reduction. He served on the Commission for Racial Equality for nine years as a Commissioner from 1993 to 2001. He is listed as one of the 100 most influential black people in Britain.

Michael began his career in teaching then moved into Government service in 1986 supporting policy initiatives to bring employment and development to Britain's inner cities. He also worked in television on education programming, as GMTV Chief Political Correspondent and a presenter of the BBC's *Around Westminster* programme before joining the BBC Corporate Affairs division in 1996.

### **Anatole Kaletsky**

Anatole Kaletsky is Chief Economist of Gavekal Dragonomics, an asset management and research group based in Hong Kong. Anatole is also chairman of the Institute for New Economic Thinking INET, a foundation supporting academic research which challenges the paradigm of "efficient" markets and an economic commentator whose work is syndicated globally by Project Syndicate, where he is also Senior Advisor. Before founding Gavekal, Anatole worked for 25 years as a journalist on The Economist, the Financial Times, the London Times and subsequently wrote a weekly column for the New York Times and Reuters. His 2010 book *Capitalism 4.0* anticipated many of the post-crisis transformations of the global economy and was nominated for the Samuel Johnson Prize. Anatole was educated at Cambridge, where he gained a First Class Honours degree in Mathematics, and at Harvard, where he was a Kennedy Scholar and received an MA in Economics. He is an honorary Doctor of Science from the University of Buckingham. Anatole is married to the documentary producer Fiona Murphy and has three adult children. He divides his time between homes in London and Italy and an office in Hong Kong.

### **Dr Duncan Kelly**

Duncan Kelly is Reader in Political Thought in the Department of Politics and International Studies, and a Fellow of Jesus College, Cambridge. His books include *The State of the Political: Conceptions of Politics and the State in the Thought of Max Weber, Carl Schmitt and Franz Neumann* (2003) and *The Propriety of Liberty: Persons, Passions and Judgement in Modern Political Thought* (2010). He is a co-editor of the journal *Modern Intellectual History*, and a regular reviewer for the *FT* and the *TLS*. He is currently writing a new intellectual history of political and economic ideas, in and around the Great War.

### **Dr Pramila Krishnan**

Pramila Krishnan is a development economist and University Senior Lecturer in the Faculty of Economics at the University of Cambridge. She is also a Fellow of Jesus College. She studied at the Indian Statistical Institute in Calcutta, and began her academic life as an econometrician working on models of self-selection before moving on to work in development economics. She has been at the Cambridge Faculty of Economics and Jesus College since 2001, after a long post-doctoral spell at the Centre for African Economics, Oxford University. She works mainly on East Africa, particularly Ethiopia and latterly on India. Her research area is mainly in empirical microeconomics, and poverty measurement, behaviour towards risk and risk sharing, education, noncognitive skills, social networks and migration, in developing countries.

### **Professor the Baroness Lister of Burtersett**

Ruth Lister CBE became a Labour peer with the title Baroness Lister of Burtersett in February 2011. She is also Emeritus Professor of Social Policy at Loughborough University. She is a former Director of the Child Poverty Action Group and is now its Honorary President. She is a member of the Joint Committee on Human Rights. She is currently chair of the management committee of the pressure group Compass and on the board of the Smith Institute. She served on the Commission on Social Justice, the Opsahl Commission into the Future of Northern Ireland, the Commission on Poverty, Participation and Power, the Fabian Commission on Life Chances and Child Poverty and the National Equality Panel. She is a founding Academician of the Academy for Learned Societies for the Social Sciences and was elected a Fellow of the British Academy in 2009. She received a lifetime achievement award from the Social Policy Association in 2010. She has published widely around poverty and inequality, welfare state reform, gender and citizenship. Her publications include *Citizenship: Feminist Perspectives, Poverty and Understanding Theories & Concepts in Social Policy*.

### **Professor Theresa Marteau**

Professor Theresa Marteau is Director of the Behaviour and Health Research Unit in the Clinical School at the University of Cambridge, and Fellow and Director of Studies in Psychological and Behavioural Sciences at Christ's College, Cambridge. She studied social psychology at the London School of Economics and abnormal psychology at the University of Oxford. Her research interests include: *i.* the development and evaluation of interventions to change behaviour (principally diet, physical activity, tobacco and alcohol consumption) to improve population health and reduce health inequalities, with a particular focus on targeting non conscious processes; *ii.* risk perception and communication particular of biomarker-derived risks, and their weak links with behaviour change; *iii.* the role of evidence in policy. She is a Fellow of the Academy of Medical Sciences and of the Academy of Social Sciences.

## **Ferdinand Mount**

Ferdinand Mount was born in 1939. He is a novelist and political essayist. He was head of the Prime Minister's Policy Unit from 1982 to 1984 and later edited the Times Literary Supplement from 1991-2002. His novel *Of Love and Asthma* won the Hawthornden Prize in 1992. He is a regular contributor to the Spectator, the TLS and the London Review of Books. His 2012 book, *The New Few*, set out some ways in which we can restore our democracy, bringing back genuine accountability to British business and fairness to our society. His latest book, *The Tears of the Rajas: Mutiny, Money and Marriage in India 19805-1905*, has just been published

## **Dr Pedro Ramos Pinto**

Pedro Ramos Pinto is Lecturer in International Economic History at the University of Cambridge and a Fellow of Trinity Hall. Pedro joined the Faculty of History in 2013, after five years at the University of Manchester, where he was Simon Research Fellow in History (2008-2010) and Lecturer in International History (2011-2013). He read history at Cambridge, where he also took his M.Phil (Economic and Social History) and PhD. Pedro's current research explores the creation, evolution and implications of authoritarian welfare regimes in Southern Europe and Latin America. This has evolved from earlier work which explored the interaction between the Portuguese Dictatorship and its citizens to explain the emergence of social movements of the urban poor during the Carnation Revolution (1974-1976), a theme which is explored in his book *Lisbon Rising* (2013). Alongside this, he is also interested in understanding how contemporary inequalities are shaped by the past, bringing a more long-term view to explain how and why societies distribute resources, opportunities and capabilities. As part of this, he directs an international research network on the topic of Inequality, Social Science and History, funded by the AHRC. In addition, he continues to have an interest on the study of social movements and protest, both in historical and in contemporary perspective.

## **Professor Pauline Rose**

Pauline Rose joined the University of Cambridge in 2014 as Professor of International Education. She is director of a new centre within the University's Faculty of Education: the Research for Equitable Access and Learning (REAL) Centre. Prior to joining Cambridge, Pauline was Director of the EFA Global Monitoring Report at UNESCO during which time she directed two reports on youth, skills and work, and on teaching and learning. Pauline's research focuses on education policy and practice in development contexts, primarily in South Asia and sub-Saharan Africa. She is author of numerous publications primarily on issues related to inequality in educational access and learning, and on financing and governance of education.

## **Professor David Runciman**

David Runciman is Professor of Politics in the Department of Politics and International Relations (POLIS) at Cambridge University and a Fellow of Trinity Hall. He is a Director of the Leverhulme-funded project Conspiracy and Democracy: History, Political Theory and Internet Research. His main interests are in twentieth century political and intellectual history and in the theory of democratic politics. His books include *Politics* (Profile 2014), *The Confidence Trap: A History of Democracy in Crisis from World War One to the Present* (Princeton 2013), *Pluralism and the Personality of State* (CUP 1997), *The Politics of Good Intentions* (Princeton 2006) and *Political Hypocrisy* (Princeton 2008). He writes regularly about politics for a number of publications, including the London Review of Books. David's central interest in the Conspiracy and Democracy project concerns the relationship between ideas of conspiracy and growing mistrust in government, as this has evolved over the past century.

### **Professor Richard Sennett**

Professor Sennett is Professor of Sociology at the London School of Economics and Professor of the Humanities at New York University. He is also the Sir Arthur Marshall Visiting Professor at Cambridge University. His academic work engages with the effects of urban living in the modern world, with a particular focus on the development of cities, the nature of work in modern society and the sociology of culture. Notable publications include *The Craftsman* and *The Culture of the New Capitalism* and his latest, *Together*, which looks at social co-operation in diverse communities. He is currently writing a monograph with the working title *Making and Dwelling: The Creation of Open Cities*.

### **Steve Trusler**

Stephen Trusler took up the position of Accommodation Sector Leader at Laing O'Rourke in 2014. He is responsible for developing the Group's accommodation strategy and leading the business in becoming a major supplier/partner in the residential market with a focus on delivering off-site, intelligent housing solutions for both Public and Private sector customers. Prior to this Steve was Strategy Director at Wates Living Space. He has over 30 years' experience in housing, is a passionate supporter of innovation within the industry, and is committed to ensuring that issues of supply and affordability remain high on the national political agenda. Steve is a Governing Board Member of Chartered Institute of Housing and a Non-Executive Board Director of Aster Group. He also is a member of the Greater Manchester Planning & Housing Commission. Steve is a distinguished member of Chartered Institute of Housing and a Fellow of the Royal Institute of Chartered Surveyors.

### **Professor Anna Vignoles**

Professor Anna Vignoles is Professor of Education (1938) at the University of Cambridge. She has published widely on widening participation in higher education, social mobility, the impact of school resources on pupil achievement and on the socio-economic gap in pupil achievement. Her research interests include issues pertaining to equity in education, school choice, school efficiency and finance and the economic value of schooling. Anna is a Research Fellow at the Institute for Fiscal Studies and a Visiting Professor at the Institute of Education. Anna has advised numerous government departments, including the Department for Education, the Department of Business, Innovation and Skills and HM Treasury. She provided advice to the Browne Review of Higher Education Funding, the House of Commons Education and Skills Committee investigation of higher education funding, the House of Lords Economic Affairs Select Committee, as part of their inquiry into education and training opportunities for young people, and Lord Leitch's Review of Skills. Anna is also the economist member of the NHS Pay Review Body.

### **Paul Westbury CBE**

Paul Westbury joined Laing O'Rourke as Group Technical Director in October 2014. In this new strategic role, Paul has global responsibility for Laing O'Rourke's technical and engineering functions, including the Engineering Excellence Group; leading the development of the Group's design and engineering offering to underpin the organisation's growth strategy. He serves on the Laing O'Rourke Group Executive Committee and reports to Group Chief Executive, Anna Stewart. Previously he served as chief executive officer of Buro Happold, the 27-office global engineering practice, leading a diverse portfolio focused on engineering and design management, specialist consulting and technical services. He joined Buro Happold in 1991 having graduated from Jesus College, Cambridge with a first class degree in engineering science. Paul is a Fellow of the Royal Academy of Engineering, the Institution of Civil Engineers, the Institution of Structural Engineers and the Royal Society for Arts, Manufacture and Commerce. In 2008 he was awarded a Royal Academy of Engineering Silver Medal for his contribution to British engineering. He was named in The Times top 100 scientists list of 2010 and is a member of the judging panel for the newly launched Queen Elizabeth Prize for Engineering, a global award that seeks to recognise and reward the pivotal role that

engineering plays in society today. In May 2012 he was awarded the Gold Medal from the Institution of Structural Engineers, which celebrates his many and varied achievements in the field of structural engineering.

### **Rt Hon David Willetts MP**

David Willetts is the Conservative MP for Havant in Hampshire. He was Minister for Universities and Science from May 2010 to July 2014. David was educated at King Edward's School, Birmingham and Christ Church, Oxford, where he studied philosophy, politics and economics. David began his career in Parliament as the MP for Havant in 1992. He served as Paymaster General and then in the Shadow Cabinet in a range of roles, including Shadow Secretary of State for Trade and Industry, Shadow Secretary for Education and Skills, and Shadow Secretary for Innovation, Universities and Skills. He has also worked at HM Treasury and in the Number 10 Policy Unit. David was a visiting fellow at Nuffield College, Oxford, is a governor of the Ditchley Foundation and a member of the Council of the Institute for Fiscal Studies. He has written widely on economic and social policy. In 2011 he published a book, *The Pinch: How the baby boomers took their children's future – and why they should give it back*.





# Inequality

Thursday 19 March 2015

## Executive Summary

The publication of Thomas Piketty's book *Capital in the 21<sup>st</sup> Century* has reignited the debate over inequality in the UK after a 30-year absence from the mainstream political agenda. The book has been widely praised for its scope and for the quantity and quality of the data sets used in its analysis. However, does Piketty's overtly economic presentation of inequality tell the full story? Or is there more to learn about the nature, breadth and depth of inequality once we move away from incomes?

The following summarises the main points of discussion raised throughout the day:

1. **Why are we discussing inequality here and why now?** Broadly speaking, global inequality has been shrinking for 30 years. The rise of India and China as economic powerhouses have led to a massive expansion of the global middle class, lifting millions of people across the world out of abject poverty. Crucially, however, real levels of income have risen among every social stratum except one: the global upper-middle class. Because this roughly equates to the bottom 50 per cent of earners in the US and western Europe, it was suggested by some delegates that the reason inequality is currently such a popular topic for discussion is, at root, down to a form of self-interest. Anxieties felt in the west over changing patterns of global distribution have precipitated a (self)analysis of pay scales and an increased scrutiny of the legitimacy or otherwise of the high pay structures that elites benefit from.
2. **What are we talking about when we talk about inequality?** Perhaps the clearest presentation of inequality is still in economic terms, but – and with a limit here to the UK – the plenary identified many other dimensions to the problem:
  - a. Health:
    - i. Life expectancy is about 7 years higher for those living in the most affluent compared with the poorest areas of the UK.
    - ii. Smoking and obesity, which contribute to life expectancy and health are heavily socially patterned
    - iii. Deprivation in early life can negatively affect the development of the brain
  - b. Education:
    - i. Often thought to be the “great equaliser”, education is in fact rather ineffective at dismantling pre-existing social hierarchies and even works to reinforce them for the following reasons:
      - a. Education has a legitimising effect on inequality when there is an assumption of an equality of opportunity

- b. In every country in the world access to higher education is influenced by family background
    - c. The structure of the state school system is mirrored on the private system, which prioritises certain skills – typically middle class ones – over others
  - ii. Universities can still be drivers of social change:
    - a. Graduates are still likely to earn considerably more than non-graduates
    - b. No evidence exists that university applicants from deprived backgrounds are discriminated against
    - c. Increased university fees have led to more applications from poorer people, not fewer
- c. Housing:
  - i. Once thought of as a right, home-ownership is increasingly being seen by young people as an out-of-reach goal, due in part to the follow reasons:
    - a. In the past 40 years the house-price to salary ratio has almost doubled
    - b. The average deposit for a first-time buyer in London is £73,000
    - c. Property ownership is split on generational lines. In 1991, 66 per cent of 25-35-year-olds were homeowners, by 2014, that figure had dropped to 36 per cent. Over the same time period, home-ownership among 65-74-year-olds had risen from 62 per cent to 77 per cent
    - d. There are now more than 9m people in the Private Rental Sector.
    - e. In some London boroughs, average rents exceed 2/3 of average earnings
  - ii. The wider effects of the housing shortage have been linked to:
    - Reduced levels of career-ambition
    - Reduced birth-rate
    - Increased instances of depression
  - iii. The situation is unsatisfactory, but for the first time in 30 years there seems to be consensus among the three main political parties, that action needs to be taken. The plenary provided the following advice:
    - To meet present demand, 240,000 new homes need to be created every year until 2031
    - New building projects need to be energy efficient and socially-mixed
    - Building technologies need to benefit from increased investment to help meet demand

d. Social cohesion:

- i. Lower-level employees can feel divorced from the hierarchy and make-up of their companies, leading to feelings of powerlessness and isolation. Symptoms include:

- Feeling unconfident about the products their companies produce
- Feeling anonymous within a company
- Believing their bosses to be incompetent

3. **Can history provide us with solutions to the inequality debate?** Inequality was successfully narrowed in the US and western Europe in the period following the second world war, but the mechanisms that caused this change were not brought on automatically. The war itself, the fear of polarisation, the threats of Communism and Fascism gave rise to intermediary institutions such as trade unions which helped narrow income distribution between the rich and poor. Many of those same mechanisms are not available today. A further distinguishing factor is the unique role that advanced technology plays in today's inequality debate. However, there are some things history can teach us:

a. How we got here:

- i. The steady relaxation of the progressive tax regime the since the second world war has not reduced executive pay- as one might have expected – but increased it
- ii. Remuneration committees, set up to check executive pay, have become cabal-like, with boards being made up of executives who themselves have benefited from high pay and have an interest in legitimising it the remuneration of other executives
- iii. Rapidly advancing technology has hollowed-out the labour market, creating a lower tier of technical staff, and a higher tier or managerial staff but with no positions, and crucially no career ladders, between the two
- iv. The decline of intermediary institutions such as trade unions, churches and universities, have left employees vulnerable to low pay, bad working conditions, and zero hours contracts
- v. The rise of global companies such as Google and Amazon use their considerable capital and market position to circumvent regular business tax laws, effectively becoming a law unto themselves

b. How we didn't get here:

- i. Since the work of Simon Kuznets in the mid-1950s there has been a perceived "naturalness" to equality, but this is not borne out by the evidence
- ii. There is an assumption that democracies incline towards equality, in fact they incline towards inequality

4. **Why does politics struggle to deal with inequality?** Inequality has been a strong presence on the political agenda for the first time in 30 years, but there has been little progress made in reducing it. Some delegates suggested that, contrary to what we might think, the general population doesn't care about inequality. Others felt they did care but were powerless or unaware of how to curtail it. These problems can be divided into several categories that include – but are not limited to – the following:

a. Health:

- i. The public often fail, or refuse, to acknowledge the social dimension to health concerns such as smoking; smoking during pregnancy and obesity

b. Housing:

- i. Building new housing provision is not a political vote-winner. An increasingly age-segregated workplace has led to a divide between housing concerns of older and younger people – increased debate over immigration has intensified the issue
- ii. Building houses on greenbelt land is particularly unpopular
- iii. Building houses on brownfield land is particularly prone to legal regulation and, therefore, particularly costly

c. Organisation:

- i. There was consensus among the plenary that political victory does not go to the more numerous, but to the better organised. Smaller, wealthier groups are therefore far easier to organise and more likely to succeed than larger, more amorphous, less well-funded groups

## Overview and Session One

### The Rich and Powerful

Conference Chair: Dr Duncan Kelly, *Reader in Political Thought, Fellow, Jesus College, University of Cambridge*

Anatole Kaletsky, *Chairman of the Governing Board, Institute for New Economic Thinking*

Ferdinand Mount, *former Head of Policy Unit, 10 Downing Street; and author*

*Deborah Hargreaves, Director, High Pay Centre*

In his overview, **Dr Duncan Kelly** said he thought Thomas Piketty's book *Capital in the 21<sup>st</sup> Century* had reignited the inequality debate. The past year has seen the topic readdressed in a way not seen in the previous 30, he said. "What Piketty's book did was marshal in a huge aggregation of data across time and space."

In particular, he said the book focused on two dimensions of inequality:

- The inequality that stems from the relationship between capital and economic growth
- The dynamics of inequality in terms of income differentials

The latter of these two dimensions would form the basis of the debate in the first session.

**Anatole Kaletsky** began by highlighting four points he thought worthy of consideration:

- Inequality is one of the most fundamental causes of economic instability<sup>1</sup>
- Was the period of narrowing income distribution in the 20<sup>th</sup> century perhaps an historical aberration? Is inequality in some sense 'natural'?
- Do low wages mean low productivity?
- The international dimension is seemingly at odds with the national pictures: though global inequality is narrowing, inequality within nations is increasing.

**Ferdinand Mount** addressed what he thought of as the "moral" aspect of inequality. "Inequality is an ancient principle in the Christian West and elsewhere too. We acknowledge that we are all created equal in the eyes of God, and in the sight of the law. We [nowadays] enjoy equal citizenship and have equal access to the NHS and other services. These are all unstoppable imperatives."

However, Mount's question was to assess how far these moral imperatives "bleed" into economics – especially since economics is not easily controllable without what he called "perverse side effects"<sup>2</sup>. Tax systems deemed too punitive, he added, encourage capital flight. "We see now South Kensington has now become a sizeable French city," he said.

Different societies have different levels of tolerance of inequality – "The Scandinavians seem to mind more about it than the Americans," said Mount. "Although in the US today, inequality has widened so far that even the Republican Party feels obliged to put it on the agenda; while, conversely, plenty of Swedes

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<sup>1</sup> Kaletsky cited under-consumption as a clear outcome. "As the rich cannot consume their entire incomes, so if they

<sup>2</sup> High level taxation might be considered a side effect. "It is an interesting, thought," he said, "that high and progressive rates of income tax in the UK have invariably been used to fund wars and arms races and not to fight inequality [...] Egalitarian rhetoric on its own is not, it seems, enough to persuade parliament or the public."

fear that their tax burden is so great it will likely cripple the economy and send even more Swedes to Barons Court, where they are currently concentrated.”

If a degree of inequality is therefore acceptable, what factors signify that it has reached intolerable levels? Most, after all, do not resent wealth gained by talent or daring. “We don’t complain about Wayne Rooney’s high wages, or the prices David Hockney gets for his pictures or the acres that sir James Dyson has hoovered up across the English countryside.”

The wealth people tend to resent is what they deem “illegitimate.” Wealth gained, not necessarily by outright criminality, but through exploiting the weakness of the system, usually at the expense of the masses. One aspect of this, Mount contended, was excessive pay, which inflated massively after the War. Measures taken in the 1980s and ‘90s to curb executive pay levels – the formation of remuneration committees, etc – have been ineffective because they lend a spurious moral justification to the most outrageous pay rises.

The problem intensifies when we look at the international picture. “Our home-grown oligarchs are small fry compared to the Russians,” he said. “They are what you might call the ‘extractive elites’, who were quick to take advantage of the breakup of the Soviet Union, the weakness of the state and of those vast natural resources.”<sup>3</sup>

These, ultimately, are problems of governments, he said, and of their failure to regulate and keep pace with the “nimble free-booters”.

A similar situation can be seen in the worlds of sport – and Mount cited Football, the Olympics and Formula 1 as chief offenders – and universities, where Vice Chancellor pay is dramatically on the increase. “In the UK, 18 Vice Chancellors received pay rises of more than 10 per cent last year,” he said, “where mere lecturers had to take industrial action to get more than 2 per cent”.<sup>4</sup>

In conclusion, Mount said that all of these problems were fixable. Companies like Google and Starbucks can be made to pay the right amount of tax and to the governments where they make their money, he insisted. “What is wrong is not the level of tax, but the ease with which they can be evaded.”

Mount said he did not agree with Piketty’s inclination to raise taxes. After all, he said, the current rates of tax already supply enough revenue – the top 1 per cent pay 1/3 of the UK’s income tax, and the top 10 per cent pay more than half.

In closing, Mount cited several policy changes that he felt would reduce income disparity:

- Remove taxation from the poor (as the Coalition government has done)
- Bump up the minimum wage and increase the spread of the living wage
- Close off of large scale, unskilled immigration<sup>5</sup>
- Get serious about shareholder democracy – and genuinely align awards with performance

**Deborah Hargreaves** felt the clearest way to illustrate the issue of the inequality of incomes was with the case of Sir Martin Sorrell, chief executive of WPP who, it was confirmed this week, would be getting £36m for his work last year from a share scheme which gives him five times as many shares as he buys if certain

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<sup>3</sup> Of course, Britain had its own ‘extractive elites’ he conceded, pointing to wealthy land owners of the 18th and 19th century, who earned their fortune in foreign plantations or, in fact, from the slave trade.

<sup>4</sup> Mount asked how this great largesse had been extracted. “Could it be,” he remarked, “that, according to the lecturers’ trade union, seven out of ten VCs sit on their own remuneration committees?”

<sup>5</sup> This, he conceded was contrary to the findings of several “substantial but unconvincing” surveys

targets are met. When that is added to his regular pay and other bonuses, Sorrell is expected to earn in excess of £40m for the tax year 2014-15.

Is such large pay ever justified? Hargreaves asked.<sup>6</sup>

“Sorrell has practically built WPP up from the ground,” she said, “but did he do it on his own?” Part of the company’s success must come down to entirely external factors – the current economic climate, for example, and the impact of Quantitative Easing – not to mention the input from the other 179,000 employees at WPP. “In 2013, when Sir Martin took home £29m, he was earning about 800 times the pay of his average employee.”<sup>7</sup>

It’s not a comparison that he likes, she added. “Generally, Chief Execs do not like to be compared to the rank and file.”<sup>8</sup>

However, the High Pay Centre argues that a company is a “collective enterprise”, and that every employee is contributing to the success of that enterprise.

Crucially, the small group of people that benefit from executive pay rises – and who Piketty calls “super managers” – have a very large influence beyond their numbers, says Hargreaves: “They have the ear of government and they are very effective for lobbying for pro-business policies, and for policies that preserve their own wealth.”

In an economic context, the OECD has warned that rising inequality has hampered growth in Western societies, estimating that growth in the UK economy would have been nine per cent higher between 1990 and 2010 without rising inequality.

One factor of this might be that performance-related pay incentivised “the wrong sort of behaviour,” she said. “It focuses on the short term and means that companies aren’t being run in a sustainable manner, with little consideration for long-term success.”

In addition, the culture of high-executive pay is difficult to break. Many remuneration committees – themselves made-up of people likely to have benefitted from high pay – result in top executives being insulated from pay challenges.

And productivity is at stake. The HPC has evidence which shows that companies with lower pay-ratios have higher levels of engagement, lower absenteeism and a fewer incidences of industrial unrest.

Hargreaves too closed her presentation with some recommendations:

- Companies should open up pay committees to more diverse membership
- They should publish pay ratios and low ratios should be rewarded
- Profit-sharing schemes should increase

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<sup>6</sup> One justification is that running a huge multi-national company is harder than ever before, but this is hotly disputed, so too is the ‘trickle-down’ hypothesis of wealth redistribution.

<sup>7</sup> In the average pay-ratio for a FTSE 100 Chief Executive has gone up from 47 times the average worker to 120 times in the past 15 years.

<sup>8</sup> Figures from the HPC calculate that it would take a CEO of a FTSE 100 company two days to earn what someone on average wages would earn in a year.

The HPC believes that companies can afford to pay higher wages, she said, which would benefit everyone because, at present, the government is subsidising low pay to the tune of about £4bn a year in tax credits.

## **Discussion**

One delegate drew attention to the Russian 'extractive elites' that Ferdinand Mount mentioned in his speech and asked at what point a privatisation process in the UK – e.g. the privatisation of train companies – could be deemed illegitimate.

Mount said that, though the privatisation models in Russia and the West bear some similarities, he thought they were very far removed. The privatisation of BT, for example, has resulted in many people owning shares in the company – either directly or through pension funds – and that has spread ownership and wealth around, rather than concentrated it in the pockets of Russian oligarchs.

The next delegate asked the panel whether – and in accordance with Piketty's advice – confiscatory top rates of taxation would break the incentive structure that some CEOs feel trapped within. Addressing Mount in particular, he said that increasing top levels of tax is not necessarily about increasing revenue as he had suggested, but can be used as a tool to discourage executive pay increases.

Mount said that it was unworkable to redesign the upper-echelons of the British tax system. "The more you bring the idea out into the open the less plausible it becomes," he said. Tax revenue needs to pay for essential services like schools, hospitals and the military, and as soon as you divorce tax from revenue it becomes what he called a political "non-runner".

Deborah Hargreaves disagreed and said she was in favour of confiscatory levels of tax. "The debate we have about tax in this country is completely skewed," she said. "We should talk about what sort of society we want to create and what tax we need to get there, rather than to be always talking about how we can pay as little tax as possible."

The next delegate brought up the concept of 'legitimate' high pay, and questioned whether, as Mount had suggested, some high-pay ratios can ever be just. She suggested conducting a Rawlsian "Veil of Ignorance" test, where members of a company are asked to estimate the pay of their superiors.

Hargreaves said that such "Veil of Ignorance" tests have been carried out and, while lower-level employees respect that their bosses do a high-powered job and should be on a high wage, they tend to imagine that they earn somewhere between 10 and 15 times what they do, rather than – in the case of WPP – 800 times. "Chief Execs have pulled so far ahead of the scale that it is often very difficult for people to get their heads around that," she said.

Asked whether she thought a maximum wage was a good idea, Hargreaves said that she was in favour of pay-ratios rather than absolutes. She cited the example of John Lewis, who has a pay ratio inbuilt in its constitution that prevents anyone earning more than 75 times the average. Hargreaves said that a "comply or explain" law might be useful here, where companies would need to adhere to the pay ratio or else explain why they have exceeded it.

Mount agreed, saying that he thought the John Lewis model was very good - "Better still if they included their cleaners and porters within their partnership," he added.

The next few delegates wanted to discuss the role of technology on the workforce. One delegate suggested that technology had actually increased inequality within companies because it had hollowed-out many career ladders. There was now a lot of demand for top talent, he said, and also for technical



staff at the bottom. "But in the middle of these companies, the management level, there is an enormous lapse."

"The future is unknowable," said Mount, but he suggested that if we were to look back over the history of employment over the past 100 years we would see the rise and fall of middle management. According to the Chancellor's budget we have more people in work than at ever before, he added, "so jobs are not disappearing – they are perhaps becoming more technical."

The next delegate asked whether the discussion was being levelled too much at Chief Execs. "There are 128,000 people in the world with more than £50m," he said "and I doubt that most of them are CEOs." In addition, he said that he wanted the plenary to explore the positives of having wealthy people around. He said that entrepreneurs need wealthy individuals to help back their ideas and fund new companies.

The last delegate to speak asked why we were discussing inequality now seeing that, after a step change in the 1980s, the trend has been stable or narrowing internationally ever since. "Is it," he suggested, "because now it is a debate between the haves and the have yachts?" referring to the increasing divide between the top 1 per cent and the top 0.1 per cent.

Anatole Kaletsky answered him directly by saying that it was the macro-economic effect of inequality (that if the top 1 per cent of the UK consumes 13 per cent of the incomes, then 12 per cent of the incomes is not going to be spent). "That takes a little bit of time to come through," he reasoned.

Mount said that he thought that inequality was had risen to the top of the agenda partly because these things take a long time to come to prominence, but partly because, during the recession and just after certain mid-performing companies saw double-digit pay increases for their CEOs, whereas employee pay was frozen. "That, I suspect, really got people's goat."

## Session Two

### Education and Social Mobility

Session Chair: Professor Pauline Rose, Professor of International Education, *University of Cambridge*

Professor Anna Vignoles, *Professor of Education, University of Cambridge*

Professor Madeleine Arnot, Professor in Sociology of Education, University of Cambridge

*Discussant: Rt Hon. David Willetts MP*

**Professor Pauline Rose** reiterated the point that, while we are seeing a narrowing of global inequality, inequality within nations is widening – and that this is true of both developed and developing societies. In countries like India and parts of Africa, though there are more children in school than ever before, the proportion of children with access to schooling is still a cause for concern.

The role education plays in the reducing inequality is often overstated, she said and so posed three questions to the panel:

- Would we be better without education?
- What can we do to improve education's role in social mobility
- What is the role of finance?

**Professor Vignoles** said she was surprised to hear from Anatole Kaletsky that inequality had been dropped from the economics agenda in recent years: "In the field of education, inequality has been the obsession of the last 20 years or so."

Developments in the labour market: the skills bias, increasing technological change, the hollowing out of the labour market, etc. have led many to regard education as the solution to rising inequality of income.

"I have more grounds for optimism than perhaps a lot of our previous speakers," she said, "because we know on average it is still the case that skills and high levels of qualifications are a good route to economic success."

In education the focus has not been focused on the inequality of income or outcome, but of social mobility – where one's success is not linked to the success of one's parents, but to one's own merit.

"In a sense education provides a 'Get Out of Jail Free' card," said Vignoles. So that levels of inequality are deemed permissible in society so long as there is an equality of opportunity.

However, such an emphasis on improving social mobility brings with it some interesting – and not entirely desirable – implications. Chief among them being that, in a world where the level of social mobility is absolute, the impact of a parent's success on a child's success would be zero. "That, to me, sounds like an impossible goal," said Vignoles, "and I wouldn't know what we would have to do to bring it about, in terms of preventing parents investing in their children."

The true goal, therefore, is in "narrowing the gap in experience between the rich and the poor child, just as much as it is in ensuring that every child gets a fair crack of the whip," she said.

We are more comfortable in seeing income inequality related to merit – and education is seen as a merit – than related to any other means. "So where the gap [in incomes] between the graduate and the non-graduate has grown, society appears quite comfortable with that because we see it as a reward for the additional efforts of the student."

The problem is that one's chances of getting a degree are heavily influenced by one's family background. "In every country in the world there is a link between educational performance and family background, and in most countries of the world, family background is the key influence."<sup>9</sup>

As education-derived skills divide the labour market to a greater and greater extent, then "education becomes the great barrier to success for the poorest children," she said.

However, in the UK, there is little evidence to suggest that the education system is discriminatory in any way. The chances of getting into an elite university are "pretty similar" for a child who has performed well in the school system regardless of whether he or she came from a wealthy or poor background. The problem is, though, that you are much more likely to perform well in the school system if you come from a wealthy background than a poor one.

Combating the problem is incredibly difficult, especially since educational discrepancies linked to economic prosperity are manifest from an incredibly early age – from one year. "A child can be disadvantaged, pretty much from birth," said Vignoles, so investment in early years learning is essential.<sup>10</sup>

"Most of the policy effort in the UK and other countries has focused on improving schools," she said, "but schools don't make that much difference empirically."

"So, if we are serious about this then," concluded Vignoles, "we need to do things that would make us pause for thought: we have to intervene within families."

**Professor Madeleine Arnot** asked the plenary why education has failed to limit inequality – and why is it continuing to fail.

The gulf in gender performance has narrowed in schools through action reform, said Arnot, and while the gap is much larger between social classes, insights and success that were made within the gender reform movement could inform the debate on social class inequality.

"The reason why politicians don't like sociologists is because we say: 'It's all very complicated,'" she said; "but it is very complicated."

Arnot wanted to ask the plenary the following series of questions:

- The independent school system is organised along lines of social class<sup>11</sup> so, what are we asking of the state school system? To mirror it or provide something different?
- Should we establish a common form of schooling? Is that politically possible?
- What qualities are we looking for in our decision-makers? Should we find different ways of identifying talent?

For working class children in the state sector, a key factor to ensure higher educational performance is, according to Arnot, to "get into a school with a lot of middle class children."

"If someone is in a school with some of those higher achieving ethnic groups, that could also potentially help children in the state sector," she added.

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<sup>9</sup> In the UK that is despite the 20-year obsession with social mobility drives within education

<sup>10</sup> Like "Head Start", a programme in the US that intervened very early in children's lives. Though early successes were recorded through the initiative, a lack of continued funding meant the good work was largely undone.

<sup>11</sup> The construction of the independent school system is a vehicle for class (or perhaps better wealth) segregation and is designed to select and promote elites primarily for the professions.

Though Professor Vignoles said that schools have little impact on pupil performance, Arnot said that there are problems within the school system that need rectifying if we are to redress the balance. Referring to Richard Sennett and Jonathan Cobb's book *The Hidden Injuries of Class*, Arnot said that there are clear "hidden injuries" inflicted by the state school system which have been revealed through qualitative research – the image that teachers had of manual working class children's abilities and their low expectations of such students needed to be considered Arnot suggested, as factors which could result in an all-out rejection of education. Such students, especially working class boys, emphasise the importance of being respected, of being given more chances to succeed in the classroom. Teachers can learn a lot if they routinely consult pupils (even at primary school age) about what could help improve their learning.

Working class students have been found to have a desire to learn, but even when schools try hard to promote educational success, the 'long shadow of [unequal] work' limits young people's response to schooling. If they perceive that social mobility is not 'for the likes of us', a rational response is to find other aspects to celebrate, such as working class jobs, physical masculinity, the cult of femininity, sport, youth subcultures, or music. Looking back over the positive lessons learnt from reducing gender inequality – "and there is no way that we have finished that job" – Arnot described a series of factors which had been crucial:

- There was an economic need for more skilled and scientific labour – women were a pool of talent the country needed to draw upon
- Legislation was brought in (e.g. the Sex Discrimination Act)
- Reducing school options meant girls were obliged to study science and maths
- Fundamentally it was a bottom-up reform movement which focused on raising gender awareness of the teaching profession )

And, with respect to that last point, Arnot said that if we are to close the social class gap - the gap between rich and poor - then the priorities should be concentrated on making this the focus of a 'bottom up' reform. A national programme of in-service education for the teaching profession, as well as initial training on reducing social class inequality is urgently needed. "Without the support of the teaching profession – as a professional group – I don't believe we can actually break what is still the case that there are large groups of children that are not achieving their potential."

### **Discussion with David Willetts MP**

**David Willetts** began by echoing a conclusion common to many academic conferences, "more research is needed".

In this case, however, he thought it carried more weight than usual. "It is striking in our discussion so far how short we have been on facts and evidence," he said. "The British debate in some of these issues is heavily circumscribed by inadequate evidence, in the way that the social mobility debate has been dominated by the 1958-1970 birth cohort studies."

In the US, such shortcomings aren't as prevalent. The work of Harvard economist Raj Chetty, for example, uses "millions of data points" to plot pupils' progression through the education system and out into the labour market.

At present such detailed research could not be carried out in Britain due to the legal constraints in accessing certain kinds of data (e.g. HMRC data on earnings) – though the law is in the process of being changed. Willetts said that, within 10 years, he hoped a similar level of properly anonymised data would be available to UK sociologists.

On the role of technology, Willetts said that he thought it came down to two aspects:

- 1) The earlier stages of industrialisation promoted geographical dispersal (so that mines and ports etc were all spread out); in more modern stages, geographical constraints are much less prevalent – “the forces of clustering are much greater,” he said.
- 2) Technology drives the ‘hour-glass’ effect because “it is easier to write a computer program that will beat a chess grandmaster than to make a computer program to serve tea to a little old lady.” The jobs that can be routinized tend to be relatively standard, middle-income jobs.

So, though Willetts conceded that technology had led to the hollowing out of the labour market, he maintained that graduates are more likely to be above the neck, than below it.

“The evidence from the English labour market is clear: if you are a school leaver, that left school at 16 or 18, then life is tougher now than it was 20 years ago or 40 years ago. If you have gone to university, your income will be higher now than it was for previous generations.”

And while the increasingly clustered labour market can have an impact on non-graduates (you are better off being a non-graduate in London or Oxford, for example, than being a non-graduate in Hull or Cornwall) Willetts said that technology has overwhelmingly benefitted graduates more.

The huge expansion in university enrolment (from 5 per cent to 45 per cent) benefitted middle class girls, said Willetts, but, at first, it did little to benefit the working classes – in fact, it has helped to increase income inequality. Referring to a previous comment about assortative mating (where, for example, male doctors began marrying female doctors rather than nurses), this actually leads to a widening in household inequality - “That is not to say that it’s bad that middle class girls go to university,” he added, “but it is useful to note the wider picture”. One positive, he added, is that as university attendance among the middle classes approaches saturation, the only gains that can be made is from students from less advantaged backgrounds - and this has been the case. In the past 10 years, the participation of the poorest quintile in Higher Education has doubled from 10 per cent to 20 per cent – “It is still too low,” he said, “but it is going up”.

The Coalition policy to limit any public sector worker’s salary so that they could not earn more than the prime minister was testimony to the changing attitudes to inequality within the Tory party, said Willetts. “If you had asked me 20 years ago whether inequality matters, I would have said that absolute living standards matter. Now we can see that is not the case.”

On the subject of Vice Chancellor pay, Willetts said he felt the issue was linked to a wider problem among universities and research institutes that, if you cap earnings, then talent will simply disembark to countries like Singapore or the US where researchers and academics will be paid more money – taking valuable R&D opportunities with them.

### **Discussion among the plenary**

The first delegate brought up the idea of the irreplaceability of essential talent when it came to income. While he said that that was an important issue, he wanted to question how we decide what talent is “essential”. Referring to David Willetts’s analogy of the chess player and the tea maker, he asked why care-giving occupations – occupations that are in some respects highly skilled – are inherently thought of as low status and thus are low paid.

The next delegate offered what she called a ‘dark’ solution to the social mobility problem – if we were really serious about solving it. Referring to Christopher Jencks’s book *Inequality*, she said the answer was

to exclude wealthy children from school completely. "That is a solution that has already been tried in some societies," she said. "In the former Czechoslovakia, after 1948, if your parents were class enemies – for example if your father was a lawyer – then you would find you were excluded from eligibility for applying to the academic secondary school, and even into the '50s and '60s that you could not apply to university." This measure was met with horror by people in the outside world, especially by those in UK where, instead, we prefer to encourage extreme competition in the school system among even very young children. Her conclusion was that, within this discussion of social mobility, we should never lose sight of what the process does to the children.

The next delegate asked the panel why, if it was clearly so advantageous to give the most resources to children from the poorest backgrounds, children in the independent-sector benefit from tax breaks?

One participant asked whether, in the absence of any clear-cut empirical data, the panel could guess as to how much a child's performance in life was down to education and how much was down to the success or otherwise of his or her parents.

Professor Vignoles answered this directly, saying that in fact there were good quantitative assumptions. "If you model your likelihood of going to university, around a third to 40 per cent can be explained by your family background; if you then add in some measure of prior achievement you increase that so you can explain around half of the variation in test scores we see between children."

The next delegate said that, from his own experience, he found the English school system very competitive. "Typically in social science we explain competition as an outcome of inequality, but it occurred to me that maybe we had this wrong. That actually inequality is an artefact of a competitive impulse, [which is] particularly marked in Britain."

Professor Vignoles reframed this analysis of competitiveness, saying that the 11 plus exam was brought in to stop middle class children simply going to grammar schools without testing; and similarly for GCSEs and A levels, it was a way of preventing admission into further and higher education based on unchecked class lines.

Professor Arnot said that competitiveness is trained into some children. She spoke about the strong encouragement of the "language of I", a process of individualisation which is intended to make a pupil more marketable to universities and more flexible in terms of their work prospects and which has been found to be especially prevalent amongst upper middle-class girls. "Interestingly, our research indicates that working class children and black children are more likely to talk about 'we'", still seeing themselves as part of a community.

Pupils should also be taught how to make good choices when it comes choosing subject options and a career path, she said, and noted that teaching children about the salaries different jobs command is coming back on to the agenda after it had fallen out of favour for several years.

David Willetts said he agreed with the delegate, that the English education system is hyper-competitive. His reason was this, firstly, that the UK is unusual in that it has a nation-wide competition for access to university. In most countries you go to your local university or your state university; and secondly, there is a very high level of significance attached to prior attainment, which is unusual in the west, but much more like in the Chinese system.

"The good news is that university is the first stage where people from disadvantaged backgrounds do better than those from wealthy backgrounds," he said. "The bad news is that however well they perform,

when you subsequently go out into the jobs market, people with equivalent levels of degree attainment who come from advantaged backgrounds then do better in earnings and employment.”

The next delegate said he was surprised by the decline in private school domination of politics and the judiciary – sectors previously marked by the prevalence of independently educated people operating within them. “In fact, the only institution that has moved from being less privately-dominated to more privately-dominated is the upper echelons of the media,” he said. He added that “our apprentice culture is alive and well because apprenticeships are being offered in universities”.

## Session Three

### Old and New Poverties

Session Chair: Professor the Baroness Lister of Burtersett, *Emeritus Professor of Social Policy, Loughborough University*

Professor Theresa Marteau, *Director, Behaviour and Health Research Unit, University of Cambridge*

Professor Richard Sennett, *Professor of Sociology of Education, London School of Economics*

Steve Trusler, *Accommodation Sector Leader, Laing O'Rourke*

In her introduction, **Professor the Baroness Lister of Bursett** asked the panel about the connection between poverty and inequality. She said it could be thought about on three levels:

- The macro level: which can measure patterns and distributions of poverty
- The micro level: where we can assess the experience of poverty<sup>12</sup>
- The political level: where an unequal society increases social distance and erodes common citizenship

“Poverty is, at heart, a lack of physical resources,” she said, “but of course the experience of poverty goes much wider, to include education, housing and health.”

**Professor Theresa Marteau** said that though life expectancy is rising, the rich are living longer – and in better health – than the poor.<sup>13</sup>

About half the shortfall can be attributed to the difference in people’s behavioural patterns, of which Marteau listed four key factors:

- Smoking
- Excessive consumption of food
- Alcohol
- Inactivity

Marteau said she would focus on two: smoking and diet; because their impacts on health inequality are the most pronounced with the prevalence of each being heavily socially patterned. So around 40 per cent of the unemployed smoke; 28 per cent of people engaged in manual labour smoke; falling to 14 per cent of people employed within the professions.

“One of the areas where it is most marked is in pregnancy. So 12 per cent of women smoke throughout pregnancy, but in Westminster 1 per cent of women smoke [rising] to 33 per cent in south Lincolnshire.”

With regards to obesity – and especially children with obesity – currently 12 per cent of primary school leavers are obese in areas of low deprivation; whereas 24 per cent of primary school leavers are obese in areas of high deprivation.

Marteau then said she would address two questions:

- 1) What is it about being poor that makes unhealthy behaviour more likely?
- 2) Which interventions could reduce the social patterns of these behaviours?

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<sup>12</sup> And in particular the Poverty-Shame nexus, which is a study of the near-universal connection between poverty and social stigma.

<sup>13</sup> The discrepancy is thought to average seven years on average, Marteau said.



With regards to the first question, Marteau said that, chiefly, it comes down to the environments that poorer people are exposed to and what resources they have available to them.

Poorer people are more exposed to the physical, social and economic environments that cue unhealthy behaviour. People living in poorer communities are exposed to a higher amount of cheaper, fast-food outlets than they are in wealthier communities – and exposure is directly related to consumption. Healthy food is three times more expensive per calorie than unhealthy food.

Poorer people do not just suffer from a lack of material resources; they also experience a lack of cognitive resource. Poverty can adversely affect the development of all organs, including the brain,<sup>14</sup> which can lead to poorer resistance to impulse. Stress caused by poverty can also dominate thinking, leading to the neglect of long-term planning.

With regards to the second question, Marteau said there were three types of intervention:

- Changing minds
- Changing environments – by reducing the availability of unhealthy foods, for example
- Giving more resources to those who have least

“There is increasing evidence that increasing the wealth of the poorest families can have a dramatic effect on the reduction of stress pathways [...] having £7000 more in the poorest families could have remarkable effects, particularly on cognitive development – which is about the same amount as it costs for early parenting programmes.”

Finally, Marteau spoke about the perceived reluctances to intervention. Firstly, health inequality is not a topic that has a great deal of public support – largely people do not grasp, or are not sympathetic to, the social dimension to health problems. Secondly, policy makers tend to side with the businesses that produce unhealthy products, on the belief that they are benefiting the economy.

In closing, Marteau said she believed the biggest obstacle to reducing health inequality was overcoming such reluctances to intervene.

**Professor Richard Sennett** spoke about the divorce felt between high and low status staff within companies. Giving examples within the financial services and tech sectors, Sennett said that, increasingly so-called “back room” or technical staff exhibit a general lack of confidence in the products that their companies deliver.

“The employees tend to feel that the system of increasing inequality is unjust because their bosses are incompetent.”

Sennett described the findings as being symptomatic of a divorce from economic power.

“It is a surprising [finding] because in the sociological world another name for ‘inequality’ is ‘hierarchy’ and there are many hierarchies in which this doesn’t occur. Hierarchy is a necessary thing in war, for example, where the tendency is to value the competency of those who are in command.”

One of the reasons that such a divorce occurs in the corporate world is the lack of accountability. In both the financial services and tech sectors, the higher up one progresses through a company, the quicker the personal turnover. “So there is an absence of a witness.” Furthermore, these firms tend to fill managerial

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<sup>14</sup> Though the process by which this is achieved is not fully understood, it is thought that stress during pregnancy causes excess cortisol to pass into the foetus through the placenta

positions from outside the company rather than hire internally, which adds to a general sense of unfairness.

The separation of hierarchy and meritocracy has been exasperated by modern capitalism, which instils a sense of uselessness within the low-status employee – immanently replaceable by technology or else some other worker – and decreases a feeling of presence in the workplace.

There is also a distrust among the low-status employee of the type of skills that an elite needs to prosper. So-called “executive skills” such as establishing and maintaining “short networks”<sup>15</sup>, are not considered as vital as the job-specific skills that the wider workforce needs to acquire.

“There is a feeling now that the race doesn’t go to the swift; the race goes to the networked.”

In the US, the political result of this is a general push to the right, and in particular, the increased membership of the Tea Party, which attracts many who feel disenfranchised or ignored by society.

**Steve Trusler** said that, after 30 years of extreme neglect, there now appears to be near cross-party support for increased housing construction. That said, housing costs have never been higher and “for many the prospect of home-ownership is now simply out of reach.”

Recent data from the House-builders Federation shows that, in the past 40 years, the house-price to salary ratio has almost doubled. “The price of an average home is now almost seven times the average salary of a typical buyer.”

In the past decade the rate of home-ownership fell for the first time since census records began.

“In February, the NHBC [National House-Building Council] CEO highlighted that, based on average prices, Londoner’s require over £73,000 deposit to buy a first home.”

As a result, in 1991 66 per cent of 25-35-year-olds were homeowners, by 2014, that figure had dropped to 36 per cent. Over the same time period, home-ownership among 65-74-year-olds rose from 62 per cent to 77 per cent.

“I think there is a really worrying trend there about the inequality of those two different age groups,” said Trusler.

At the same time more families are renting from private landlords – there are now more than 9m renters in the PRS. While in some London boroughs, average rents exceed 2/3 of average earnings.

Unsurprisingly, perhaps, social housing waiting lists have doubled in the past 10 years; currently standing at an estimated 1.8m households.

Impacts associated with poor housing provision are now being felt. Research by the Institute for Public Policy Research (IPPR) calculated that there are 500,000 more young people (20-34 year-olds) living with their parents than there was in 1997. And, while there is still the ambition for homeownership among the young, increasingly this is seen as an unobtainable goal.

In September 2013, the Town and Country Planning Association calculated that in England 240,000 new homes would need to be created every year until 2031 to meet current demand. In 2012, the Department of Communities and Local Government calculated that only 140,000 new homes were being built a year in the UK – 120,000 in England.

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<sup>15</sup> Where one establishes contacts that can prove useful in a variety of business situations

“I think those numbers are pretty stark,” he said, but found heart in the fact that the housing shortage is at least garnering cross-party support. “Labour has pledged to deliver 200,000 new homes a year by the end of the next parliament (if they get elected); the Lib Dems have a target of 300,000 new homes a year; and the Conservatives [are] pledging a further 200,000 new homes to first time buyers.”

“I think what remains completely unclear,” he added, “is how the proposed increased number of new homes will actually be achieved”.

The housebuilding and construction industry has a major traditional skills shortage and could not deliver such an increase in volume of new homes and therefore new, smarter practices need to be developed, which Laing O’Rourke is committed to achieving.

## **Discussion**

The first delegate asked whether, if the target of 200,000 new homes per year were achieved, what impact that would have on the jobs market.

Steve Trusler said that in addition to new smarter solutions an increase in apprenticeships and university places would be needed to help meet demand, and the development of more technical and engineer-level roles would be required to cope with the effects of the potential advances in technology.

The next delegate asked about the impact “new poverties” have on mental health. With particular regards to housing, he referenced the Marmot Review, which highlights the contribution good spatial planning has on the physical and mental health of communities.

Furthermore, the creation of the provision of new homes needs to have an in-built consideration of affordability, and the integration of rich and poor.

Trusler agreed. “With regards to spatial planning,” he said, “it’s never just about the numbers.”

The next delegate queried Professor Richard Sennett assertion that, in the US, a disenfranchised workforce is pushed to the right of the political spectrum and, in particular, to the Tea Party. “In this country,” he said, “you would have thought it would push people to the left?”

Sennett held up the rise of Ukip as a counter-example.

The next delegate asked what, if there is cross-party support for housebuilding, what stops construction.

One suggestion from the plenary was that the current policy framework is unhelpful. Greenfield building restrictions mean that site costs are more expensive, because brownfield sites are liable for a series of suitability and safety checks.

Furthermore, housebuilding projects are often resisted at a local level by older constituents. “Migration makes it worse,” he said, where migration pressures are linked – albeit erroneously – to housing pressures.

The next delegate asked Professor Theresa Marteau what conditions, if any, she would place on the proposed £7000 cash transfer to low-income parents.

Marteau said that the report, which was included in a review from the Joseph Rowntree Foundation and LSE, assessed the effects of cash transfer with no conditions. She added that, in South America, a conditional cash-transfer model had proved effective, but when it was trialled in New York it wasn’t.

The next delegate said that, as well as an increased provision for new home-creation, for improvements to be made in existing housing stock. "It is thought that £1 in every £3 spent on heating is wasted."

## Session Four

### Inequality over Time and Space: Justice, Inheritance and the Role of Taxation

Session Chair: Lord Hastings of Scarisbrick, *Global Head of Corporate Citizenship, KPMG*

Dr Pedro Ramos Pinto, *Director, Inequality and History Network, University of Cambridge*

Professor Martin Daunton, *Head of the School of the Humanities and Social Sciences,  
Professor Economic History, University of Cambridge*

**Lord Hastings of Scarisbrick** said that at a recent meeting with nine young black KPMG employees, the conversation turned to how they might progress within the company. The feeling he got from them was that they couldn't believe they would ever get to the position he was in today. "Even when we strive," they told him, "and we seek opportunity, the system kicks us back [...]. It is hard to be taken seriously talking on the phone when you have an African double-barrel."

It forced Lord Hastings to question what "equality" means for such a coterie within our society, that already feels the limiting factor of low expectations so acutely.

**Dr Pedro Ramos Pinto** said that History cannot provide ready-made answers or guidance. "Even if there were valuable lessons from the past, we are, in many respects, in uncharted territory primarily because of the scale of the technological change in the past 50 or 60 years."

And, with respect to the technological advantage we enjoy today, he said it is theoretically possible to solve the problem of absolute deprivation, so why haven't we?

However, he did say he thought History could be useful in two ways:

Firstly, it can tell us "how we got here" – especially when it provides a backstory to headline statistics "When we talk about inequality we often use a Gini index, but the same numbers from different parts of the world can hide very different trajectories."

China and India have similar inequality figures, for example, but their histories are very different, as are their experiences: for instance, gender inequality is much higher in India than in China, for historical reasons.

Secondly, history can tell us "how we didn't get here" by dispelling misapprehensions and misrepresentations.

In essence, a historical reading of the inequality problem encourages the debate to look beyond incomes as the only measure.

Inequality between countries over the past 20-30 years has been decreasing, primarily at the rise of India and China as economic powerhouses. There has also been a near uniform rise in real incomes, with the global "middle class" achieving the highest gains. The top 1 per cent has achieved the next highest rise, while the global poor have seen the lowest increase.

The only decline in real incomes has been for the global "upper-middle class" – in short, the bulk of the population of the rich countries of the "west" which perhaps goes some way to explaining the current anxiety we feel about inequality. "We are in the middle of a restructuring of global patterns of distribution," he said.

Simon Kuznets described inequality as a “transitional stage”, which happened as technological innovation forced some sectors of the economy to forge ahead of the others in terms of incomes. As other sectors catch up, he argued, there would be a general levelling-off of inequality.

“That remains a fairly accurate description of what happened in western Europe and the United States in the 19<sup>th</sup> and 20<sup>th</sup> centuries. But that model doesn’t really apply elsewhere.”

The main issue Ramos Pinto has with Kuznets’s analysis is the sense of “naturalness” in which it was presented. “As a historian, this is what I want to take issue with: the naturalness – or unnaturalness – of different modes of distribution.”

For example, societies in the US and the UK became more equal in the post-War period, but the equalisation mechanisms were not an automatic or “natural” result of growth, but of intense disruptive conflict – not least the War itself, but also the mobilisation of the working classes, trade unions and the fear of political polarisation in the context of the Cold War. All those drove these societies to create more equal institutions.

So one should expect disagreements and conflict within modern discussions of inequality. “What we have to do is try to think of ways to manage that conflict in productive ways,” he said.

Elites use their considerable resources to legitimise their high incomes and inherited wealth – and they always have. But how have they done this and why now are these mechanisms being questioned?

“I think it is because Americans and Western Europeans find themselves very insecure in this [new] global context, and they look to their elites and they regard them as failing in their duty to deliver the security that the population of the west has enjoyed for the past 50 years.”

**Professor Martin Daunton** spoke first about the role of inheritance in inequality, and on the laws and taxes associated with it.

The historical differences between countries’ inheritance laws mean that there cannot be a “natural” solution. “It needs to be explained in terms of politics, cultural assumptions, family structures and so on,” he said

There are three things to be considered:

- What is the extent of testamentary freedom?
- What are the legal rights of relatives?
- What is the law on entail?<sup>16</sup>

There are different patterns prevalent in different countries:

In France, after the Revolution, there was minimal freedom of testamentary disposition – the state limited to whom you could pass on your property, and the assumption was there was an equality of disposition among all children (no hierarchy of age or gender). This was justified by the fact that it was thought to make a fairer system. With regard to inheritance taxes, distant relatives paid far more tax than closer ones.

In the US there was practically unlimited freedom of testamentary, and entails were abolished immediately after Independence.<sup>17</sup> There was also no difference in the amount of tax paid by closer or more distant family members.

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<sup>16</sup> Where an estate needs to be passed down to subsequent generations and not sold.

This was also the case in Germany, where the interests of the family were paramount. “Property was seen as being socially embedded within families,” said Daunton. Entails were abolished in Germany after WW1.

In the UK, there was testamentary freedom – but there was an assumption of primogeniture. Entails were allowed, but they could only be held for a generation at a time, and were incredibly unpopular with progressive and radical campaigners. With regard to the differences in taxation levels, the UK’s system was far more muddled, shifting variously between the 17<sup>th</sup> and 18<sup>th</sup> centuries. Only when we get to Gladstone is there a strong trend in thinking that unearned or inherited wealth is, to an extent, illegitimate.

So each country’s set of laws and taxes were devised to produce different outcomes – to preserve or distribute wealth to various degrees.

Laws and tax systems can change. By the end of the 19<sup>th</sup> century, inheritances taxes in the US could be considered progressive; under George HW Bush’s administration 100 years later, they were much more conservative.

Today inheritance taxes are commonly called ‘death’ taxes in the US, but to counter that there are high-profile individuals like Bill Gates and Warren Buffett who have stressed the need to return to the older tradition.

## **Discussion**

The first delegate said he found it ironic that the spokesperson for a progressive inheritance tax policy in the US is Bill Gates Sr., the father of the richest man in the world, and not Bill Gates’s children.

The next delegate asked the panel if they agreed with Jeremy Bentham’s assertion that a person who has no close relatives should have their estate taxed at 100 per cent because, logically, no one would feel deprived of an inheritance that they weren’t aware of.

He also asked Professor Martin Daunton why historical economic or policy models – like the ones he presented – were so often limited to the UK, the US, France and Germany. “Do other nations have different stories to tell?” he asked, “what is the Spanish model like?”

Referring to the “hollowing out” effect of technology on the labour market that was mentioned earlier, the next delegate asked if there were any historical examples of the same thing happening.

Dr Pedro Ramos Pinto said that, whenever technological advancement affected a labour market, it has usually created an increase in inequality in the short term – but the subsequent development of a new model of distribution harder to analyse in the longer term.

The next delegate asked whether there had ever been restrictions placed on non-resident property investors – a question related to the current levels of foreign investment present in London and Cambridge.

Daunton said he was unaware of any previous measure, but added that, for the non-domicile rating – initiated under George III – an update in the law might be overdue.

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<sup>17</sup> But by the late 19<sup>th</sup> century you could, in effect, recreate them by setting up a “family trust”.

## Session Five

### Prescriptions and Policy: managing or challenging an unequal society?

Conference Chair: Dr Duncan Kelly, *Reader in Political Thought, Fellow, Jesus College, University of Cambridge*

Professor David Runciman, *Head, Department of Politics, University of Cambridge*

Dr Pramila Krishnan, *University Senior Lecturer, Faculty of Economics, Fellow, Jesus College, University of Cambridge*

Revd Dr Malcolm Brown, *Director, Mission and Public Affairs, the Church of England*

**Dr Duncan Kelly** said that Piketty's book *Capital in the 21<sup>st</sup> Century* had been a focal point which much of the day's discussions had revolved around, but wanted to bring up the work of Simon Kuznets, whom he felt was a great influence on Piketty. His advice was to shift from a purely marketised view of economics to, what he was calling in the 1950s, a "social and political economy".

"I think if anything has come up from today, not only is it fair to say that when we talk about inequality everything is complicated. It is also fair to say that what we have been covering when we talk about inequality – whether they are chiefly social, political, moral or ethical are all dimensions of something which doesn't have an easy solution and, in fact doesn't have an easy definition."

When those dimensions have been discussed today, it is not that we have been talking about the same thing, said Kelly, but rather different things that we recognise as coming under the banner of inequality. "What is interesting," he added, "is that politics struggles so very hard to deal with any of the dimensions that we've been talking about."

**Professor David Runciman** said that one thing which drives political discussion of inequality is the assumption of a 'natural' relationship between equality and democracy. The reason this assumption is made is simple, he said, because democracy is the rule of the majority and it ought to be in the interest of the majority to sustain a fairly equal society.

"We have now enough historical evidence to suggest that, at least of representative democracies, that that isn't true."

One reason democracies seem to have a natural inclination to inequality rather than equality is because it is a mistake to assume that in politics victory goes to the more numerous and not the better organised.

The things which, during the 20<sup>th</sup> century, were effective mobilisers of mass groups of people were wars and trade unionism – both of which are largely over now.

The world we live in today is hugely affected by technology, and that technology has two distinct features:

- This is a new age of monopoly<sup>18</sup>
- This is the age of free

In respect to the last aspect, Runciman said that, of course things that we think of as free – like software and media - aren't free, we trade our data for them. And that trade is now causing a huge gulf to open up

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<sup>18</sup> Which is driven, he said, by network effects, power laws, lower marginal costs – "This is the age of Facebook and Google."



in the inequality of privacy. “The extremely wealthy owners of the new technology enterprises – which are taking away our own privacy – are extremely jealous of their own privacy. So Mark Zuckerberg didn’t just buy a new house, he bought all the houses around his new house.”

Furthermore, some people’s data is more valuable than other people’s data – advertisers want the data of the wealthy. This means the wealthy, in this “new age of free”, are subsidising the poor.

One could argue that is a means of redistribution, but with regards to new technology there is perhaps one such trend towards equality, set against many others which are trends towards inequality.

Therefore, challenging inequality in the 21<sup>st</sup> century is very different to challenging it in the 20<sup>th</sup> century, and the same mechanisms that were used in the past to mobilise the masses we cannot use today. That is not to say that nothing can be learnt: “I’m sure there are lessons we can learn from the 20<sup>th</sup> century and even the late 19<sup>th</sup> century about breaking up monopolies, trust busting and so on - there is also perhaps more we can learn about utilising in the tax system [to aid the redistribution of wealth] than we give it credit,” he added.

**Dr Pramila Krishnan** said that one conclusion from Piketty’s book is that the world of inequality has not been as “nasty” as it is now. But that simply isn’t true. Global inequality is the lowest it has ever been.

The fall in global inequality has largely been precipitated by the rise of India and China. In particular China has moved about a fifth of her distribution into the global middle class, facilitating what Krishnan called a “shift to the middle”.

But who lost from this shift? “Dr Pedro Pinto said that it was the middle classes of rich countries that lost out the most, and that’s precisely right.” In particular, she said, the biggest losers were the bottom 50 per cent of the rich countries, who saw the slowest income growth. As such, any concerted effort to alter this new pattern of redistribution is unlikely to come from this source. The bottom 50 per cent within a country will not sufficiently mobilise themselves for change, neither are they likely to mobilise themselves internationally.

At root, Krishnan said, the debate boils down to a question: “Is there a structural or causal link between inequality, growth and poverty reduction?”

“The answer, sadly,” she said, “is no.”

There is too much complexity and heterogeneity in the mechanisms of inequality to draw any steadfast conclusions. “There is no evidence, empirical or otherwise to suggest that inequality is good or bad for growth and poverty reduction.”

There is perhaps only one conclusion you can draw with any degree of certainty: that extreme inequality seems to be particularly bad for both growth and poverty reduction.”<sup>19</sup>

The reason why you cannot declare any real structural connection between inequality and economic prosperity is, for instance, if you look at the capital gains that have propelled inequality in modern societies, much of it is linked to house price growth. More generally, income inequality rises, by definition, when one group in a society is able to benefit from higher income growth whilst others are somehow prevented from doing so.

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<sup>19</sup> Examples of “extreme inequality” can be seen in some of the societies in sub-Saharan Africa and, to in extent, to Latin America.

“The bottom line,” she said, “is inequality requires both an opportunity for income growth and some form of exclude-ability.”

**Revd Dr Malcolm Brown** said that the House Bishops of the Church of England issued a pastoral letter recently on the upcoming General Election. It asked “what sort of country would you like Britain to be?” – and, in particular, what is there in the moral tradition of Christian ethics in this country that helps us answer that question?

Though the letter only glances on the topic of inequality, the letter’s impact is important because in answering its central question it can inform policy.

“The trope which the bishops put at the heart of their letter was whether we see ourselves descriptively – and whether we want to see ourselves – as a society of strangers of a community of communities?”

To illustrate the point, Brown said that every day he commutes to work on the Victoria line. “You might perceive that as the embodiment of a society of strangers,” he said, but actually, it is community which has internalised a strict set of unwritten rules: allowing passengers to alight the train before boarding, for example. When it is the school holidays and the system is swamped by people unfamiliar with the rules, this is obvious.

One question the bishops asked “more in hope than certainty” was whether dimensions of the inequality debate were trajectories or cycles?<sup>20</sup>

Though clearly many of the factors discussed here today are trajectory-like in nature, there are still some cyclical elements.

“I want to try and coin, with no real evidence, a notional 35-year rule,” he said, where ideas can undergo a period of 35 years of gestation and academic testing before they become active in the political sphere.

One example is Alasdair MacIntyre’s book *After Virtue* which, some 35 years later, is now starting to inform policy.<sup>21</sup>

In the 1940s, Atlee’s government “changed the way we see ourselves as a nation,” he said, “35 years later we had Margaret Thatcher’s administration, which changed it again.”

It is about the same period now since Thatcher came to power, so where is the visionary who will spark a new era of political thinking? Whoever it is, it won’t come on the May 7 election.

“If we want to move away from a society of strangers and become more like a community of communities, the bishops suggested in their letter point to the idea of stronger intermediate institutions.”<sup>22</sup>

One intermediate institution that is still strong is the churches – or more accurately put, faith communities. Others are the credit associations and housing institutions which, while not outside the market, embody the principle of mutuality.

“Christians often think that the opposite of competition is cooperation, and while that might be true in some cases, the opposite of competition is also monopoly.”

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<sup>20</sup> Liberals, he said, tend to think in trajectories, conservatives in cycles.

<sup>21</sup> Elements of MacIntyre’s thinking featured in a speech made by Michael Gove at the launch of his new book, *The Good Right* at the Legatum Institute on 12 March 2015.

<sup>22</sup> In the last century, these were the churches, the universities and the trade unions, but who would they be today?

One final question that Brown posed was whether the failures since 2008 – which include rising inequality – have influenced the way we would choose to see ourselves as a country? Will movements like “the Good Right” be as short-lived as the “Big Society” was, or are these ideas gathering steam?

“The former Archbishop of Canterbury, Dr Rowan Williams, said that Church of England ‘thinks in centuries’, my fear is that we don’t have centuries to think in.”

## **Discussion**

Dr Duncan Kelly said that, after hearing the speakers’ presentations – and indeed the presentations of all the speakers at the conference – he thought it clear that “there is no obvious tangible political strategy that could deal with the different facets of inequality.”

“I know the ethos of the Rustat conferences is to come up with a solution,” he said, “but I don’t have a zippy one.”

The first delegate said that, while he couldn’t offer a solution either, he had a reaction, which was to say there was a fundamental flaw in Piketty’s book and to the responses to it. The book contained a lot of data – which he thought was useful – but it had a single explanation: that the returns on capital exceed the rate of growth in an economy. “I think that is a huge diversion from the real issue,” he said. “If we are looking for the sources of rising inequality, they are not about technology or the returns of capital; they are mostly to do with political power.” He said that mechanisms to aid the redistribution of wealth – the tax system, the trade unions, the welfare state, egalitarian business ethics – had all been largely abolished in today’s culture.

In defending Piketty, Duncan said that, while there is a strong emphasis on economics in the book, Piketty has said that it is “all down to politics”.

The next delegate questioned the labelling of the church, universities and unions as ‘intermediary institutions’: “Between what and what?” she asked. She said that Maurice Glasman, the figurehead of the Blue Labour movement, said he wants to substitute workers’ unions for the welfare state. “He doesn’t see the welfare state as any productive part of the future, which I find troubling.”

Brown said that “intermediary institutions” were bigger than the family but much smaller than the state. “I don’t think Glasman or any in the Blue Labour movement want to replace the welfare state, just to question what its function is,” he said. Beveridge released a report soon after 1942’s celebrated *Social Insurance and Allied Services* called *Voluntary Action*, in which he stressed the importance of the informal networks of neighbourliness and volunteering in forging communities. “[Beveridge] understood completely,” he said, “that the welfare state cannot bear the whole load.”



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