

# ESSAYS

## Why equality matters

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The egalitarian achievements of twentieth-century social democracy have withered in the face of the neo-liberal onslaught. They must be argued for again and again.

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Whatever is my right as a man is also the right of another; and it becomes my duty to guarantee as well as to possess.

Tom Paine, *Rights of Man*, 1791

Labour's devastating electoral defeat reveals that social democracy remains in crisis. The hope that economic crisis had changed politics has so far proven misplaced. Instead, flawed and limited neo-liberal assumptions about equality, freedom and power are more entrenched than ever. This is to be witnessed in Osborne's frighteningly assured shrinking of the state. Yet, neo-liberalism is still not properly understood and, in its disarray, social democracy is struggling to mount a coherent response.

In the twentieth century, the New Deal and Attlee Labour Government succeeded by uniting progressive liberalism and social democracy around the ideal of a more equal society. Socialism was almost completely absent in the US. Despite its disproportionate totemic significance, Labour success owed little to clause IV. Rather, reformers convinced the public that they had the solutions to depression and the aftermath of war. Similarly, domestically at least, the Democratic Party and

Labour Party in the 1960s briefly connected social and cultural change to the politics of hope.

In both countries, egalitarianism ran through policies – universal education and healthcare, civil rights, housing, and strong trade unions – of liberal, conservative and social democratic politicians alike. The belief that an active state should guarantee the basic conditions of life for all so that each is free to lead a fulfilling life unified people across the political spectrum. Crucially, liberty was understood positively as empowerment of the individual, often through collective means.

This view of equality and freedom has been lost. In its place, American neo-liberals of the Chicago School of Economics and the Virginia School of Political Economy successfully promoted a version of freedom both deceptive in its simplicity and limited in its content. Milton Friedman, Gary Becker, George Stigler and James Buchanan constructed an all-encompassing economic approach to human behaviour based on ‘maximising behaviour, market equilibrium and stable preferences’ (Becker, 1976, 6). At the heart of this economic vision, an old idea of liberty based on freedom from interference was resurrected. Gone was the enabling ideal of freedom that underlay the welfare state: liberation from economic insecurity.

American neo-liberals attacked the pillars of twentieth-century social democracy – economic planning, civil administration, the very idea of a ‘public interest’, government regulation – and insisted that only a Madisonian ‘checks and balances’ constitution coupled with the expansion of the market mechanism into hitherto untouched areas would guarantee individual liberty. These writers believed that the rising tide generated by private profit lifts all boats. The magic of the market was its power to improve everyone’s standard of living even as inequality increased. Inequality therefore did not matter. It was essential to competition, which increased efficiency, productivity, and, ultimately, wealth.

For progressive politics to be successful again, it must articulate why this view is wrong. It must recover its commitment, not just to tackling inequality, but to a more equal society. But it must articulate a relevant and coherent case for equality in the twenty-first century, not the last (1). What follows is a political *and* historical argument for a renewal of politics based on the spread of an equality which does matter: the development of a person’s *capacity* for freedom. While it rejects certain assumptions that underlie neo-liberal logic, it also draws on insights revealed in neo-liberal thought which offer clues for how progressives can fight back. Most

importantly, the legacy of neo-liberal thought whereby substantive equality and freedom have come to be viewed as in conflict must end. No coherent alternative political case can be made that fails to bring these fundamental values back together.

## The problem

Graphic inequality is everywhere visible in twenty-first century Britain. Poverty and homelessness are increasing. Concentrated wealth prices the vast majority – ‘the many’ of the ‘squeezed middle’ as well as the very poor – out of owning their own homes. Food banks have arisen to cope with the effects of stagnant incomes, the inexorable rise of the cost of living, and the enduring need for subsistence. According to the World Bank, Britain’s GDP per capita stands at \$45,603.30 (2014), still considerably below its peak in 2008 of \$48,319.90 (World Bank, 2015). Median household income, at £22,880 in 2012/2013, is stubbornly low by comparison with other developed countries, and is skewed by the wealth in London and the South East (see DWP, 2014, 22). Zero-hours contracts have signalled a large increase in the working poor who are employed for poverty wages. Manufacturing has collapsed since the 1980s. Inequalities that have never disappeared in educational, social and cultural advantage have been reinforced.

Britain is not alone. The rise in inequality, whether measured by the Gini Coefficient, by wages themselves, or by income ratios within industries or firms, is now a trend across many developed democracies. Most clearly, in the United States, wages for most people have hardly shifted in real terms since 1980, despite a brief resurgence during the Clinton-era boom (2). In Europe, with no fiscal union and no will on the part of wealthier countries to countenance cash transfers, the eurozone area has also witnessed savage inequalities between the German-led North and the poorer South. The Grexit crisis is just the most acute manifestation of this regional inequality.

Inequality dominates the debate. Thomas Piketty’s *Capital in the Twenty-First Century* (2014) (drawn from his work with Oxford economist Tony Atkinson and Berkeley-based economist Emmanuel Saez) questioned the rising tide. Despite the best attempts of right-wing critics to discredit it, it has reframed discussion around the inequalities caused by global capitalism and markets so that distributional questions are once again placed front and centre (see also O’Neill, Pearce

and Piketty, 2014). But inequality resonates because of the economic facts since 1980 and concern about its effects is not confined to the left. Former head of Thatcher's Policy Unit Ferdinand Mount's *The New Few* (Mount, 2011) castigated a modern Britain increasingly dominated by oligarchs and plutocrats. Since the 2015 election, Cameron has attempted to remake the Conservatives as the 'party of working people' and Osborne has disingenuously sought to introduce a 'living wage'.

The debate on inequality is not yet wholly constructive. As David Lipsey points out, universal political concern with social mobility reveals deep unease with a society felt, perceptibly, to be moving backwards (Lipsey, 2014). But the almost universally-held solution for inequality, equality of opportunity evidenced by greater social mobility, obscures more than it reveals. Equality of opportunity is slippery. It risks being platitudinous. Inequality angers everyone in some measure. But tough questions in need of answers – how much, for whom and how to balance competing interests – are much less easily resolved. Like 'hard-working families', equality of opportunity is a cliché of modern politics but what does it mean?

Equality of opportunity is usually juxtaposed with equality of outcome. It presupposes that individuals can start in the same position in life. Whatever a person might achieve is then held to be dependent on how hard they work. But this meritocratic vision is illusory. Given the infinite variety of human talents and experience, it is clearly impossible for all to have an equal chance at doing well at all things. The fundamentally unequal distribution of ability and wealth, and resources, mean that the best equipped are those most able to succeed when offered a chance.

More importantly, most accounts of equality of opportunity are incomplete because they evade the problem that *all* lives are worthy of dignity, respect and a decent standard of living. Equality of opportunity hides difficult political choices that must be made if everyone is to have the power and freedom to live a decent life. Virtually all politicians pay lip service to equality of opportunity but, as Tony Crosland put it in *The Future of Socialism*:

I do not believe that [a] society [based on equal opportunity] in any way resembles the true ideal of most Conservatives. Consider its most obvious implications – completely free, competitive entry into industry: an end to all

nepotism and favouritism: a diminution, if not the virtual elimination, of inheritance: the abolition of fees in public schools: and generally the extrusion of all hereditary influences in our society – and contrast this with actual Conservative policies in these various spheres, and with their emotional attachment to precisely the traditional and hereditary features of British life. (Crosland, 1956, 174)

Pursuit of equal opportunity, even of a sparse kind, would have serious policy implications, certainly, which almost no *neo-liberal* conservative could endorse. On the other hand, as in the post-war period, some progressive conservatives, and certainly many floating voters, will be attracted by a compelling vision of a more equal society if it respects individual freedom.

If an effective response is to be mounted against growing inequality, it is essential to understand the reasons why it has grown. It needs to be explained why equality is important and what sort of equality really matters. The focus on inequality is insufficient by itself and the proposed solutions, equal opportunity and social mobility, are imprecisely defined so that they disguise all manner of political difference.

Before considering what sort of equality might provide a foundation for an alternative social democratic politics, it is first necessary to examine the American neo-liberal inheritance. For these ideas largely underpinned the economic policies responsible for rising inequality in Britain and the United States since 1980.

## American neo-liberalism

‘Neo-liberalism’ is often blamed for the entrenchment of inequality. But the impact of American neo-liberalism, or more precisely, the Chicago and Virginia Schools, is not yet sufficiently understood (3). Friedrich Hayek and Milton Friedman’s influence is well-known. Both influenced journalists and think tanks in the United States and Britain in the 1960s and 1970s, helping to shape Thatcherite economic strategy and so-called ‘Reaganomics’. Less clearly grasped is the precise nature of neo-liberalism’s challenge to equality, the idea that founded the welfare state. American neo-liberalism in particular re-theorised liberalism around a version of limited, or negative, liberty, freedom from interference.

The concern to preserve what Isaiah Berlin famously termed ‘negative liberty’ had worthy origins. Following the catastrophes of the inter-war years, Hayek’s *The*

*Road to Serfdom* (Hayek, 1944) and fellow Austrian émigré Karl Popper's *The Open Society and its Enemies* (Popper, 1945) feared a totalitarian destruction of freedom as had occurred in Germany, Italy, Russia and Japan. But Hayek and Popper coupled their calls for negative liberty with an acceptance of a basic welfare state. By contrast, the deeply personal dread of tyranny felt by Hayek, Popper and others was replaced in Chicago and Virginia by dislike of New Deal social democratic politics, concern to fight the Cold War on the plane of ideas, and overriding interest in the prospects for American private enterprise.

American neo-liberalism stripped liberalism of the content given it by John Maynard Keynes, William Beveridge and Franklin Delano Roosevelt in the early twentieth century. American neo-liberals also based their market theories on 'negative liberty'. An individual should be free to choose what they want for themselves and for their families so long as it does not harm anyone else (Mill's liberty minus his utilitarianism or democratic socialism). The market is the best non-coercive organising mechanism that respects the harm principle. The spontaneous and decentralised price system is the most effective guarantee of individual freedom.

The core ideas of American neo-liberalism were elaborated in detail and applied to policy areas by the key thinkers – Friedman, George Stigler, Gary Becker, Ronald Coase, James Buchanan and Gordon Tullock. They challenged the liberal and social democratic idea that collective action is necessary to address economic insecurity. The result of their influence has since extended to all parts of the 1945 settlement.

Hayek, who spent 12 years in Chicago after leaving the LSE in 1950, bridged early neo-liberalism and the more confident post-war American variety (4). He argued, formatively, in the 1930s and 1940s that government economic planning potentially leads to a new despotism that defies market logic. According to Hayek, the price system is the only institution capable of processing an impossibly vast amount of information. Its processing capacity is essential to ensure the efficient allocation of economic resources.

Friedman built on Hayek's insights. In *Free to Choose* (Friedman and Friedman, 1980), written with his wife Rose and accompanied by a successful television series, Friedman argued that market transactions are, or should be, voluntary. Each party only enters one if they are likely to benefit. The result is a net gain to everyone's benefit. The simultaneous pursuit of self-interest by all, Adam Smith's 'invisible hand', leads to an increased social product.

Friedman's book was the quintessential popular statement of what became known as 'trickle-down economics' – the idea that a rising tide lifts all boats. He argued that markets are not just efficient; they achieve progressive goals better than government intervention. According to Friedman, markets have a liberating power because they do not respect status. As long as barriers to entry are removed, the free market through the price system reveals the true value of economic and social goods. Things that people want survive and thrive. Others wither and die due to market competition. Competition ensures that work and thrift are rewarded.

Though their ideas differed in important ways, particularly over the business cycle, both Hayek and Friedman popularised the view that government intervention to achieve fairer outcomes is an illegitimate, ineffective and dangerous course for public policy (5).

Friedman and his Chicago colleagues George Stigler and Gary Becker developed Chicago price theory – methodological individualism, rational choice and free markets coordinated through the price system – into what they saw as a comprehensive explanatory tool. Becker's essay 'The economic approach to human behaviour' (Becker, 1976) described the economic approach as a 'unified framework for understanding *all* human behaviour' based on individuals, or 'decisions units', 'maximising behaviour', in the sense of maximising utility, in an environment characterised by 'market equilibrium' and 'stable preferences' (Becker, 1976, 14). Stigler applied this approach to information and to regulation. Becker analysed discrimination, crime, the family and drugs. Chicago price theory became known pejoratively as 'economics imperialism' because it aimed to expand Chicago's distinctive analytical frame into new areas.

In 'The Problem of Social Cost' (1960), British economist Ronald Coase argued that neo-liberal limited liberty implied a new basis for law and policy. He examined unintended consequences of well-intentioned regulatory interventions. Using the example of a law to stop the harmful effects of pollution, Coase concluded that the 'aim of such regulation should not be to eliminate smoke pollution [through fines which might have negative unanticipated effects on economic growth] but rather to secure the optimum amount of smoke pollution, this being the amount which will maximise the value of production' (Coase, 1960, 42). Regulators should not interfere in respect of voluntary market relations unless the total cost of non-intervention would be higher than the costs associated with intervention.

Coase's argument was particularly important because it brought into doubt hitherto presumed public goods. From first principles, Coase advocated the market measures of economic growth and total economic and social product as barometers of policy. Such measures should replace piecemeal interventions to target individual problems like pollution. Coase included in his analysis the prospect of wider considerations than the purely economic. However, because the 'social' element of the total product, as opposed to the economic element, was difficult to quantify, it became relegated in subsequent uses of his ideas.

Influenced by Chicago price theory, Coase's work and by the new constitutional theory of, among others, John Rawls, Virginia school economists James Buchanan and Gordon Tullock developed public choice theory in the late 1950s and 1960s. In *The Calculus of Consent* (Buchanan and Tullock, 1962), they elaborated a market-based analysis of politics which purported to show that the 'public interest' was a mirage. The noble civil servant (like Beveridge or Keynes) impartially pursuing policies in society's best interests did not exist in Buchanan and Tullock's model. Rather, just as in a conventional market, individuals and groups seek to use government processes to pursue their own interests for their own ends. Another less virtuous, more pernicious, 'invisible hand' operates, according to which, individual actors in the public sphere intending to serve the public interest merely end up furthering private interests. Stigler's research on regulation in spheres like electricity, where regulators appeared to become 'captured' by the regulated, provided examples of the effect. William Niskanen applied public choice insights to bureaucracy and public sector management.

The policy implications of the Virginia and Chicago treatment of individual freedom were clear. Since no public interest, or collective good, could be identified separately from the interests of particular individuals or groups working in government and the public sector, constitutions should limit collective action as far as possible to areas in which broad agreement exists. Public policy should work with the grain of selfish motivation by introducing incentives into government and the public sector just as these spurs are used in private enterprise. All but the barest essentials of government should be limited. Versions of these ideas formed the basis for the 'New Public Management' of the 1980s as well as Clinton and Blair's modernising agendas (6).

The neo-liberal version of freedom leaves out crucial aspects of human experience. The account of individual liberty in a market-based society is only

superficially coherent. It does not include what is hard to measure in terms of the 'total value of production'. Unsurprisingly, since most of the key thinkers were economists, it is not able to explain satisfactorily unprofitable but desirable objectives. Neo-liberal ideas about market outcomes have at their heart *inequality*. Not everyone can win in the competitive marketplace. Providing housing, education or healthcare for the most vulnerable is not always profitable, especially if it is accepted that these people are also entitled to services of the highest quality.

In 'Individual choice in the market and in voting' (1954), Buchanan acknowledged this feature of market choice. 'Market choice', according to Buchanan, 'is normally conducted under conditions of inequality among individuals while voting tends, at least ideally, to be conducted under conditions of equality.' But for Buchanan this illustrated why freedom had to be defined in terms of negative liberty:

The essential point to be emphasised in this connection is that the inequalities present in market choice are inequalities in individual power and not in individual freedom, if care is taken to define freedom and power in such a way as to maximise the usefulness of these two concepts in discussion. As [Chicago economist Frank] Knight has suggested, it seems desirable for this reason to define freedom somewhat narrowly as the absence of coercion and unfreedom as the state of being prevented from utilising the normally available capacities for action. (Buchanan, 1954, 340)

Lurking under the voluntary transactions entered into in the market are vast inequalities of power and resources. Such resources, and the power they provide, are essential to engage meaningfully in the economy and society. The American neo-liberal account of individual freedom of choice in the market leaves out a person's *actual* capacity to choose. In fact Buchanan's 'desirable' definition of freedom is of a hollowed-out conception that does not account for inequalities of economic power and resource. It is the freedom to choose a private education or a nice property in a well-to-do neighbourhood for those who have the money to do so. They are only real choices for those with the means to make the choice. Despite the meritocratic rhetoric, it turns out that economic freedom depends on economic (and other) resources.

Taken together these ideas – Hayekian spontaneous market order, Chicago price theory and Virginia public choice – provided important insights that highlight particular failures of government. The dynamic and efficient potential of markets,

the harmful unintended effects of policy interventions, and the problematic possibility of regulatory capture are all essential elements of reformed and effective government and regulation.

American neo-liberal ideas have also had a destructive effect. They have eroded faith among policymakers and publics alike in the sources of political, economic and social equality. Rhetorically, American neo-liberal arguments, such as Friedman's in *Free To Choose*, appropriated the mantle of fairness by advocating equality of access to the market and the meritocratic outcomes that supposedly result from individual initiative and effort. Piece by piece the underlying foundations of the welfare state – universal free education and health, housing for all, and legal aid to guarantee access to justice – have been undermined. Chicago price theory has influenced policies to deregulate and privatise as much of the economy as possible. Virginia public choice has destroyed belief in the possibility of publicly directed collective action by government and public sector institutions and officials.

At the same time, until recently, the 'rising tide' thesis has replaced a robust view of the importance of economic power in an individual's capacity to act in the marketplace. The fact that markets must be managed if they are to operate most productively has been forgotten. Instead of governments trying to equip all to participate as fully as possible in the market, and thus in society, what is respected above all are purportedly fair market outcomes.

The central triumph of the neo-liberal worldview is evident in the fact that its understanding of economic power, of individual (limited) liberty, and of freedom of choice (for those who already have the means to choose) now dominates social and economic policy in Britain and the United States. Gone are alternative conceptions of public good or collective choice made for non-profit related reasons, though of course, these types of choices are commonly exercised in everyday life. In the process, alternative egalitarian paths have been marginalised and seemingly discredited. Equality must therefore be reimagined as empowering people *to be able to* choose to live decent lives in which they *are able to* determine their own fate free from considerations of powerlessness.

## Equality of what?

If equality is to challenge neo-liberalism and perform the Herculean task of political renewal, it must be more rigorously defined. Any treatment of the

question of why equality matters must reckon with what sort of equality is at stake and what is meant by a demand for greater equality? A useful concept of equality within a liberal democratic framework is the necessary prerequisite for a reformed social democracy.

American legal philosopher Ronald Dworkin and Indian Nobel Prize-winning economist Amartya Sen have both elucidated important features of equality (see Dworkin, 2000; Sen, 2009). Sen's work combines several complex ideas – social choice, value pluralism, historical contingency and equality of capability – into a coherent theory of justice. He notes that it is a significant feature of most political theories, not least those of Buchanan and Hayek, to include an 'egalitarian formula' as a key element. Sen observes this stems from an urge to be seen to give priority to impartiality and to preclude bias or arbitrariness. It also indicates clearly that a concern for *some form of equality* is felt to be important by thinkers of all political persuasions. The key question is therefore less whether some form of equality is desirable but rather what kind of equality is needed.

Sen distinguishes between different kinds of equality and freedom which may at different moments demand adherence. For example, the equal treatment of individuals before the law or in terms of the right to vote primarily concerns equality of process. Other considerations of just deserts, or 'fair shares', arise from a different appeal, to the appropriate treatment of effort, which itself has a relationship to another fundamental egalitarian idea, fairness. Though these egalitarian demands, of equal participation, of appropriate reward or of fairness, may all be equally valid at different moments, they may at times also be incommensurate with each other. The right not to be interfered with, neo-liberal limited liberty, is qualified, or impinged upon, by a need for taxation to provide certain social essentials. Sen shows clearly that equality and freedom are multi-faceted ideas which cannot be reduced simply to *any one single thing*, whether equality of resources, outcome, utility, conscience or equal freedom from interference.

Sensitivity is required to equality's complexity and many-sidedness. Sen's answer to which equality is important applies a historically grounded capability approach. For all to be equally free, liberty or freedom cannot be wholly conceived in terms of non-interference (or indeed the absence of what philosopher Philip Pettit refers to as 'dependence' on the will of others) (see Pettit, 1997; an idea also developed in Skinner, 2002). It is instead crucial to ask what a person is actually capable of

doing. Capability is a question of evidence, observation and analysis directed at improving the concrete conditions of people's lives. Consequently, Sen's approach is necessarily pragmatic. As such, it offers fertile material for the generation of public policy. On this view equality of power is not just another equality of something but is instead a *dynamic* and *constantly evolving process* whereby policy is adjusted to the problem at hand according to evidence. The goal of greater equality of power and freedom provides coherence and direction to an adaptive policy-making process.

Ronald Dworkin questioned the assumption, held by neo-liberals and others, that liberty and equality are in irreducible conflict. In *Sovereign Virtue* (2000), Dworkin reminds us that the fundamental equal worth of every human being justifies the promotion by public policy of greater equality. He observed that no government can be considered legitimate that does not show equal concern for each and every one of its citizens. Like Sen, Dworkin points out that even for would-be opponents there is a basic sense in which equal treatment matters. But Dworkin goes further, and in a slightly different direction to Sen, by demonstrating that liberty is in fact a basic condition of equality.

Dworkin's theory of equality of resources, which like Sen's is ultimately a practical theory demonstrated through workable examples, rests on two key principles, 'equal importance' and 'special responsibility'. The first principle is applied so that governments 'adopt laws and policies that insure that its citizens' fates are, so far as government can achieve this, insensitive to who they otherwise are' (Dworkin, 2000, 6). So the fact that someone might be gay or a woman or from a poorer background should be irrelevant to policies to further individual self-flourishing. The second principle is that government policy should be directed, within the limits of what is possible, at making a person's fate 'sensitive to the choices they have made'.

Dworkin's theory balances rights with responsibilities. He argues that such a balance is essential for the twin values of equality and freedom to blossom, asking '[c]an it really be more important that the liberty of some people be protected, to improve the lives those people lead, than that other people, who are already worse off, have the various resources and other opportunities that *they* need to lead decent lives?' (Dworkin, 2000, 121). For Dworkin, freedom is not meaningful if people are not equally resourced to achieve its essential requirements. This means that certain liberties have to be curtailed in the service of equality, because the

cardinal principle upon which his liberal democratic society is built is the equal concern for all.

Liberty is not overrun in such a society. A ‘substantial degree of liberty is necessary to make any such process [of discussion and choice in determining effective policies to achieve equality of resources] adequate because the true cost to others of one person’s having some resource or opportunity can be discovered only when people’s ambitions and convictions are authentic and their choices and decisions reasonably well-tailored to those ambitions and convictions’ (Dworkin, 2000, 122). Liberty is necessary to equality because it is ‘essential to any process in which equality is defined and secured’. Like Sen, Dworkin believes reasoned debate is crucial to any effective policy.

In this way, Dworkin illustrates a profound point about equality and freedom. They depend on each other to be meaningful. The neo-liberal view of limited liberty is empty if the poor, vulnerable, or the ‘squeezed middle’, are in practice lacking the essential resources for self-flourishing. To confine such freedom to those with resources – financial, familial, or cultural – is a travesty.

Sen and Dworkin illustrate that substantive forms of equality matter for practical politics. Sen’s emphasis on real lives is essential to the development of policies to further egalitarian aims. But different aspects of equality are important at different times depending on the perspective and demands made at that moment. It is unnecessary to elevate a particular type of equality – of financial resources, of well-being, or of opportunity – to an ultimate status.

Similarly, as Dworkin suggests, it is empty to speak of freedom, in the sense of neo-liberal limited liberty, as supreme when the effect is to privilege the freedom of one group above others. This is especially important when, as in Britain and the United States, conditions for most have stagnated or worsened. These insights reveal a political task. The relentless focus of a pursuit of greater equality should be on how to equip people to flourish in their lives. This does not mean, in the old charge, levelling down. But crucially such a focus *must* target the protection of existing privilege masquerading as a defence of (limited) individual liberty.

How might such a focus be developed? It should begin with economic citizenship. T. H. Marshall’s essay, *Citizenship and Social Class* (Marshall, 1949), retold British history as the progressive establishment and expansion of new forms of rights secured in re-formed ideas of citizenship. In Marshall’s telling, the seventeenth

and eighteenth centuries saw the bloody and prolonged struggle for civil rights. This was followed in the nineteenth century by a fight for political rights, eventually established on a truly egalitarian basis in 1928 when all women over 18 gained the franchise. Finally, in the first half of the twentieth century social rights were delivered in William Beveridge and Aneurin Bevan's 'cradle-to-grave' welfare state. Social citizenship marked the great achievement of post-war social democracy.

If equality of power is to be achieved, citizenship must be extended to economic rights. Economic citizenship requires equality based on more than access to markets and negative freedom. It requires liberation from the apparently settled 'lessons' of 1989.

### **The spectre of 1989 and the 'end of history'**

One destructive consequence of the collapse of communism was the widespread acceptance of the myth of a 'free' market. The end of the Soviet Union and neo-liberal political success produced the Cold War triumphalism epitomised by Francis Fukuyama's 'end of history' thesis (Fukuyama, 1992). The electoral successes of Thatcher and Reagan, avid proponents of neo-liberal ideas (allied to Victorian morality), paralysed progressive politics. The lesson, which in the aftermath the Labour and Democratic parties felt obliged to accept, was that it was impossible to challenge the new wisdom concerning the role of politics and markets.

Clinton and Blair's embrace of basic neo-liberal precepts showed that progressives had forgotten the lessons of social democratic success which had been built on robust counterweights to market power. Communism's defeat created the illusion that major political differences had disappeared and politics was a managerial contest. Alan Greenspan's Federal Reserve embodied the necessary technocratic stewardship of the economy. British sociologist Anthony Giddens's version of the third way, of moving beyond old left-right economic arguments, became the cornerstone of progressive politics. Third way politics invested heavily in Coase-infused policies designed to increase the 'total product', some of which, through taxation, could be spent towards social ends.

The financial crisis of 2007-2008 ended the hubris of Greenspan's so-called 'Great Moderation' and Brown's 'end of boom-and-bust', and ushered in a 'Great Recession'. The financial collapse caused by the banks shocked the public so

much in part because the outrageous rewards on offer for bankers were so divorced from performance. Deregulation encouraged a risk-taking casino culture that spelt disaster for the rest of the economy.

Although there have been reforms to the banking sector – to bank bonuses, capitalisation ratios, and the introduction of stiffer and properly enforced penalties – the wider experiment with market liberalisation has continued unimpeded. The results of deregulation and privatisation since 1980 are impossible to ignore. Inequality, which had anyway increased between 1980 and 1990, began to grow again. Stagnant median incomes became divorced from the massive accruals to the wealthiest in both the United States and Britain. The main result of the ‘rising tide’ of ‘trickle-down economics’ was revealed: the rich get richer while the poor get poorer. This pattern endures unless a conscious effort spreads profits more widely.

The centrality of inequality to neo-liberal policy was obscured from view for a number of important reasons. At its simplest, layer upon layer of counterweight to concentrated market power was removed as each sector was privatised or deregulated. Thatcher and Reagan first rebalanced and then attacked trade union power. Conservative rhetoric was clever in inter-related ways. It appealed to self-reliance, independence, and aspiration. The welfare state was attacked as wasteful, inefficient, and encouraging a dependency culture. Incremental at first, over a generation, an entire political culture was transformed.

The effect of the fall of the Berlin Wall was that markets were over-estimated. Policy-makers misunderstood how markets work and what individual freedom requires. Markets are also man-made. Left alone, rampant market ideology, as in Russia during the 1990s, tends towards oligarchy and plutocracy not competition. At their most effective, markets are constructed and shaped, managed and regulated. This is so even on neo-liberal principles. Deregulated capitalism is premised on the action of the state, for example, through the imposition of asset sale privatisation or fixing tax and spending regimes to be more favourable to business. But the results are just as likely to produce Coase’s unintended effects. For example, the privatisation of council housing, ‘Right-to-Buy’, unaccompanied by house-building, created a housing shortage. Profits from knock-down sales were not reinvested into affordable housing. Instead, government artificially subsidised profiteering landlords through housing benefit.

Neo-liberal intervention in the market is no different in principle to intervention to promote equality. It ensures that the rules of the game further particular

outcomes. In neo-liberal policy, the aim is the transfer of property, assets and income into private hands. Social democracy by contrast aims to harness the market to more productive social ends. American political scientist Jacob Hacker's idea of 'predistribution' applies this important insight so that economic, legal and policy frameworks are set up to achieve particular outcomes, rather than reliance on *ex post facto* adjustments through tax and spending (Hacker, Jackson and O'Neill, 2013).

Social democracy must re-learn the lessons of its past, as opposed to the false promises of 1989, and pursue 'equality of power and freedom'. Freedom or equality are meaningless if people cannot act, develop and renew themselves, change course or, more mundanely, retrain. Equality of power has been discussed in terms of greater decentralisation and devolution of decision-making and public services (7). These aspects of power are necessary but insufficient.

Equality matters because the equal worth of every human being is the beating heart of a socially just body politic. But for what R. H. Tawney called 'practical equality' to be achieved, equality of freedom is required too. Liberty depends on equality if it is not to be mere licence. In a democratic society, all should be as substantively free as possible. Even minimal political or civil freedom requires a framework of basic individual rights held by all. Just as importantly, the equal worth of all cannot be respected if some are free to choose their own path while others are prevented from doing so by poverty, deprivation or accident of birth. The capacity, or power, to choose a life, to develop, to grow, and to change is critical in establishing whether a person is truly free. Economic citizenship and greater equality of power in an era of globalised markets are the new frontiers for political renewal.

Economic democracy is needed to ensure that everyone is as free as possible. As this essay has argued, equality of power – of people's *capacity to be free* – must be striven for. It must be grounded in substantive economic liberty for all rather than the limited liberty of the neo-liberal view of markets.

## **Political recovery: economic citizenship and equality of power and freedom**

How can equality of power and freedom be created and sustained? A first step is to enrich Marshall's 'universal status of citizenship'. Freedom is empty until its content includes the capacity for a citizen to live, develop and change in society.

Equality of power and freedom does not reduce equality to one single dimension. Progressive policy-makers have already begun to learn this lesson. Drawing on Elizabeth Anderson's call for 'democratic equality' (see Anderson, 1999), the Institute of Public Policy Research's (IPPR) *Condition of Britain* report (Lawton, Cooke and Pearce, 2014; see also Pearce, 2013) argued for social policy based on 'equality of social relations'. The authors propose broadening 'the centre-left's commitment to equality beyond purely distributional concerns' to encompass three key principles, challenging 'concentrations of power by redistributing it to people and places', expecting 'everyone to meet their obligations to contribute to building a better society', and strengthening 'institutions that bring people together and address the root causes of injustice.'

IPPR's work emphasises the need for 'complex equality' because everyone is different and because individual achievement and enjoyment invariably is attained through collective means. President Obama's words are true, no one 'got there on their own'. At the most basic level this is evident in the way a novelist or poet uses language, something they did not invent, but still expect readers. Entrepreneurs need roads, bridges or the internet. Businesses need consumers. And so on. The free flourishing of each is the precondition for all to flourish. From each according to his ability to contribute, to each according to his needs.

To begin the task of building a society where everyone is equally free, reform must address three areas.

### *Enhancing education for all*

Crucial to greater equality of power and freedom, is the availability of education – from universal childcare to opportunities for lifelong learning – at every stage of life. Access to such opportunity should be the natural expectation of every citizen.

Inequalities are reinforced in the first years of childhood. The focus on the early years begun by the last Labour government's creation of Sure Start must form a central part of any progressive agenda for equality of power and freedom. Universal childcare provision should be underpinned by a renewed effort to introduce investment and asset-based models of welfare that seek to enhance the productive returns to society at large and to the state. Anthony Atkinson has proposed both a minimum capital endowment paid to all at adulthood and a public investment authority whose aim would be to build up

the ‘net worth of the state by holding investments in companies and in property’ (Atkinson, 2015, 237).

The comprehensive ideal in education needs to be reformed, not abolished. The experiment with academies has been a qualified success. It is right that schools and parents have greater independence, specialisation, and choice regarding the education of their children. But such schools must be properly subject to rigorous training and qualification and excellent objectively assessed standards. The toughest challenge, however, is how schools can guarantee autonomy *and* equity, the prerequisite for a progressive society. Combining flexibility in type and level of curriculum within the same school building would ensure that individual talents are recognised and developed within a socially- and culturally-mixed setting.

As most now recognise, a revolution is needed to establish genuine parity of esteem and investment between academic and vocational education. Links with corporations and large employers may help to foster alternative routes into the professions. In tandem with the Living Wage, a culture of fair pay must be introduced for the young as they begin their careers. The internships that are the route into most jobs must be paid and needs-blind. Exploitation of free labour and the exclusion of those without resources will therefore be discouraged.

Lastly, the privatisation of higher education should stop. As with schools, the state should be the primary funder and enabler, though not necessarily provider, of technical, artistic and academic higher education for people throughout their lives. No one should be prevented from developing themselves or changing their occupation through education or training because of a lack of financial resources or social wherewithal.

### *Rebalancing state and market*

Mariana Mazzucato’s *The Entrepreneurial State* (Mazzucato, 2013) explodes the myth of the non-performing state. Governments, not private investors or entrepreneurs, have often guaranteed innovation. Mazzucato points to examples like Silicon Valley, renewable energies, healthcare and nanotechnology. A local example is the success of state-run enterprises like the profitable East Coast Mainline railway. In the right conditions, the state operates effectively and productively. The dogma of privatisation and deregulation threatens government innovation and public investment. The kneejerk response is too often to apply

blindly a 'market solution' or seek to return state-run enterprises to the private sector as quickly as possible.

A properly regulated market delivers more efficient outcomes in most cases. But the market does not operate effectively in all areas and does not always deliver outcomes which are nevertheless essential in a fair society. Even on basic neo-liberal principles, the logic of public service is usually incompatible with the profit motive. Firstly, the need to cut costs and deliver shareholder value often conflicts with the expensive requirements of high quality care for the most vulnerable. For a for-profit provider, there is often a trade-off between quality and cost. Where a vulnerable service user has no alternative, there is no incentive to raise quality rather than save money.

Secondly, it is ethically important to provide universally good services to all disabled, elderly, sick and less advantaged people. The state's role to provide such services according to need not cost therefore remains crucial because 'consumers' in a market for public services are never equal. Yet access to health and social care, education, housing, employment and security in old age are the basic ingredients that empower people in life.

Thirdly, it makes pragmatic policy sense to deliver better social outcomes in relation to people's well-being, social cohesiveness, reduced crime, less alcohol and drug abuse and so on. Market-based public services often do not deliver, and in fact sometimes hinder, the delivery of high quality for all and can lead to negative and expensive social dislocation.

Rebalancing state and market requires reconsideration of how markets can be shaped for progressive ends. Fertile ground exists, as John Kay has suggested in an analysis of the role and capacity of corporations to make a 'positive contribution to the social and physical environment' (Kay, 2015). Principles at the heart of, for example, German industry should be implemented in Britain. Employee representation on the boards of companies should be guaranteed. Greater standards of transparency, accountability and ethics must be part of a renewed accord between employers and employed.

The tax system needs to be reformed. Income tax should not be levied higher than 50 per cent for higher earners. Ideally, it should be lower in order to encourage aspiration. The clear lesson, however, of Atkinson, Piketty and Saez's research is that concentrations of wealth are the main cause of scarring inequality. Such wealth and property accumulations should be taxed in new and creative ways.

There is an urgent need to restore the state's role in harnessing the market. This means understanding the state as the enabler and facilitator of a new social contract in which people are empowered to live according to their ambitions. The state should not become embroiled in ever more aspects of our lives. Instead, as commentators like Tom Bentley and Neal Lawson have argued in these pages, a culture of 'everyday democracy' needs to be cultivated in the private, as well as the public, sector. Democratic principles of universal access, accountable decision-making, and mutual respect should be built into hitherto separate spheres.

*Democratic renewal through devolution and economic citizenship*

An important way to ensure that individuals have more power and freedom to choose how they live is through effective political decision-making. The British constitutional settlement is broken. Devolution has been partial and the union is under threat. Membership of the European Union is in the balance and the future of Europe itself is at risk. Yet, for equality to be meaningful it must connect to the sources of the problems in people's lives and enable them to be agents of change.

Devolution commands wide support but in order for the settlement to be coherent and balanced it must include the decentralisation of as much decision-making about local issues as possible. Devolution to England's city-regions is necessary and the working out of further decentralised economic and strategic policy should be one of the most pressing tasks of a constitutional convention.

Devolution and decentralisation is trumpeted across the political divide as the solution to alienated voters and disgust at Westminster politics. However, the left is sometimes dishonest with itself and the public about the implications of devolution and decentralised decision-making. The US offers a glaring lesson of fragmentation, where affluent communities tax and serve themselves while poor neighbourhoods are left to rot. Local government has long been a way of avoiding the share and redistribution of resources.

Power *and* resources must be spread more widely than London and the South East. If economic and social rights are not guaranteed, then they will be jettisoned as soon as budgetary pressure is exerted within a devolved settlement. Similarly, devolution risks central government shifting blame to local authorities for the torn social fabric that results from the simultaneous starvation of their funds. Further political dislocation and civil strife then becomes near-inevitable.

For these reasons, a written constitution that guarantees social and economic rights must underpin local, municipal and regional devolution. This constitution would fuse the European Convention of Human Rights with a British bill of rights that includes rights to universal health, education, housing, employment and a living wage as inviolable entitlements for all citizens. This would renew the welfare state's historic protection from basic economic insecurity. Measurement and interpretation of minimum standards will be difficult but can be worked out according to evidence and must be drafted appropriately.

A regionally-set Living Wage for all should be part of the constitutional settlement and strictly enforced in order to reduce the state's role in the provision of adequate wages and ensure that employers take responsibility for proper pay. Once enacted, the statute should provide for regular assessment and up-rating by an independent Office of Fair Pay accountable to Parliament. The new OFP could also oversee any necessary exceptions. The OFP would be independent of central government and would have robust and enforceable powers to fine and prosecute transgressors.

Contribution and responsibility should be restored to the citizen's contract with the state. As Tom Paine advocated, longer term, the constitution should guarantee a universal basic minimum income. This would liberate those from more moderate backgrounds to pursue the lives they want. It would also greatly simplify the welfare system and make it more efficient. The universal basic minimum income's corollary could be a 'citizen's contribution' to be made at some point in a person's working-age career. The citizen would contribute time, ideally 3-6 months when able, to essential public work relevant to an individual's skills and interests. A lawyer could provide free representation, a cleaner could work in the NHS, a sportsman might teach in a school, and so on.

Economic citizenship is impossible if the traditional components of democratic citizenship are simultaneously destroyed from within. The fundamental protection of the rule of law and access to justice for all must not be undermined. Properly resourced criminal and family law systems and needs-blind judicial review are essential components of a free society. Legal Aid should be restored to entitle every person to high-quality professional representation when they need it.

Finally, progressives should leverage the global economic power of the EU to productive social ends. A positive argument must be made for Europe as integral to the development of a fairer and more prosperous society. This includes the active promotion at the European level of the social and economic rights of all EU

citizens. In *Dano v Jobcenter Leipzig* (C-333/13), the Court of Justice of the European Union has sensibly recalibrated the welfare rules regarding intra-EU migration for jobless benefit-seekers. The movement of Europeans who do work should be protected. Fundamentally, as the world's largest trading bloc it should enhance pan-European social and economic protections, partly as a way of ensuring that competition among developed democracies does not become a race to the bottom.

Depending on economic conditions, more or less investment might accompany these proposals. However, most could be revenue neutral. Taken together, the principles and proposals would begin the pursuit of equality of power and freedom for all. The constitutional settlement, on the other hand, may be more profound. As James Buchanan understood, constitutions control governments. In poll after poll, large majorities favour progressive policies such as the NHS, universal education, housing and a Living Wage. Equally, public disgust at the excess of the global financial elite is widespread. This popular sentiment should be channelled positively before it becomes destructive.

## Conclusion: why does equality matter?

Equality matters because of the deep commitment shared by social democrats, progressives and many liberals and conservatives to equal respect for the dignity of all human beings. Economic democracy must be fostered through full social and economic citizenship if people are to be more equally free. This is both the key challenge for political, economic and social reform in policy terms and the counterweight to the market power which does so much to distort our society.

This essay has sought to turn two central neo-liberal insights to egalitarian ends. Firstly, constitutions control governments, which in turn regulate markets. Secondly, the idea of spreading markets should be transformed so that democratic principles of fairness, access and accountability are made to pervade markets. Equality and freedom must be guaranteed by all of us for everyone. The achievements of twentieth-century social democracy have withered in the face of the neo-liberal onslaught. They must be argued for and won again and again.

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## Notes

1. The terms 'progressive politics' and 'liberal left' are not entirely helpful but I have chosen them as the most neutral among the cast of possibilities since others such as socialism or social democrat carry misleading or confusing historical associations. In this essay, I will use liberal left, progressives and progressive politics to refer to the broad church of non-Marxist left and liberal politics.
2. According to the US Census Bureau, median household income barely rose between 1980-1992, in inflation-adjusted terms, remaining at around \$50-51,000, then rose above \$55,000 by 2000 before slipping back down and, finally, falling precipitously since 2008 to around \$51,000. The level has barely moved since 2010. See <http://www.census.gov/hhes/www/income/data/incpovhlth/2013/figure1.pdf>.
3. As recent scholarship has shown, neo-liberalism is a problematic term. Its most precise definition refers to a movement centred around Friedrich Hayek in the 1930s and 1940s, encompassing economists and writers from Germany (ordo-liberals), France and Britain. However, it is now used imprecisely to refer to anything from malevolent globalisation to free market fundamentalism. I use the term American neo-liberalism here because the key figures, Milton Friedman, George Stigler, Gary Becker, James Buchanan and Gordon Tullock had a clear linkage with Hayek and his American friends and associates, Henry Simons and Frank Knight in Chicago. There are important differences between American neo-liberals and their earlier variant. For a fuller discussion see my *Masters of the Universe* (Stedman Jones, 2012), especially chapters 2 and 3. In particular, American neo-liberalism marked a clear radicalisation of free market ideas so that regulation for competition became deregulation and the accommodation with welfare state safety nets, a core part of the German social market project for example, was increasingly abandoned or replaced with market applications to social policy.
4. Space prevents exploration of the important differences between early neo-liberalism and American neo-liberalism here in any detail. See Stedman Jones (2012) and Burgin (2012).

5. Friedman's monetarism was developed within Keynes's framework outlined in *The General Theory of Employment, Interest and Money* (1936) but he advocated monetary rather than fiscal policy to regulate the stability of the business cycle. Hayek's Austrian approach assumed that the market would correct itself over time and that intervention to smooth cyclical volatility was counter-productive.
6. In the United States, the key book was David Osborne and Ted Gaebler's *Reinventing Government* (Osborne and Gaebler, 1992). In Britain, the Labour Government's *Modernising Government* White Paper (1998) introduced similar themes.
7. For example by Ed Miliband in his Hugo Young lecture (Miliband, 2014).