“Equality can be a core conservative value...”

EVERYDAY EQUALITY

Max Wind-Cowie

PROGRESSIVE CONSERVATISM PROJECT

DEMOS

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Max Wind-Cowie
February 2010

Foreword

This is an interesting and imaginative pamphlet on the importance of how we are doing relative to other people. I used to believe that the only thing that mattered was where you were in absolute terms. If an economy could deliver rising living standards, including of course for the poorest, then it had done its job. And that itself is quite a challenge. It looks as if even that may have eluded Labour recently.

But I now understand the importance of where you are relative to others as well. This is partly because of the steady build up of evidence from experts such as Michael Marmot and Richard Wilkinson. It is striking that people who are nominated for an Oscar but do not win live on average four years less than the winners. How you are placed relative to your peers really matters. There was also a moment when all this came home to me most vividly. It was a conversation with Matt Ridley, who has written widely on evolutionary biology. His challenge was to imagine you were a middle-aged man in a tribe that kept cattle. You had two cattle and everyone else had one. That made you the king-pin. You were respected and sought after as a husband. But then imagine you have three cattle and all the other elders in the tribe have four. You may be better off in absolute terms compared with the first example but on most other measures you are worse off. You may have low status and little pulling-power in the marriage market. So relativities matter as well as absolutes.

It does not follow of course that governments can necessarily solve these problems. One reason is that the relativities which matter to us are the small comparisons with people close to us not the distant comparisons with people from different milieus. So if we are keeping up with the Joneses next door what matters is whether their car is a year newer than ours, not how we are doing relative to City millionaires or people on

the dole. We do have a deeply ingrained tendency to make these fine-mesh comparisons with others and perfect equality will never be achieved. As David Hume puts it:

It is worthy of observation concerning that envy, which arises from a superiority in others, that it is not the great disproportion betwixt ourself and another, which produces it; but on the contrary, our proximity. A common soldier bears no such envy to his general as to his sergeant or corporal; nor does an eminent writer meet with so great jealousy in common hackney scribblers, as in authors, that more nearly approach him.

A Treatise of Human Nature

So there are limits to what governments can do. Nevertheless they do help set the wages of their employees and influence relativities as a result. My party recognises that government's behaviour matters. That is one reason why, when George Osborne announced that a Conservative government would freeze pubic sector pay in 2011, he deliberately exempted the lowest paid million public sector workers from these restrictions. That on its own would narrow wage inequalities in the public sector. Max Wind-Cowie goes further and has some radical ideas for public sector pay differentials. While they may not become official Conservative policy, his essay is an important and thought-provoking contribution to this important debate.

David Willetts MP, Shadow Minister for Universities and Skills

1 One nation?

So long as the gap is smaller, they would rather have the poor poorer.
Margaret Thatcher[1]

This paper is about income inequality in the UK, and how a conservative should approach the issue of the widening gap between the rich and the poor.

The Conservative Party has not historically been greatly perturbed by inequality. In fact, as the quote above illustrates, many conservatives have actively embraced the uneven distribution of resources as evidence of meritocratic reward; those who work hard do well, those who don't do not – thus we are all incentivised to try our hardest. In her final Prime Minister's Questions, Margaret Thatcher was asked how she could possibly be proud of her period in office when she left the gap between rich and poor greater than it had been when she was first elected. It is not the size of the gap that matters at all, she retorted to cheers from her own side, but rather how wealthy those who are at the bottom are.

This argument lies at the heart of a neoliberal view of inequality. It argues that the gulf between the wealthy and the wealthless is meaningless and invests importance only in the ability of citizens to acquire individual worth.[2] For at least 30 years this argument has driven the economic outlook of the Conservative Party. From Thatcher to Duncan Smith, this idea has remained a key ideological thread, binding Conservative leaders together.

This pamphlet makes a conservative case for revisiting the issue of 'the gap' and, indeed, for caring about it a great deal. It attempts to paint a realistic portrait of how conservatives might stay true to convictions about the independence of business, the need for meritocratic reward and the right to acquire property

while also taking measures to shrink the gulf that separates the rich from the poor.

This does mean rejecting some of the thinking of the past. The Conservative Party has, on issues as diverse as gay rights and the environment, sought to embrace modernity and reflect the realities of the day – this shift in attitude should also define the conservative response to inequality. Fundamentally it means rejecting the Thatcherite apologies for massively uneven distribution. There are problems that are caused by inequality, and until that fact is recognised by conservatives they will remain unable to produce the kind of societal and cultural changes that they advocate elsewhere: stronger and more responsible communities (which lie at the heart of a modern, civic interpretation of conservatism) are more difficult to establish in the face of everyday inequality.

But what is 'everyday inequality' and why is it so particularly relevant to conservatives? In rejecting neoliberal absolutes, conservatives should not be expected to reject their political and philosophical instinct. There is no conservative position that takes an ideological stance against inequality – instead conservatives take an empirical approach. Concern is founded not, as it is for many on the left, on a sense of injustice but rather on an evidence-based assessment of the problems that inequality causes. In this paper argues that those problems are real and that they are at their most significant and pernicious when inequalities are obvious and localised – in your community, in your neighbourhood and in your place of work. These are the inequalities that we are terming 'everyday' and these are the inequalities that conservatives might seek to address.

Why the Tories?

Conservatives are also integral to the battle with inequality by simple virtue of the left's struggle to achieve its goals in this area. The instigation and expansion of tax credits and the minimum wage were fundamental to the centre-Left's approach to poverty and inequality. Both these measures are deserving of praise – if

only for succeeding in placing inequality back on the political agenda.

However, New Labour often felt the need to water down its commitment to equality in order to avoid 'rocking the boat' by frightening middle class voters. Thus it is only now, in what may be the dying days of the Labour government, that the party has begun to confront this issue fully and publicly. Harriet Harman's Equalities Bill, and John Denham's comment that class is now more important to a person's chances in life than race, are steps toward a reinvigorated centre-Left approach but they are both late and burdened with 12 years of mixed policy successes.[3]

Conservatives are not burdened with that political baggage or tied to one-size-fits-all solutions. Instead, if they are willing, they are free to become the real party of equality; on conservative terms.

Those terms can be defined in the context of three key principles, which could be used to underpin the conservative approach:

- *Visible inequalities matter the most.* The inequalities that people see every day, that they experience in their lives and that they suffer from at work are the most important. These localised inequalities cause the most resentment, undermine cohesion most directly and are the source of the greatest angst.
- *When the state is the boss, the state must lead by example.* The public sector must serve as the example of how a more equal remuneration policy can work. This is the case both morally, because the state should do the right thing when it is directly responsible, and practically, because it is the area over which the state has the greatest existing control.
- *A nudge needs a stick behind it.* If the state decides that progress needs to be made on inequality then it is right to extend that challenge to the private spheres of business and industry. The aim should be cooperation, but where cooperation is not forthcoming a reasoned and appropriate system of rebuke must be available.

These principles also contain the key difference between a conservative approach and a centre-Left one. Conservatives do not make an intrinsic argument about 'fairness' when it comes to inequality. Instead, they mind very much about the adverse effects that arbitrary and inescapable inequality has. Therefore, conservatives are not hindered by an obsessive debate about the moral rights and wrongs of remuneration but can instead focus pragmatically on resolving the issues that have a real impact (localised inequality and inequality within institutions). Their antipathy to overreach by government means they have a more gentle, responsive and flexible approach. The twin goals of using public services to set an example and reduce government spending mean beginning with the sector over which government already exercises a great deal of influence and control.

By using these principles to shape policy that retains a conservative basis, while attacking inequality at its roots, the Conservative Party can demonstrate its progression from a purely neoliberal argument *for* inequality and a return to the One Nation conservative tradition of Disraeli. What is more, it can use policies on inequality to ensure that the birth of the new society to which Cameronism is wedded is less painful and more effective. If, instead, they choose to leave inequality alone, the modern conservative project will find itself faltering on the same difficult ground that so weakened the impact of Blairism. The reality that should now be recognised by conservatives is that the whole of their agenda for Britain relies on diminishing the impact of massively uneven distribution of wealth.

2 The new conservative approach

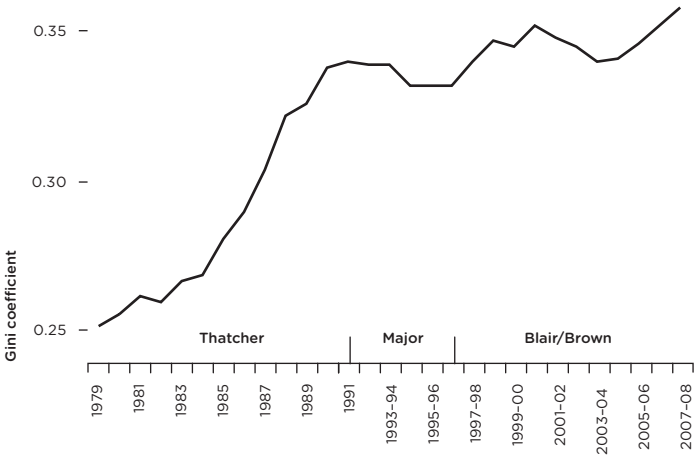
At a Demos event in 2009, conservative writer and thinker Danny Finkelstein said that 'there has been a real change in the way that the right talks about inequality – because of some of the pragmatic evidence'.[4] This is the crux of the case for a new conservative concern for inequality. Put simply, the other things that we care about – be they community cohesion, good neighbourliness, aspiration or strong families – are negatively affected by inequality. Furthermore, change for the better is made harder by entrenched gaps between the wealthy and the poor.

A downward spiral, an uphill trend

When Labour swept to power in 1997 the party was determined that, unlike Thatcher and Major, it would use its period in office to craft a more equal society. That is not to say that New Labour's cheerleaders made it clear what this meant – if anything they were remarkably coy about this intention – but measures were introduced to make the poorer better off. Nonetheless, the Labour Party remains wedded to a view of inequality that holds the Britain's high Gini coefficient – a measure of the gap between the country's poorest and the country's richest – as problematic.

But what was the impact of measures such as the minimum wage and tax credits? Did they successfully reduce the inequality about which Labour is most concerned? The reality is that inequality carried on rising after 1997. It did then decrease between 2000 and 2004, the sole period of overall, continuous decline seen since 1979. However the Gini coefficient has risen again since 2004 and now stands at the highest level since 1961 (also placing the level of inequality in the UK above the OECD

Figure 1 **The Gini coefficient, 1979 to 2007–08**



Note: The Gini coefficient has been calculated using incomes before housing costs have been deducted.

Source: Calculations using Family Expenditure Survey and Family Resources Survey, various years.[5]

average for developed nations). Overall, then, the answer is no. By the Gini coefficient measure Labour does not have a story of wholesale success to tell (Figure 1).

We can see from Figure 1 that inequality has risen in spite of Labour's efforts. Thus, the gap that Thatcher refused to see as a problem at the dawn of the 1990s is now greater and, because of its growth, more deeply entrenched. The truth is that an approach to inequality that prizes reducing the Gini coefficient, a national measure that includes the super-rich, can only work if it attacks the very wealthy and redistributes their money on a massive scale.

New Labour recognised, rightly, that this would be an unacceptable intrusion into the right of individuals to work hard and acquire wealth. Recently, of course, Labour has rejected its pragmatic approach to the very wealthy. The new 50 per cent tax

rate, as well as the super-tax on bonuses, can be seen as a political break from the days when the rich were actively embraced by the centre left as builders of wealth for the nation. But, for conservatives, it remains an anathema to confiscate wealth from those who are entrepreneurial, driven or talented. Instead, for modern conservatives, the priority should be ensuring that the majority are able to live well and see the benefits of their labour, and are not confronted with arbitrary inequalities that seed division and resentment. Therefore, conservatives would do best to avoid making the easy mistake of bashing Labour for failing at their own measurement – instead they could simply accept that the measurement is wrong. We should not be preoccupied by the misleading, blanket assessment of the Gini coefficient. Rather, we need to be more focused and more targeted in our approach and look closely at the inequalities that drive behaviour and cultures that we would seek to change.

Care in the community

The evidence for the impact of inequality is now irrefutable. Major studies and work such as *The Spirit Level* demonstrate that, far from helping to produce a meritocratic and competitive society, inequality leads to social breakdown and to less aspirational and ambitious societies.[6] So, although stereotype-happy Tories may find it difficult to care deeply about uneven distribution in and of itself, they can pay it attention if they care about more traditional conservative issues.

Levels of anti-social behaviour and criminality are higher for poor families who live in very unequal areas than they are for poor families who live in very equal ones. In London's five most equal boroughs (measured by household income) there are 1.86 crimes per year for every family in social housing. In London's five most unequal boroughs that ratio is almost a third higher at 2.58 per social housing household.[7] This means that poor people who live in areas where their income is substantially less than that of their neighbours are more likely to commit a criminal offence than poor people who live in boroughs that have more

even income distribution. Obviously it is difficult to extrapolate this evidence – London has some of the country's most deprived areas directly alongside some of the most wealthy – but these figures do point to the effect on behaviour of localised, highly visible, 'everyday' inequality. Evidence from Robert J Sampson's ongoing work on income inequality and poverty in Chicago reinforces these findings and demonstrates the links between living in very unequal communities and crime, social disengagement and apathy.[8]

Volunteering and a strong third sector

This is an area of particular concern for modern conservatives. The Conservative Party has made it clear that its vision for Britain relies heavily on the voluntary and small and medium-enterprise sectors replacing government in many areas of public life – 'we would enhance the role played by charities, voluntary organisations and social enterprises in tackling the problems facing our society'.[9] This is a fundamentally 'progressive conservative' approach. It means that we do not reject the needs of those citizens who are disadvantaged; rather we reject the notion that government will necessarily be successful in alleviating those needs. Thus, for progressives within the conservative movement, charities and community groups take on a significant role as agents of improvement that are local, knowledgeable and flexible – and are therefore better able to meet the needs of the people they serve. But an increased reliance on charities and community groups requires involvement in those organisations from ordinary people. You can't succeed as a voluntary organisation if you have no volunteers!

The evidence clearly points to the fact that more unequal societies volunteer less, are less likely to engage and are more likely to report a sense of apathy for their neighbours. This is also true for very poor communities: the Home Office's Citizenship Survey, conducted in 2001, found that people who live in Britain's most deprived areas are half as likely as those from solidly affluent areas to socialise regularly with friends or to have visitors to their homes.[10]

What is more, the level at which you are prepared to contribute to the social capital of your community is closely related to feeling valued and equal with your peers. As Robert Putnam explains in his book *Bowling Alone*,

In terms of the distribution of wealth and income, America in the 1950s and 1960s was more egalitarian than it had been in more than a century…those same decades were also the high point of social connectedness and civic engagement…the last third of the twentieth century was a time of growing inequality and eroding social capital.[11]

More equal societies are more willing to engage, less equal societies are less willing to. Although the evidence on engagement and volunteering is primarily gathered in terms of countries, or in order to compare solidly deprived communities with solidly affluent communities, it is reasonable to extrapolate from these consistent findings that inequality within communities will have a negative effect on social engagement in the same way that it does nationally.

Happiness and well-being

David Cameron has made it clear that the Conservative Party will judge its success in government on more than simple economic growth. This commitment, outlined in his speech to the Google Zeitgeist conference in 2006, places the well-being of people and society at the heart of what modern conservatives aspire to achieve.[12]

This being the case, Cameron's conservatives have to address the impact of income inequality in that light. Even though they may not care about the gap for its own sake, there is clear evidence that it has a negative affect on the well-being, happiness and mental health of modern Britons. Everyday inequality of income has been closely related to unhappiness and a lack of well-being in modern societies. Although this is a point that is both contentious and debated – most recently by Carol Graham in *The Economics of Happiness*[13] – there is substantial evidence to support the case. Epidemiological studies show that the more uneven the

distribution of income and wealth that a society experiences, the larger the proportion of that society who experience a mental health problem.[14] Thus we see that in very unequal developed countries, such as Britain and the USA, the proportion of those who have suffered a mental illness stands at 1 in 5 and 1 in 4 respectively. In societies with a more equal distribution, such as Germany and Japan, that proportion is less than 1 in 10.[15]

There are numerous possible explanations for the correlation between inequality and mental ill-health. The most compelling argument, especially for conservatives, is that everyday inequality produces a sense of powerlessness in those left at the bottom, status envy for those in the middle and paranoia for those at the top. In societies that are very unequal it is easiest to measure success by how much income they receive – massive gaps simplify the measurement of worth into a measurement of gain. So those at the bottom feel worthless, those in the middle feel relatively less worthy and those at the top become defined by that status and are under considerable pressure to retain it. 'How much status and wealth people achieve… affects not only their sense of themselves, but also how positively they are seen even by friends and family.'[16] This reinforces a conservative commitment to tackling the visible, local everyday inequalities – these are the gaps that profoundly affect a person's view of themselves and of their worth in our society.

The current stratification of society is precisely the narrow, economically obsessed way of measuring worth that Cameron is committed to avoiding when it comes to assessing the nation as a whole. In recognising that simply defining success through GDP is too simplistic Cameron has hit on a key theme for modern conservatives: they must now show that what they value for the nation they also recognise as important for individuals. Increasing the levels of 'general well-being' necessarily means reducing inequality.

Social mobility

The modern Conservative Party is committed to delivering 'equality of opportunity' in modern Britain. The phrase, used by

Michael Gove and David Cameron, to sum up this desire for meritocracy has been that people should become 'the authors of their own lives'.[17] For many, the prioritisation of reducing inequality of opportunity appears to preclude any real concern for equality of outcome in areas such as income. But this is too simplistic an analysis because, as the evidence clearly demonstrates, it may well prove difficult to do anything about the opportunities people have – for personal advancement and social mobility – while ignoring the impact of outcomes on their chances in life. More unequal societies can be argued to be less mobile in terms of income and socio-economic class. 'Inter-generational social mobility in the UK has… been falling in Britain over the same time period that income differences have widened.'[18] Of course this argument is problematic. After all, a society that has more strata and a greater gap between the wealthiest and the poorest must, by definition, contain more space and freedom for movement and social mobility. Smaller gaps may allow for quicker progression from the bottom to the top but the distance travelled, as it were, is less.

More compelling, perhaps, is the evidence that countries that have higher levels of income inequality spend proportionately less on education than countries that are more equal.[19] This means that, in unequal societies, social mobility is further hampered by a lack of investment in the main driver of self-improvement and aspiration. The Conservative Party has, rightly, prioritised education as part of its shift to greater modernity. Michael Gove's policies for school funding and accountability mean that the benefits of independent schooling in a small institution will be more accessible than ever before. But, alongside these structural reforms, there needs to be a recognition that social mobility is heavily influenced by equality – in addressing the former the latter must be a consideration.

Localism

Modern conservatives are wedded to the importance of localism in terms of devolving power as far down as possible. Conservative thinkers, from Edmund Burke onward, have cared

about the 'little platoons'; the communities, groups and families who make up the fabric of the greater nation. For progressive conservatives, this translates into a commitment to allowing local organisations to assert themselves over the neighbourhoods in which they live and the services that they receive. This agenda has been embraced by the modern Conservative Party, which pledges to hand more power down to communities and to make local services such as policing more accountable to the people that they serve.[20]

If our services and our accountability mechanisms are to recognise the intrinsic differences and unique challenges in differing localities, then so too should our approach to tackling long-term issues such as inequality and poverty. A recognition of the localised nature of these issues means a recognition of the need to develop and implement localised solutions.

A conservative focus

All of the above examples relate to localised and visible inequality and this is significant for conservatives. Although it is easy, and presently popular, to berate bankers or footballers for their enormous wage packets and ludicrous bonuses, it is not particularly useful. Most conservatives do not have a 'first principle' problem with there being differences between what people are paid but we do recognise that the impact of everyday inequalities is negative and substantial. Thatcher was wrong when she said that the gap was irrelevant; there is simply too much evidence that it is relevant to continue in that ideological vein. Instead, modern conservatives ought to be clear about the focus of their concern – on the impact of localised inequality – and seek to tackle those problems. This is not a case of seeking to make the rich poorer simply so as the gap will close, it is a recognition that entrenched inequality harms communities in such a way as to make them less conservative in their make-up, their relationships and their structure.

There is a conservative case for caring that unequal communities – such as the five most unequal boroughs in London – are more anti-social and have higher crimes per head.

Furthermore, the fact that more unequal societies have higher levels of mental illness and lower levels of social mobility is worrying – especially if it translates down to specific communities, regions or institutions that have high levels of inequality themselves. So much of the modern conservative agenda is aimed at empowering the local – be it a charity, a community organisation or local politicians and service providers – over the national. If inequality has the effects that the evidence suggests then there is a real concern that some communities, the most unequal ones, will not prove cohesive or robust enough to step up to the mark.

Because it is these community and localised effects about which we are most concerned, it is on these areas that it would be most natural to focus. The distinctive feature of a conservative approach is that it zeroes in on these affects and attempts, over time, to isolate and reduce their impact on communities.

There are, of course, special factors that will be taken into account when developing a conservative approach to inequality. Conservatives are, almost uniformly, suspicious of over-ambitious intervention by the state, especially when it comes to interfering with the freedom of business and industry. Recent events, not least the exposure of the extreme recklessness of banks and financial institutions, have perhaps shifted the Tory perception of regulation from one of stern antipathy to suspicious engagement. But it would be wrong to describe that movement as having stirred anything resembling enthusiasm for intervention in the hearts of most conservatives. Even progressive conservatives, members of a tradition that is less uncomfortable with state action, are not in favour of using government to compel business in one direction or another. Like most conservatives, they prefer intervention as a punishment for misbehaviour rather than as a tool for shaping our economy.

However, as David Cameron recently said in a speech to Demos, 'We don't want to resort to regulation. But we will make it clear that if business doesn't exercise some corporate responsibility, we will not be afraid to impose it.'[21] This logic, of a gentle push backed up with a regulatory stick for those who don't try to comply, should be applied to pay inequality. What

is more, where government has greater responsibility, conservatives can more easily justify action. Therefore, in any conservative battle with inequality, the first theatre of conflict should be the public sector. When the state pays the wages, the state can, and should, take steps to ensure that the gap between those it pays the least and those it pays the most is set at a reasonable level.

The impact of an inequality policy that begins in the public sector could be both substantial and twofold. First, it could reduce inequality of pay for millions directly; second, the ripple effect of ensuring that public sector employees have a basic acceptable living standard would help to drive up wages (and drive down waged poverty) in the areas concerned. The moral imperative for action is clear. If conservatives, aware of the damage that inequality does to the fabric of our society, wish to reduce the gaps that hurt cohesion then they ought to lead from the front by doing so in the areas for which government is directly responsible. For these reasons, it is vital that the Conservative Party addresses the unacceptable levels of pay inequality in the public sector as a priority.

The principles

So, there is a strong case for conservatives to care about the effects of everday inequality. But that concern, when translated into action, must be focused on specific areas and carried out in specific ways. It is not enough simply to announce that you have decided to care about inequality and then follow the policies of the previous regime – policies that have been shown to be flawed by their abject failure to deliver. Instead, conservatives should rethink government's approach to inequality in line with the principles that drive their interest and concern. There are, therefore, three key criteria, which could serve to underpin a conservative perspective on tackling the gap between rich and poor:

- *Visible inequalities matter the most.* The inequalities that people see every day, that they experience in their lives and that they suffer

from at work are the most important. These localised inequalities cause the most resentment, undermine cohesion most directly and are the source of the greatest angst.

- *When the state is the boss, the state must lead by example.* The public sector must serve as the example of how a more equal remuneration policy can work. This is the case both morally, because the state should do the right thing when it is directly responsible; and practically, because it is the area over which the state has the greatest existing control.
- *A nudge needs a stick behind it.* If the state decides that progress needs to be made on inequality then it is right to extend that challenge to the private spheres of business and industry. The aim should be cooperation, but where cooperation is not forthcoming a reasoned and appropriate system of rebuke must be available.

These principles form the basis for an effective conservative perspective on inequality and for the work that a Conservative government should undertake to tackle it.

Leading on from these principles is a set of policies that might be adopted in order to tackle inequality in a conservative way. This means that the conservative approach should be localised in its emphasis, prioritise the payroll of the state and use nudges first and regulations second.

The Conservatives can be the party of equality

More of the same is not going to deliver the goal that has eluded us for the last decade.

Frank Field MP[22]

For those who are concerned about inequality, progress is not simply a matter of persuading an ascendant Conservative Party that they ought to care too. There also has to be a recognition that the Labour Party, in 13 years of government, has not been entirely successful in resolving the issues at the heart of this debate. Although those on the centre left have been traditionally

viewed as leaders in the battle with inequality, Labour's period in office has been characterised by difficulties in closing or diminishing the gap between rich and poor. Indeed, over a decade of Labour government has led to rising levels of both poverty itself and of income inequality.[23] It would be unfair to use these headline figures and statistics to claim abject failure on Labour's part. There are successes hidden behind the overall inability to close the gap – for instance, the gap between the poorest and the middle has shrunk. But, on the Gini coefficient measure of equality the Labour government has not succeeded in its stated aim.

This is not due to an abandonment of redistributionist ideals within the Labour Party. Indeed, the instigation and expansion of tax credits and the minimum wage demonstrated a continued political commitment from the centre left to addressing poverty and inequality from the bottom up. However, this *should* lead thinkers and policy makers in this area to consider whether a centre-Left approach is ever likely to succeed at reducing inequality in the UK. The reality, unfortunate as it may be to those who would seek to target the very wealthy, is that British voters have proven reticent when faced with proposals that appear to 'punish' high earners in order to redistribute funds. Yes, recent events in the financial sector may have temporarily made Britons more inclined to punitive taxation but this is not likely to remain the popular view. Historically, the UK has not embraced mass redistribution projects.

If, then, we are prepared to accept that it would require a more radical redistributive agenda to make centre-Left policy preferences successful in tackling the roots of inequality (rather than simply the alleviation of poverty, where it can be argued there has been some success under Labour), then it surely leads us to look for alternative means of addressing this issue. A conservative approach, based on smaller-scale inequalities, focused on communities and institutions and emphasising the 'nudge' as the primary policy tool, ought then to be given a chance to work by those who are disappointed by Labour's track record in this area.

What is more, there is a strong argument that, politically at least, the Conservative Party is better placed to tackle inequality effectively. New Labour's understandable reluctance to use the overt rhetoric of redistribution (for fear of alienating the middle class voters on whom their electoral alliance was built) prevented them from being clear about their intentions when it came to the inequalities in our society. Thus, on the one hand, this was the government of the minimum wage and the Working Tax Credit, while on the other also the party of Peter Mandleson's infamous statement that he was 'intensely relaxed about people being filthy rich'. The Conservative Party, unlikely to be branded irresponsible utopians, is politically better able to make a reasoned case for tackling inequality on the basis of the evidence available. It is free, in this respect, from the ideological baggage that may have restrained New Labour's instincts.

For these reasons, it is important not simply to persuade conservatives of the necessity of attacking inequality head on but also to recognise conservatism's historic opportunity to do so. The absence of unpopular historical rhetoric means that the Conservative Party could, in fact, prove to be substantially more radical in tackling these issues than Labour was ever able to be.

3 Recommendations

A change in social ethos, a change in the attitudes people sustain towards each other in the thick of daily life, is necessary for producing equality.
G A Cohen[24]

A regional, public-sector living wage

Localised inequality – the inequalities that exist within communities and specific organisations – could be a priority for the Conservative Party. Inequalities within communities can have a profound effect on the cohesion and engagement of people within a specific locality. The UK has not been successful at recognising and coping with the fact that there remains 'striking difference between the various parts of the UK with respect to living costs'.[25] Housing costs, when broken down to a regional level, demonstrate the extraordinary disparities of living costs depending on where you live. In early 2008 the average house price hit just over £130,000 in the North East, compared with over £230,000 in the South East. Breaking this down further, we can see how important a regional approach to inequality really is – the average house price in Greater London was over £350,000 in the same period.[26] As Table 1 shows, there are extensive price differences between regions. For example, between the South East of England and Wales or Northern Ireland, the difference equates to 12 points on the price scale.

What is more, despite the minimum wage's undoubted success in reducing in-work poverty, the UK still has unacceptable numbers of working poor. In 2005, an estimated 22.1 per cent or 1 in 5 of all employees in Britain fell below the low-pay threshold. This compares with 17.6 per cent in the Netherlands, 12.7 per cent in France, and 8.5 per cent in Denmark falling below this threshold.[28] We have a real problem with low pay in the UK.

Table 1 **Regional gross value added (GVA) for house prices in nominal and real terms, UK, 2004**

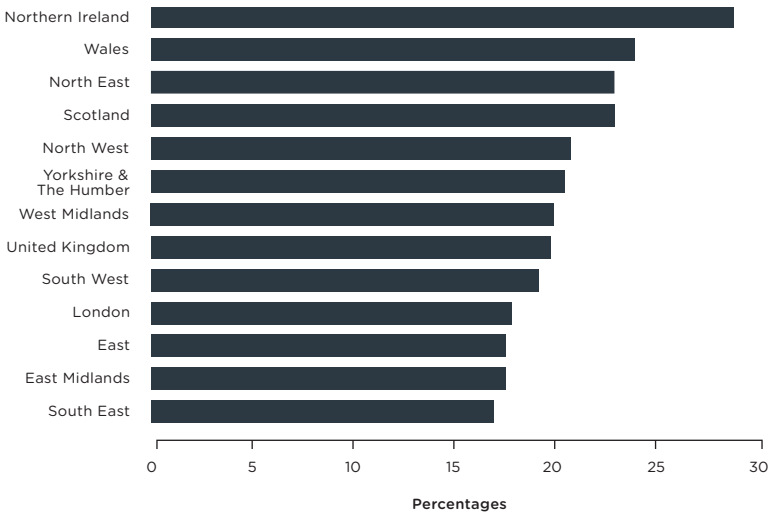
	GVA at current prices (£ in 2004)	GVA as share of UK total (%)	GVA per capita (£)	GVA per capita as indices (UK=100)	Average regional price in 2004 (UK=100)	GVA Corrected for price diff. (£m)	Real GVA per capita as indices (UK=100)
North East	34,188	3.4	13,433	79.9	94.2	14,260	84.9
North West	101,996	10.1	14,490	88.9	96.9	15,418	91.8
Yorks & Humber	75,219	7.5	14,928	88.8	94.2	15,847	94.3
East Midlands	65,770	6.5	15,368	91.5	97.4	15,778	93.9
West Midlands	81,745	8.1	15,325	91.2	97.8	15,670	93.3
South West	78,560	7.8	15,611	92.9	101.3	15,411	91.7
East	100,307	10.0	18,267	108.7	101.1	18,068	107.5
London	164,961	16.4	22,204	132.2	109.7	20,241	120.5
South East	158,187	15.7	19,505	116.1	105.3	18,523	110.2
England	861,022	85.6	17,188	102.3	n/a	n/a	n/a
Scotland	82,050	8.2	16,157	96.2	4.5	17,098	101.8
Wales	39,243	3.9	13,292	79.1	93.7	14,186	84.4
Northern Ireland	23,058	2.3	13,482	80.2	93.1	14,481	86.2
UK	1,033,324	100.0	16,802	100.0	100.0	16,802	100.0

Source: Office for National Statistics[27]

In-work poverty is also a real problem in our public sector. Minimum pay rates across the whole public sector average £13,026 a year.[29] At the same time, studies have shown that a single person in Britain needs to earn at least £13,900 a year (before tax) in order to afford a basic but acceptable standard of living.[30] On average, the lowest paid public sector workers earn over £800 less a year than the minimum income standard for a single person – those who are parents or who have dependent partners are often in an even worse a position.

For these reasons, it is not simply the conservative antipathy to intervention that drives the logic of starting with the

Figure 2 **Public sector employment as a proportion of all in employment, by region and country of workplace, year to Q4 2008**



Notes: Public sector statistics for Northern Ireland relate to the number of public sector jobs rather than the number of people working in the public sector. HM Forces figures are not included in Northern Ireland estimates. Headcount: four-quarterly averages are based on estimates over the quarters March (Q1), June (Q2), September (Q3) and December (Q4) 2008. Q4 2008 PSE estimates include the classification of Royal Bank of Scotland Group and Lloyds Banking Group.

Source: Labour Force Survey; returns from public sector organisations[31]

public sector. There is also the reality of excessively low pay at the bottom of the ladder. Furthermore, as the Figure 2 illustrates, public sector employment is so high as a proportion of some regional workforces in the UK that the potential knock-on effect is huge. By ensuring that the lowest-paid public sector workers are paid to a minimum standard, we can set the bar for other employers within those regions. By tying the 'living wage' rate to local living costs, we can ensure that the wage set is at a

reasonable level that also helps to alleviate poverty without placing an unacceptable burden on those companies that may wish to follow the public sector's example.

For these reasons, the Conservative Party should adopt a policy that creates a regional, public sector living wage. This living wage would be calculated on the same basis as Joseph Rowntree Foundation's annual 'minimum living standard' to take into account living costs such as the cost of accommodation.[32] It would then represent an additional bottom line for public sector wages within a locality. Ensuring that every public sector worker is paid at the minimum standard to lead a fulfilled life would represent an enormous step towards combating inequality, especially in areas such as Northern Ireland where as much as a third of the population is employed within the public sector.

At first, such a policy may seem to jar with the emphasis on localism that modern conservatives have placed at the heart of their agenda. After all, it is the intention of this policy that central government compels public sector employers to pay the regionally set public wage – surely this reduces the power of head teachers or mayors to take ownership of the services they provide?

There are two rebuttals to this critique. The first is simply that, although not fully decentralised, this policy does go substantially further in recognising the regional variations in living and accommodation costs than any current pay policy. Not only is the minimum wage a nationally set base but most public servants have their pay set nationally too – be they teachers, doctors or nurses – with only London-based staff routinely singled out. Thus a regional baseline would be more localist than the current arrangement. Second, it is important to be clear that this regional public wage would represent a minimum rather than a standard. Like the minimum wage, or the living wage in some London organisations, it would not dictate how *much* people can be paid but how little.

However, raising the bar for those directly employed within the public sector should only represent the first step in a wider programme of standards-raising for the lowest paid. In fact, the

regionally set public sector living wage would represent the state's leverage in pushing up income standards beyond the public sector. The state should, once the living wage has had a chance to embed for those directly employed by the state, look to extend the proportion of low-paid employees affected. This can be accomplished through using the procurement infrastructure. Companies and contractors, as well as private and voluntary organisations providing public services, should be made ineligible for public sector work if they are unable or unwilling to pay their employees at the local standard set. Thus, the state can lead by example, drive up the local market value of labour and, eventually, use its position as a consumer to drive up standards.

Capping and comparing

Paying the bottom rungs of the public sector more will, inevitably, cost the state more. In a period of austerity and recession, such promises may well seem difficult to keep. After all, all three main parties have warned that public sector pay will fall victim to falling tax receipts and cuts in public expenditure. But increases cannot only be paid for, but can be used to reduce inequality. The problems that exist in terms of the pay gap in the public sector do not begin and end at the bottom – they are also an issue at the top.

The chief executive of a NHS strategic health authority can earn a maximum of £204,048 a year – 15 times the minimum living standard.[33] When compared with the average pay for a NHS employee at Pay Band 1 (£13,233 per annum – £600 below the minimum living standard) this represents a pay ratio of 15 to 1 between the top and the bottom.[34] In local authorities, this pattern is repeated: the lowest salary paid to a full time employee of Slough local authority, for example, is £12, 994 (£1,000 below the minimum living standard), while the chief executive is paid up to £157, 479 (11 times the minimum living standard). This represents a ratio of 11 to 1.[35]

These gulfs in pay, between the public sector rich and poor, represent both a moral failure on the part of the state and a

dangerous example to the private sector. They are, however, by no means ubiquitous or inevitable. In the Army, the area of public service where cohesion is perhaps most vital, the pay ratio between the top operational rank (brigadier) and the very bottom (a new entrant still in training) is just 7 to 1. What is more, if one takes into account the fact that most soldiers will quickly move from entrance to the rank of private (as soon as they have completed their training) the ratio shrinks to just 6 to 1.[36]

Because of these enormous gaps in public sector pay, it is not enough, and would be very expensive, simply to lift the lowest paid into the minimum living standard in isolation. Instead, such a move should be pursued in conjunction with reductions in high public sector pay. This should be achieved in three ways: through public sector wage caps, increased transparency and by using the stick as well as the nudge.

Public sector wage caps

It is already Conservative Party policy to introduce some form of wage cap in the public sector and to improve transparency in public wages. But its policies in these areas are by no means radical enough – either to reduce the pay inequality that pervades our public sector, or to reduce effectively the burden of super-high wage bills on a cash-strapped exchequer. George Osborne used his conference speech to announce that, under the Conservatives, any public sector wage above that of the prime minister will have to be put directly to the chancellor for approval.[37] He said that he was 'not expecting a long queue' – the evidence in fact suggests that it could be substantial:[38] currently 323 public sector employees are paid more than the prime minister.[39] But that aside, the choice of the prime minister's salary as the upper limit for public sector salaries is an arbitrary, if media-friendly, selection. Instead, and to promote more equal public service pay, the upper limit of salaries in any department, local authority, NHS trust or police force should bear a relationship to the lowest amount that it pays its workers. This doesn't mean, of course, that chief executives should be paid the same as receptionists. However, we should be moving towards a situation where the public sector leads the way in

ensuring a level of coherence and fairness in the way that it remunerates its staff. Government should implement public sector pay ratios that govern the extent of the acceptable gap between the best and the worst paid. It is not within the remit of this paper to set a ratio – this would depend on more detailed calculations to ascertain the level affordable and on the political will (and strength) of any government seeking to impose one. However, as we have seen from the differentiations within the public sector, it is possible to run highly effective public services that have a smaller gap between the top and the bottom: higher pay for the lowest earners and reasonable, limited pay at the top. If the armed forces are able to operate with a pay ratio of 6:1 the question is why the NHS or local authorities cannot.

Obviously moving directly to a 6:1 ratio, for example, would mean a dramatic reduction in top-flight public sector wages. To take the chief executive salary of Slough local authority it would mean that the most they could earn would be reduced by almost half – from £157,479 to around £84,000 (assuming that their lowest paid employee was receiving the minimum income standard). But reducing inequality in the public sector does require bold moves to prevent escalating salaries carrying senior executives further and further away from their staff.

Increased transparency

In order to facilitate a new approach to public sector pay and to ensure that inequalities are substantially closed, increased transparency will be necessary. It is already Conservative Party policy that 'every item of government spending over £25,000, nationally and locally, will have to be published online'.[40] This approach to procurement should also be extended to employment. Some people will have to be employed by the state at a wage that exceeds the average wage in the UK. But when they are, their employer should be expected to explain why that position requires remuneration that exacerbates inequality. Therefore, when the public sector employs someone on a wage that exceeds the national average wage for full-time work –

£25,800 – they should publish the job description, role and entrance requirements online as a matter of course.[41] This simple measure of transparency would open public sector remuneration to scrutiny and would allow local people to use publicly available information to compare the pay that they receive to that of those doing comparable work for the state. Making this information available would thus become not simply a tool for exposing waste, but leverage for individuals on low pay.

The stick as well as the nudge

The above proposals are based on two central ideas: that it is important that the state leads the way in tackling inequality; and that actions pushed down through the state and outside it through procurement and public pressure are more effective (and perhaps more palatable to the conservative mindset) than clunky regulation and compulsion. But, as described in the principles, these nudges must be backed up by a realistic readiness to intervene where efforts are not made to close the gap to reasonable levels. Many conservatives will hope that companies will be responsible, that they will recognise a problem which society is increasingly concerned about, and will take steps to address the issue. However, we must also be aware that sometimes industry is simply too slow, or too greedy, to respond to demands made by the public. This has been the case when it comes to the commercialisation and sexualisation of young children – society has repeatedly demonstrated revulsion at these trends, but the corporate world has been slow to respond. Therefore, it is important that tools beyond the 'nudge' are available to governments that are committed to tackling inequality.

In this case, we have a historical precedent on which to base a modern tool for intervening on behalf of equality. Until they were abolished (admittedly by a Conservative government) in a process that began in 1986, wage councils operated in a number of low-paid sectors in the UK. These councils set minimum wages for those performing tasks that were notoriously underpaid, and helped to lift thousands out of waged destitu-

tion. By the mid-1980s, the wage council structure was largely redundant and was undermining the effectiveness of some sectors by making demands that failed to reflect the market. It would be foolish to imagine that simply recreating the wage councils, as constituted, is the answer to inequality now. For a start, it was not an explicit aim that they should reduce inequality at all; their purpose was to alleviate poverty. However, the concept of using a council of interests to resolve conflicts over remuneration and fairness in the workplace is an established one in British history.

This paper argues that government should use the state, and services procured by the state, to reduce the gap. Where sections of the private sector, for prolonged periods of time, refuse to engage with public concern about *their* pay and remuneration structure, government should have a prepared tool of last resort at its disposal. We can see the usefulness of such a tool in today's climate of recrimination, confusion and last-minute legislation in response to bankers' bonuses. Yes, some of the anger in that situation is founded on nervousness about short-termist reward structures, but it is also driven by the gross unfairness of millions being paid to those who are popularly perceived to be undeserving. Because of the lack of existing tools, the chancellor was compelled to use the tax system to address this issue – a clumsy and one-off solution to a long-term problem.

Government should be able to convene a modern interpretation of the wage council when it perceives that sector's methods, forms or amounts of remuneration to be perpetuating disproportionate inequalities. These councils would be set up by the secretary of state for business, innovation and skills in response to arising issues, complaints and problems, such as those we have recently seen in the banking sector. They would be sector-specific and would be required to produce a report, in a set period of time, making recommendations about how to improve remuneration structures within that industry. Although the secretary of state would be able to convene wage councils in response to a number of wage-related issues, tackling imbedded, everyday and unfair inequality should explicitly be one rationale.

The composition of the new wage councils should include political figures and leaders from the sector itself, representative of different strata of the workforce. They would report their findings to Parliament, which would then be asked either to approve (and enforce them on the sector concerned) or not.

Wage councils would provide ministers with a prepared mechanism for tackling endemic inequalities within specific sectors, without having to resort to emergency, one-off legislative solutions. In their modern incarnation, wage councils would be cheaper, more flexible and more politically accountable than their forebears. They would be convened only in response to specific problems, would be accountable to Parliament and would not operate as costly, continuous quangos.

Conclusion

There is a compelling argument that conservatives should be concerned about the impact of everyday inequality. True, this concern is not based on an ideological commitment to notions of 'fairness'. Rather, it is an empirical case that is based on the evidence that everyday inequalities undermine cohesion in communities and societies and make conservative values harder to promote. In order to produce communities in which individuals take responsibility for themselves and each other, we need greater cohesion in terms of the resources available to people. This does not mean redistributing the wealth of those who have worked hard and prospered; nor does it mean giving hand-outs to the irresponsible. It should mean that we give consideration to inequalities in areas over which the state has control and that we prepare the state to allow it to intervene when private situations begin to impact on society.

This paper has focused, in the most part, on everyday inequalities. These are the inequalities that exist in communities – in specific regions or areas – and inequalities within sectors and institutions. This is because conservatives should be more concerned with the effects that inequality has, and the conservative argument acknowledges that these effects are exacerbated when ingrained inequalities are visible and pertinent to a person's life. It is popular to attack the very rich, but in doing so you are distracted from the real problems of massive disparities in remuneration. It is not the pay of bankers or footballers that undermines the cohesion of communities, but the fact that nurses are paid up to 15 times less than their managers. It is not billionaire Russians that inspire everyday resentment, but rather the peculiar values that lead the chief executive of a local authority to be paid 11 times the wage of the employee who ensures that the streets are clean.

Conservatives know that there are no easy answers to these problems; that is perhaps one of the reasons that they are so wary about engaging them. But it is important that the Conservative Party lives up to its increasingly progressive rhetoric and, at least, reduces the inequalities for which the state is responsible. Although conservatives may struggle to mind about the gap per se, the evidence base provides a real and a conservative case for minding very much about the effects of that gap.

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Inequality has not always been seen as a priority for conservatives. This pamphlet argues that in face of new evidence about the impact of 'everyday inequalities' – those inequalities we see around us that are transparently unfair or undeserved – conservatives should now look again at the issue of distribution in our society.

The things that conservatives wish to achieve, from strong communities to educational opportunities, are more difficult to embed in societies which maintain enormous gulfs between the haves and the have-nots.

This pamphlet argues that there is a conservative case for a more equal society. But a national approach is too inflexible and too prescriptive to fit with a modern conservative agenda of greater autonomy for regions, communities and families. The approach set out here, one driven by localism, shows that equality can go hand in hand with independence and in localism.

Max Wind-Cowie is a researcher on the Progressive Conservatism Project at Demos.

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