



The Hebrew University of Jerusalem  
The Paul Baerwald School of Social Work  
and Social Welfare

***Egalitarian Politics  
in Hard Times:  
Can Welfare States  
Still Promote Equality?***

*The social citizenship ideal is not dead, but it  
certainly seems to have fallen on hard times  
-Hugh Heclo, The Social Question, 1995.*

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## **The Richard M. Titmuss Memorial Lecture**

Richard M. Titmuss was appointed Professor of Social Administration at the London School of Economics in March 1950, a position which he held for the rest of his life until 1973. He was one of the outstanding and original social scientists of his generation and in his research, lectures and personal encounters, he shaped anew the whole concept of social policy in Britain and abroad. For a period of three decades he exerted immense influence in scholarship, politics and government at home and in many countries throughout the world.

Richard Titmuss was a great friend of Israel. His thought and work very much influenced the study of social policy in Israel, and he left a lasting imprint on the social policies of the country. The lecture series in his memory has been made possible with the kind help of his friends in the United Kingdom and by a generous grant of the National Insurance Institute of Israel.

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## Egalitarian Politics in Hard Times: Can Welfare States Still Promote Equality?

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The puzzle I raise here is variant of a very old question in Western thought: Can capitalist economies become more egalitarian?<sup>1</sup> Or, by its very nature, does market capitalism doom egalitarian political projects to failure? Karl Marx took a strong position on these questions. In his view, the capitalist system was a marvellous spur to technical innovation and higher productivity, a great economic growth machine. But its very growth was built upon rising levels of exploitation and deepening inequalities between the owners of capital and the direct producers.<sup>2</sup> While not quite so

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<sup>1</sup> Let me put my normative cards on the table: I am an egalitarian. I try not to be a naïve egalitarian. I don't think it is either possible or even necessary to eliminate *all* forms of economic inequality to be a good egalitarian. But I do think that societies that have successfully pursued egalitarian projects to achieve a low inequality equilibrium are both socially and morally better societies than those that accommodate to a high inequality equilibrium. Lane Kenworthy (2004:1) puts the Rawlsian case for low inequality quite succinctly. The principal argument for low inequality, he argues, is that it is fair. He writes:

*Much of what determines people's earnings and income – intelligence, creativity, physical and social skills, motivation, persistence, confidence, inherited wealth – is a product of genetics, parents' assets and traits, and the quality of one's childhood, neighbourhood and schools. These things are not chosen. They are matter of luck. A non-trivial portion of earnings and income inequality is therefore undeserved, which makes institutions and policies that can reduce inequality attractive.*

If normative arguments do not persuade you, then a few well-known outcomes associated with high inequality – poorer health, higher crime, inferior educational outcomes – might.

<sup>2</sup> For Marx the egalitarian project was not a *political* project at all but the inevitable outcome of the unfolding of the laws of history, a state to be realized in the future but only when the capitalist system collapsed under its own contradictions (Cohen 2000).

pessimistic, the OECD's (1994) view that we can have lots of jobs or lots of equality, but not both, adopts a similar stance.

I take it for granted that some variant of market capitalism will continue to provide the basic form of economic organization in most affluent economies for the foreseeable future. And markets by their very nature produce inequalities. But in our own times we have seen political projects that have made some nations more equal than they had been in the past. And some nations have pursued this project further than others without destroying or obviously weakening their capacity for economic growth, the main concern among critics of egalitarian projects. The history of capitalist democracies has not been nearly as one-sided in distributive terms as Marx thought it would be. And that is probably because democratic politics have provided a more powerful antidote to the polarizing tendencies of capitalism than he anticipated.

My particular question, however, is somewhat more specific. What role can and should the welfare state play in the strategies of contemporary egalitarians? The conception of the welfare state I have in mind is a very simple one: the welfare state as Robin Hood, one that taxes the more affluent to supplement the earnings and incomes of the less affluent.

This is not a rhetorical question. Some sources of inequality are best dealt with in the labour market. Achieving high levels of employment is usually a better cure than providing transfers to those without jobs (Kenworthy 2004). Enhancing the skills and capacities of the educationally disadvantaged is a better strategy than compensating the less skilled with wage subsidies and other income transfers (Esping-Andersen 1999, Esping-Andersen et al. 2002). Today's policy-makers, including egalitarian policy-makers, would much prefer to find alternatives like these to the traditional "Robin Hood" model of the welfare state. And this attitude is understandable given the pressure on public finances that will inevitably result from population ageing and rising health care costs.

Nevertheless, I will try to make the case that the "Robin Hood" version of the welfare state is probably more indispensable for the current generation than for our industrial age predecessors of the 50s and 60s. There are at least three problems that strategies based on more jobs and better human capital development cannot solve. They include the changes in the social and economic life course of young adults, the rise of single earner households, and the growing importance of educational marital homogamy, the tendency of "like to marry like," in shaping the distribution of family incomes.

But is the welfare state still up to the task? Should egalitarians be looking elsewhere for solutions? In this paper, I address this larger issue by considering three related questions.

First, is the welfare state withering away or is it about to? This is the extreme

variant of the many welfare state crisis scenarios that have flourished since the 1970s. If true, egalitarians should begin looking elsewhere for solutions. We can deal with this question briefly since we now have a large body of scholarship that indicates the answer is no.

But we can ask a second, more realistic, version of this question: Is the welfare state failing? Here, the answer invites some pessimism. Income inequality, as we shall see, has risen in many countries despite sometimes important efforts to contain this development. And history teaches that once the Gini of inequality is out of the bottle it may be very difficult to get it back in again. In the second section, I review recent trends in family income inequality and some of the factors underlying the trends.

The third and final question is the most important: Is there the political will among both elites and publics in the affluent democracies to tame markets and contain inequality? Is there any fire left in the egalitarian project? On this issue, egalitarians from Jeremiah to Marx have tended to be gloomy. Richard Titmuss was certainly pessimistic about the future of the egalitarian project in postwar Britain. Perhaps it is in the nature of egalitarians to be gloomy. In a 1959 profile, *The Observer* described Titmuss as a man who worried a lot and rarely smiled. But gloominess may simply result from the fact that egalitarians usually have lots to worry about. As Titmuss argued in a 1959 essay (Titmuss, 1963: 242-243), capitalist societies are constantly creating new inequalities and new forms of economic and political power that undermine the egalitarian achievements of the past. In this respect, the situation of contemporary egalitarians differs little from those who have preceded us.

My own response to this big question is one of qualified optimism. If we look beyond Margaret Thatcher and George W. Bush, it appears that political elites in the advanced democracies have not entirely forsaken the struggle to limit the growth of inequality. And public opinion indicates that today's citizens are no less willing than in the past to support initiatives for a more egalitarian variant of capitalism. Political leaders in democratic polities, however, require strong incentives to pursue egalitarian projects. Whether these incentives will be forthcoming is less certain.

## *Is the Welfare State Withering Away?*

There are several reasons for egalitarians to be sceptical about the Robin Hood strategy. If, as many analysts have argued, the welfare state is about to wither away as a result, say, of the unstoppable forces of globalization (Cerny, 1996; Strange, 1996), then clearly egalitarians need to look elsewhere for solutions. The first bit of good news is that there is precious little evidence this is about to happen (Castles 2004). Despite cutbacks and restructuring since the 1980s, welfare states in the rich democracies show little sign of disappearing. As shown in Table 1, average levels of social spending in the affluent democracies continued to rise in the 1980s and 1990s, albeit at slower rates than in earlier decades.

**Table 1: Social Expenditure in OECD Countries, 1960-1998 and Israel, 1998**

	<u>1960</u>	<u>1980</u>	<u>1998</u>	<u>% Change 1960-1980</u>	<u>% Change 1980-1998</u>
Anglo-Saxon	8.9	15.7	18.1	76%	15%
Continental Europe	14.6	23.7	26.3	62%	11%
Nordic	9.5	23.8	28.6	151%	20%
Southern Europe	7.8	14.3	21.4	83%	50%
Israel			<u>18.5</u>		

Source: Castles (2004). Israeli figure provided by John Gal, Hebrew University.

The figures in Table 1, however, include expenditures for health care and quasi-automatic increases in pension expenditures that result from population ageing as well as income transfers to working age families. When we remove pensions and health care expenditures from the totals, however, we reach much the same conclusion (Table 2). Among the Anglo-Saxon countries there have been large increases in Australia and New Zealand and stability in Canada and the U.K. The U.S. is clearly the deviant case. It was a low spender in 1980 and an extreme outlier by 2000.

Expenditures rose substantially in Finland and Norway as they converged on Denmark and Sweden. On the Continent, France, Germany and Italy had large gains and only the Netherlands showed a large decline, the result of rising employment during the 1990s that reduced demand for transfers. In short, with the possible exception of the U.S., there is little sign that the welfare state is withering away.

**Table 2: Public Social Expenditures as a Percent of GDP Minus Expenditures for Health and Old Age Security**

	1980	2000	Ln Change <sup>3</sup>
<b>Anglo-Saxon</b>			
Australia	3.7	7.1	65%
Canada	6.0	6.2	3%
New Zealand	5.2	8.1	45%
U.K.	7.5	7.7	2%
U.S.	4.3	3.2	-31%
<b>Continent</b>			
Belgium	12.7	12.0	-5%
France	7.6	10.7	34%
Germany	6.2	7.8	22%
Italy	5.4	6.8	24%
Netherlands	14.6	9.8	-40%
<b>Nordic</b>			
Denmark	12.9	13.7	6%
Finland	8.3	11.8	36%
Norway	6.9	10.0	37%
Sweden	12.6	12.2	-3%

Source: OECD, SOCX database

Figures like these, however, may provide only cold comfort to egalitarians. Even if social expenditures have not fallen, it certainly feels that way in many countries. I think we can get a better understanding of the current mood if we ask a more realistic sort of question: Are welfare states failing? Are welfare states managing to keep pace with the new risk structures associated with post-industrial labour markets and new family forms? To answer this question, I turn in the next section to recent trends in family income inequality.

<sup>3</sup> The percent change is calculated by taking the difference in logs.

## *Is the Welfare State Failing? Welfare States and Equality*

There are three levels at which we usually measure economic inequality.

- Inequality of **earnings** among employed **individuals**
- Inequality of **family earnings**, (and investment income).
- Inequality among **families** or households **after we include income transfers and subtract taxes**. (often called "**disposable income**.)"

Typically we monitor trends and differences in inequality with the last of these: What does the final distribution of income look like after all household members have pooled their resources and governments have finished redistributing income with taxes and transfers. We know this is not a perfect indicator of what we want to capture but it's not a bad place to begin. The results shown in Table 3 are from the international Luxembourg Income Study. Inequality is measured with what the Gini index, with larger values indicating higher inequality.

**Table 3 - Family Income Inequality (Gini) From the Late Seventies to the End of the Nineties**

	Late Seventies	Mid- Eighties	Mid- Nineties	Most Recent	% Change (ln)
<i>Israel</i>	.30	.31	.34	.35	15%
<b><u>Anglo-American</u></b>					
United States	.30	.34	.36	.37	20%
Canada	.29	.28	.28	.30	4%
U. K.	.27	.30	.34	.35	25%
<b><u>Continental Europe</u></b>					
Germany	.26	.25	.26	.26	0%
Netherlands	n.a.	.26	.25	.25	-5%
Belgium	n.a.	.23	.22	.28	20%
<b><u>Northern Europe</u></b>					
Finland	n.a.	.21	.22	.25	17%
Sweden	.22	.22	.22	.25	16%

Source: Luxembourg Income Study, *LIS Keyfigures*

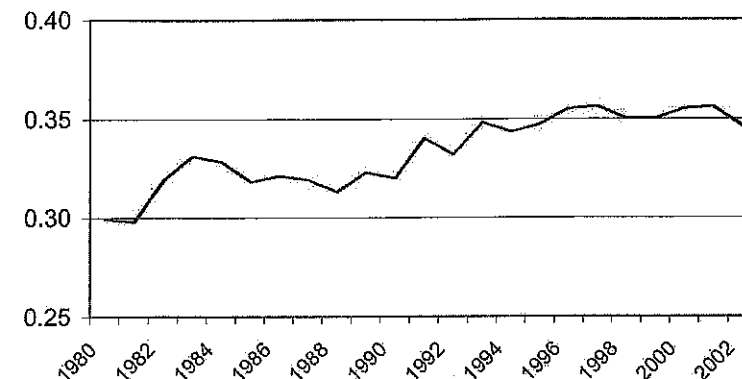
Trends in final income inequality do offer reason for scepticism about welfare states. As in Israel, inequality has been on the rise in many western countries. The U.S. and the U.K. are the most well known examples because the gains in inequality have been large and began much sooner than elsewhere. The results show similar gains in Israel since the mid-eighties and substantial gains in the Nordic countries since the mid-nineties.

In a more recent and comprehensive evaluation from the OECD (Forster and d'Ercole 2005) we get the following conclusions: From the mid-eighties to the mid-nineties inequality fell slightly among 3 of 25 OECD countries, was stable in 5, and increased in 17 and these increases were usually substantial. Some of these gains are not evident in the Luxembourg data since they are fairly recent and because they were the result of large increases at the very top of the distribution, a topic I return to below. From other data sources, we know that national surveys of the sort used by the Luxembourg study are not very good at capturing what is happening to families with very high earnings..

On average, then, welfare state spending has been rising since the 1980s but inequality has been rising too. As an equality-enhancing strategy, it seems, the welfare state is running out of gas. Welfare states are spending more but are apparently unable to keep pace with emergent sources of inequality that are moving faster than the welfare state. So where is the pressure coming from?

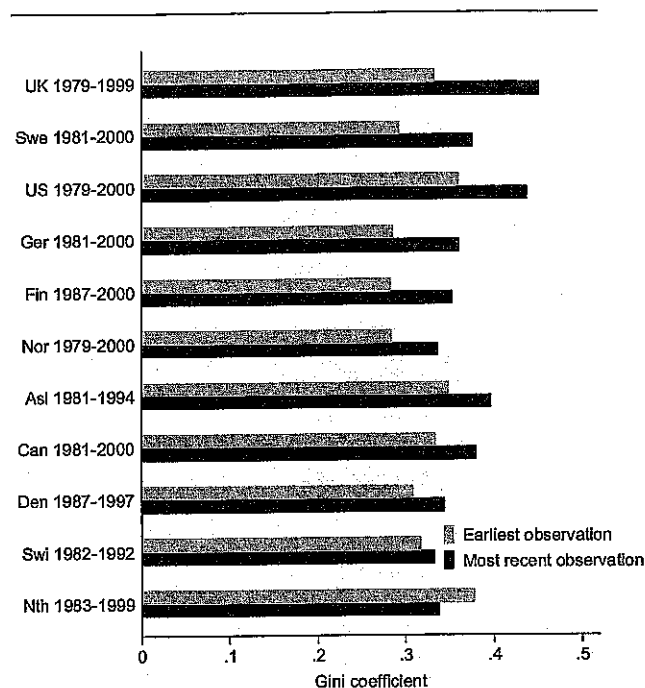
I begin with a case study of Canada, an interesting case since changes in wage inequality have been modest and at least to the mid-nineties there was little change in final income inequality (see Table 3). Underlying these apparently benign trends, however, was a huge surge in family earnings inequality, the combined pay packets that mom and dad bring home from work (Figure 1). Analysts have known about this trend for a long time but tended to diminish its significance for two reasons. First, until the mid-nineties there was little change in earnings inequality among employed individuals and, at the family level, governments were able to keep pace by raising income transfers to families who were losing out. We might think of Canada as an instance of a welfare state that was running hard to stand still.

**Figure 1: Inequality in Family Earnings (Gini) Among Two-Parents Families with Children, Canada 1980-2002**



How typical is the Canadian story? Kenworthy and Pontusson (Figure 2) and the OECD (Forster and d'Ercole 2002: 26) show that the Canadian experience has been replicated in almost all of the affluent economies. Virtually all countries have seen a widening dispersion in family market incomes, including those, like Canada, where there have been only modest or negligible gains in wage inequality among individuals. In Sweden, for example, the Gini for family market income rose from .29 in 1981 to .38 in 2000 which is an enormous change.

**Figure 2**  
Gini Coefficients for Market Income among Working-Age Households, 1979-2000



Note: Countries are ordered by change in inequality (most recent observation minus earliest observation).  
Source: Kenworthy and Pontusson (2005) based on authors' calculations from Luxembourg Income Study data

An important consideration in assessing the implications of such a rise is whether part or all of the increase has been offset by higher rates of mobility. Changes in point-in-time inequality matter less or perhaps not at all if there is little change in "permanent inequality," inequality measured over an entire life time or for a significant period of the life course. For example, point-in-time inequality might rise if the earnings of younger

couples fall relative to older couples but the implications of this change are offset if today's young couples experience faster earnings growth and greater mobility than young couples in the past.

This mobility offset has clearly not happened in Canada where there is unusually good longitudinal data – 20 years of administrative tax files – for answering this question. Morissette (forthcoming) shows that permanent (six-year) inequality in family market incomes rose by 41 percent among intact couples age 25-50 over a ten year period from the 1980s to the 1990s. Whereas, permanent family earnings among couples in the top tertile rose by over 20 percent, earnings in the bottom tertile were unchanged.

Let's turn now to the drivers of this development. As an analytical strategy I want to conduct a thought experiment. Try to imagine the potential life courses of today's cohorts who are just beginning their adult lives. That's not so hard. The cohorts who will reach 65 in the year 2040 are already with us. In fact they will turn 30 in 2005. How will their lives differ from those of their predecessors who entered the booming labour markets of the 50s and 60s when the foundations of western welfare states were put in place? This is less an exercise in futurology than an effort to think about the real world challenges facing egalitarians today as we try to imagine a social policy environment suited to the needs of the generations now entering adulthood. For purposes of the experiment, let's also assume a society where problems originating in the labour market (too few jobs) or the education and training system (a large skills deficit) have been resolved. The point of course is to make clear that even with high levels of employment and strong education and training systems, we still require the welfare state to play Robin Hood in our postindustrial world.

### *The Second Demographic Transition and the Post-industrial Life Course*

The most dramatic difference between today's young cohorts and their industrial age predecessors is when and how they begin their adult lives.

For the cohorts who came of age in the 1950s and 1960s, the transition to adulthood occurred early in life. Industrializing economies were relatively benign places for muscular young men and unmarried women. This is clear from the fact that from 1900 through the 1960s, the main age markers of reaching social and economic maturity fell decade after decade. By the 1960s, young adults were leaving home, getting married and having their first child much sooner than any of the cohorts that preceded them.

All this has changed. Since the 1960s all of the age markers of social adulthood have been rising. More young adults are living with their parents well into their late twenties and even their thirties. Marriage and first childbirth also now occur in the late 20s just about the time people are beginning to establish themselves in real career jobs.

The reasons for these changes are not difficult to fathom. Postindustrial economies are knowledge economies. Rising demand for educational credentials means "real" work careers start much later. More importantly, the changing demands of the labour market now affect women as much as men. High female employment is a defining feature of our postindustrial world.

The consequences of starting later have been compounded by the most important shift in the wage distribution of the past quarter century: the relative earnings of young adults, those under 35, have been falling at all skill levels for over two decades. Everywhere, younger workers are overrepresented among the unemployed and among those on short term contracts (Esping-Andersen, 2004). Postponed adulthood combined with declining entry level wages mean that both the cumulative earnings and accumulated wealth of adults in their mid-thirties have fallen dramatically since the end of the seventies. In Canada, the median wealth of families where the highest earner was 25-34 in 1999 was down 26% from 1984 (Morissette, Zhang and Drolet, 2002).

Why does this matter? After all, if you have seen the U.S. sitcom, *Friends*, living like an adolescent at age 30 may not seem so bad.

First, postponed adulthood and the declining earnings of young adults are the main reasons we have made such astoundingly little progress in reducing child poverty. While the social and economic life course has changed, biology hasn't. Because of biology, young adults (under 35) are still the parents of the vast majority of our young children and no social policy can change this.

Given the incredible changes in the behaviour of today's young parents, the remarkable fact about child poverty is that it has not disappeared. Today's young parents are much better educated than a generation ago and most mothers are employed. In the past, child poverty was associated with large families but in most countries large families have disappeared into the mists of history.

Postponed adulthood is also important since it is the major driver of the low fertility equilibrium characteristic of almost all postindustrial societies. As such, it is a major cause of the huge social policy challenge that lies ahead, namely population ageing. Indeed, the revolution in life course patterns of young adults in the past 40 years – the "second demographic transition" -- is as much a part of the phenomenon of "population ageing" as is the much-vaunted arrival of the baby boom.

Quite simply, post-industrial economies with long periods of juvenile dependency now extended into young adulthood and where both women and men must now build their careers are not family-friendly places.

### *Post-Industrial Families*

But let's move on and imagine how the lives of our post-industrial thirty-somethings will evolve as they move through their working years toward retirement in 2040. As with any major change there is good news for some and bad news for others.

The first cohort divide in a world of dual earner families is between household that are work rich and those that are work poor, dual-earner families on the one hand and single-adult households on the other. As a result of high rates of marital dissolution, the share of children in single mother households has risen everywhere, now ranging between a low of about 5 percent in Southern Europe to a high of 15-20 percent in Scandinavia and North America.<sup>4</sup>

The second divide that will persist over the working lives of current cohorts has two sources: the division between the educationally advantaged and disadvantaged, on the one hand, and the multiplier effect of marital homogamy on the other. Well-educated men and women tend to marry one another, forming families with high earnings and few risks of unemployment. Less well-educated couples have lower wages and are far more likely to experience periods without work. Between 1980 and 2000, for example, Canadian couples with two university graduates saw their average annual earnings rise by about 20% while couples where both partners had high school or less had stagnant or declining earnings (Morrisette and Johnson 2004). Marital selection based on education has risen and is unlikely to abate. In the 1950s, there were few highly educated women to marry. The doctor married his nurse or his secretary. Today s/he

<sup>4</sup> Estimates from LIS (Luxembourg Income Study) Key Figures ([www.lisproject.org/keyfigures](http://www.lisproject.org/keyfigures))



is more likely to be married to another doctor, lawyer or advertising executive..

The cumulative effect of these trends over the past quarter century is the long term secular increase in family earnings inequality even in nations where earnings inequality among employed individuals has been unchanged. In short, changes in the life course, family structure, and the labour market behaviour of men and women have generated a new high inequality equilibrium. And some of the important drivers behind these changes, including high rates of marital dissolution, postponed adulthood and marital homogeneity, are not readily amenable to social intervention.

How have governments been responding? For purposes of this paper, I am going to ignore the well-known reactions of conservative leaders such as Margaret Thatcher, Ronald Reagan or George W. Bush. We tend to forget that leaders like Reagan, Thatcher and Bush have been the exception rather than the rule over the past quarter century. Most western countries have not been ruled by hard-nosed conservatives but by labour parties, social democrats and progressive liberals of the Bill Clinton variety. Many of these leaders and parties have distanced themselves from their historical predecessors of the 1950s or 1960s. They refer to themselves as "new democrats" in the U.S., "new labour" in Britain or "new social democrats" on the continent. Though they have different views on inequality compared to those of Richard Titmuss, they have not entirely forsaken the egalitarian project.

For simplicity, I will ignore the diversity among their various streams of thought and subsume them all under Tony Giddens' appropriately vague phrase, the *Third Way*. Blair and Clinton adopted the phrase to distance themselves from both the neo-conservative reaction of the 1980s as well as from the traditions of "old labour" or "old democrats" of the 50s and 60s. While many social democrats in Europe avoid the label, they have embraced many of the precepts of Third Way thinking in practice. I want to focus attention on the question posed by Stuart White (2004): Is the Third Way Egalitarian? Or to put it another way: How egalitarian are today's progressive political elites in the affluent democracies?

#### *The New Politics of Welfare: Is the Third Way Egalitarian?*

To what extent have *Third Way* political leaders abandoned the egalitarian project? White (2004) provides a useful starting point by distinguishing among four potential sources of inequality and the policy preferences of *Third Way* leaders with respect to each.

- *Discrimination*: difference in access to schooling, employment or housing made on the basis of ascriptive characteristics such as one's sex, race or ethnicity.
- *Social Background Inequality*: inequalities due to differences in family environment and parenting capacities and inequalities in resources in early adulthood
- *Natural Endowment Capacity*: inequalities that result from differences in natural endowments like intelligence, creativity, physical and social skills, motivation, confidence or even good looks.
- *Differences in effort and lifestyle choice* that impact on final levels of income and welfare

I begin with the last of these, namely differences in economic outcomes that result from effort and lifestyle choice since it represents the most distinctive divide between *Third Way*s and an earlier generation of social democrats. In varying degrees, *Third Way*s have abandoned "old" Labour's attachment to universality of the sort espoused by Richard Titmuss. For mid-century social democrats, as White observes, highlighting the role of personal or moral choice in accounting for poverty represented a discredited emphasis on voluntarism and 19<sup>th</sup> century Victorian moralism.

With new concepts like "moral hazard" and "free-riding", terms relatively unknown in Titmuss' time, Third Wayers have rediscovered moralism with a vengeance. Rights to community support are no longer seen as unconditional. In the U.K., parents whose children systematically skip school can now have their benefits cut. Those who can must seek employment to qualify for assistance. The issue of disincentives to work that might result from social programs are now taken very seriously indeed. To use a phrase from an earlier historical period, *Third Way*s are quite willing to draw distinctions between the "deserving" poor and the "undeserving" poor.

There are several reasons for this development. A commitment to maintaining high levels of employment was also the bedrock of the mid-century founders of welfare states (Keynes, Beveridge). However, the failure of Keynesian demand-side policies to maintain high levels of employment since the 1970s has inevitably redirected attention to supply-

side incentives to seek and accept employment. As importantly, the prospect of population aging has fixated the attention of policy-makers on maximizing employment among the working age population. The aim is not merely to protect the welfare state from abuse but also to save the welfare state from fiscal collapse.

But *Third Way* emphasis on individual responsibility is in no way reducible to 19<sup>th</sup> century liberal understandings of self-reliance according to which every person should stand on his or her own two feet without assistance from government (White 2004). Nor is it restricted to inequalities that result from discrimination. Indeed, a flagship policy of contemporary Third Way thinking is to do a lot about inequalities that result from social background inequality especially during childhood. Abolishing child poverty and differences due to parenting capacity through early childhood education are now held up as the panacea for social exclusion in a post-industrial world. In the contemporary world, children take pride of place among the "worthy poor."

What of inequalities that result from differences in natural endowments highlighted in the work of Rawls -- intelligence, creativity, physical and social skills, motivation, persistence, confidence or good looks -- endowments that have as much or more to do with genetic and social luck than with personal choice or merit. On this count, I think it fair to say that Third Wayers have accepted a trade-off. They want to encourage the truly well endowed to develop their talents and to flourish; but they are willing to compensate those who are truly unlucky.

Third Wayers are reluctant to limit growing inequality at the top of the income distribution with high taxes. Every country would like to have its share of the Bill Gates of the world. But they have also taken major initiatives to limit inequalities at the bottom of the income distribution. The magic concept here is "social inclusion" which in practise means limiting differences between those in the middle and those on the bottom while allowing differences between the middle and the top to flourish (Hills 2004).

To illustrate, let's consider one of the main expressions of this social inclusion strategy in the Anglo-Saxon countries. Here, the major policy development of the past quarter century is the dramatic shift back to targeted social programs in the form what is sometimes called a Negative Income Tax (NIT) or refundable tax credits (Myles and Pierson 1997). These programs go under different names in different countries: the Earned Income Tax Credit in the U.S., the Family Tax Credit in Australia, the Child Tax Credit in the U.K. and the Child Tax Benefit in Canada.

The aim of all such programs is to narrow the gap between families at the bottom of the earnings distribution and those in the middle. The highest benefits go to low income families and then gradually decline as income from earnings and other sources increase. The idea was first proposed by Milton Friedman in the 1940s: in good times, he argued, workers should pay taxes to governments and in bad times governments should pay taxes to workers. And Richard Nixon, paradoxically, was among the first to adopt the model for low income families with children -- the Earned Income Tax Credit -- in the early 1970s. The U.K. version is the most generous, providing about C\$6,000 to a low income family. As income rises, the benefit declines but most families receive some child benefit even at very high incomes. In Canada and Australia, the benefit declines and then disappears altogether at higher incomes. The U.S. system, as usual, is a bit of an anomaly. Families with zero earnings get nothing. The Earned Income Tax Credit kicks in as earnings rise over the lower end of the distribution and then declines sharply. However, for middle and upper income families the effect of child tax deduction comes into play. As a result families with higher earnings receive about the same amount as the maximum available to families with low earnings.<sup>5</sup>

The most remarkable feature of these programs, however, has been their expansionary trajectory in an era where many traditional programs have been subjected to cutbacks of one form or another. Except for George W. Bush, every U.S. president since Richard Nixon has raised EITC benefits so that today it is largest U.S. program directed at low income families.

Would Richard Titmuss approve? Titmuss, of course, was a harsh critic of targeted social benefits. The traditional means test that he opposed included a test based on both assets and current earnings. To qualify, one had to spend one's way into poverty by first consuming whatever resources were available. The means test was also intrusive, policed by an army of social workers, and hence stigmatising. The Negative Income Tax, by contrast escapes all of these constraints to varying degrees. There is no assets test so people do not have to spend their way into poverty to qualify. Stigma is gone since the determination of benefits is done by a computer based on an annual tax return

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<sup>5</sup> For middle and upper income families in the U.S., the effect of child tax deduction comes into play. The U.S. is distinctive by virtue of the fact that it has not abandoned child tax deductions that go mainly to high income families. Elsewhere, the elimination of child tax deductions provided some of the revenue to finance new child tax credits.

Have NIT designs been successful? In the intermediate term, the answer is undoubtedly yes. A larger share of social transfer dollars has gone to those at the bottom. In Britain, Canada, and the U.S., those targeted by NIT-style programs have seen their incomes rise, sometimes substantially, and poverty rates have fallen. John Hills (2004: 231), for example reports that estimated effects of tax and benefit changes made by the Blair government since 1997 have reduced child poverty from 27 to 15 percent and among children of lone mothers from 47 to 22 percent. Indicators of deprivation for families with children have also declined. Hills (2005: 234) reports that the proportion of lone parents indicating they were unable to afford certain key items for their families more than halved between 1999 and 2002.<sup>6</sup>

In short, political elites have not entirely forsaken the struggle to limit the growth of inequality, at least at the bottom of the income distribution. What about publics? Are today's citizens still willing to support initiatives that impose limits on the extent of inequality?

Public opinion data indicate that significant egalitarian majorities in all countries, people who believe income inequality is too high and that governments have a responsibility to do something about it (Osberg and Smeeding; 2004; Shalev 2003; Svallfors 1997). But what sorts of reforms are they willing to support? As one pundit has observed, the British electorate wants European levels of services and benefits but American levels of taxation. I return to this issue in the conclusion.

### *Conclusion*

The world our thirty-something of today are entering is very different from the one the young cohorts of even a quarter century ago encountered. A new, high inequality, equilibrium in the distribution of family earnings has emerged and appears to be a relatively permanent feature of our postindustrial world. As Kenworthy (2004) observes, in the age of high industrialism when few women were employed, most employment and earnings inequality occurred within households between husbands and wives. In our postindustrial world with high levels of female employment, a

<sup>6</sup> We need not get Polyannish about all this. As elsewhere, income inequality continued to rise under the Blair regime, mainly because of rapidly rising incomes among the very rich. And while child poverty rates have declined under Blair they are still well above the levels that prevailed before Margaret Thatcher.

rising share of employment inequality occurs between households, hence the rise in family earnings inequality.

In many nations, part of this rise has been offset with more income transfers better services and new policy designs aimed at the bottom of the income distribution. But by the end of the nineties, welfare states appeared to be losing the race in the rising tide of inequality even in traditionally egalitarian Scandinavia. The question is whether welfare states should continue to chase the Gini of inequality with more and better redistribution or is it time to turn to alternative strategies?

If they have not already done so, egalitarians must diversify their portfolio of strategies beyond point-in-time income redistribution. An egalitarian strategy that rests mainly on point-in-time redistribution of incomes will inevitably fail in the face of a spiralling upward trend in market income inequalities.

For the long term, strategies to contain and ideally reverse the growth of market based inequalities are essential. Investments to improve the human capital of the educationally disadvantaged through more and better early childhood education and more and better primary and secondary school investments in the weakest students are an important tool. The potential payoff is higher permanent earnings for those in the bottom third not only because of higher wages but also because of more stable work histories.

As importantly, demand-side strategies that foster innovation and increased productivity that induce the creation of more well paid jobs must be an essential part of the tool kit of egalitarians. Large numbers of low wage jobs and unstable employment *may* reflect a large pool of low skilled workers but *may* also be indicative of a large number of jobs that are undercapitalized. Service economies, it is argued, can only achieve high levels of employment if we allow the Walmarts to proliferate, firms that can only be profitable at a low wage equilibrium and would not take advantage of a high skill labour pool even if it were available. This may be good short term realism but long-term fatalism in this respect is our worst policy enemy.

But what of the intermediate term? The cohorts who are turning 30 this year and those now completing their schooling will make up the core of our prime age work force well into the 21<sup>st</sup> century? If we believe the basic skills distribution is shaped early in life, further opportunities for "life-long learning" will likely alter their skills profile only on the margin. Nor is it likely that policy interventions will have large impacts on levels of marital stability or marital homogeneity. For the intermediate term, the conclusion

that the traditional "tax and redistribute" strategy must remain an essential part of the egalitarian tool kit is difficult to avoid.

If the new high inequality equilibrium in family earnings is going to be with us for a while, the case for progressively financed income transfers (such as wage subsidies) and services (such as child and elder care) is stronger than it ever was for our industrial age predecessors. Moreover, the strategy of managing social exclusion by redistributing between the middle and the bottom *without* containing growing inequality at the top has clear upper limits for both distributional (Hills 2005: 268) and incentive reasons (Hills, 2005: 255-258).

The case for progressive financing is even stronger when we consider the second great change in the postindustrial life course, the fact that we are living longer. Our postindustrial longevity bonus, however, is unequally distributed. The highly educated and well paid are experiencing the greatest longevity gains. As a result, they will absorb a disproportionate share of future pension and health care costs just as they absorbed a disproportionate share of education costs when they were young.

Public opinion is generally supportive of more equality but can easily turn cynical when there is widespread perceptions of abuse and free-riding (Gilens 1999). Hence, some variant of *Third Way's* moral turn is probably necessary to assure publics that there are sufficient safeguards against free-riding.

But it would be difficult to make the case that the rise in family earnings inequality is a product of more free-riding than in the past. John Hills (2005:272) argues that political leaders with egalitarian goals will require more courage in educating publics about the extent of change in income inequality, which is not well understood by publics, and in setting out the choices between greater equality and progressive taxes.

Intellectuals have also done damage by conceding to fatalistic beliefs in "inevitable" trade-offs between equality and jobs in post-industrial societies. Trade-offs, where they exist, are never absolute but always a matter of degree. Gosta Rehn, one of the designers of the Swedish model, provides the appropriate egalitarian response to the inevitability argument. After explaining to a group of Canadian economists how the Swedes resolved some of these trade-offs in the 1950s and 1960s, a member of the audience objected that things were different and much tougher in today's world. Rehn replied: "I guess you'll just have to work harder."

But where will the incentives for political leaders and intellectuals "to work harder" come from? I am sceptical about relying on courageous political leaders and hard-working intellectuals in the absence of popular mobilization for an egalitarian agenda. Political leaders in democratic polities require strong incentives to pursue egalitarian projects and incentives from a public that wants European levels of services but American levels of taxation are likely to be weak.

In their classic work, *Regulating the Poor*, Frances Fox Piven and Richard Cloward pointed to the U.S. experience where great bursts of redistributive legislation have only appeared under conditions of extreme popular mobilization, the years of the Great Depression on the one hand, and the civil rights movement of the 1960s, on the other. The extreme variant of Piven and Cloward's thesis does not travel well outside of the United States. Elsewhere major reforms usually occurred without the "mass turmoil" and urban riots characteristic of American cities of the 1960s. As Hugh Heclo (1995) points out, however, they rarely occur in the absence of movements from below – labour movements, moral and religious movements – that set the public agenda. An interesting thought experiment would be to imagine American politics if the new religious right were to mobilize around an egalitarian agenda.

Heclo's argument is that egalitarian movements are more than forcing mechanisms that impose new choices on political elites. Rather, the fuel that drives such movements is a moral one that motivates and sustains its members producing what Oxford philosopher G.A. Cohen (2000: 128) calls an *ethos* of justice lodged in the motivations of individuals and informs everyday personal choices. Cohen grew up in Jewish communist community in Montreal in the 1940s. He attended a Yiddish school where one of the subjects was *History of Class Struggle*. He explains that for Marxists, the egalitarian project was not a question of morality but of historical inevitability: the egalitarian project would be realized when capitalism collapsed under its own internal contradictions.<sup>7</sup> Cohen has remained true to the egalitarianism of his youth but now is persuaded that a just society requires not just coercive rules (like progressive taxation) but also an ethos of justice that informs individual choices. As he puts in the title of his book: *If You're an Egalitarian, How Come You're So Rich?*

Though from a very different background, I have shared Cohen's early, Marxist, scepticism about the power of moral culture and *ethos* for much of

<sup>7</sup> As Cohen's uncle Norman put it: "It has nothing to do with morals. I'm fighting for my class."

my life. Like most social scientists, I still think large impersonal forces – like postindustrialism or population aging – play a profound role in shaping the menu of choices available to us. But they do not overdetermine how we choose from the menu. As Gosta Rehn argued, if the egalitarian project is facing hard times, we simply have to work harder. And the decision to “work harder” is a profoundly moral one.

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