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Overseas Development Institute

Background Note

March 2007

Chronic Poverty Research Centre

The poverty and inequality debate in the UK

Thoughts on terminology and approaches

By Martin Prowse

On 24 November 2006, the Leader of the Conservative Party in the UK, David Cameron, gave the Scarman lecture, 'From state welfare to social enterprise'. This was an important speech, as it appeared to mark a highly significant shift in policy. Cameron said that it was no longer sufficient to think about absolute poverty, but that relative poverty should be the main frame of reference.

> *'Let me summarise my argument briefly. I believe that poverty is an economic waste and a moral disgrace. In the past, we used to think of poverty only in absolute terms – meaning straightforward material deprivation. That's not enough. We need to think of poverty in relative terms – the fact that some people lack those things which others in society take for granted. So I want this message to go out loud and clear: the Conservative Party recognises, will measure and will act on relative poverty…… This has consequences for Conservative thinking. Tackling poverty is not just about a safety net below which people must not fall. We must think in terms of an escalator, always moving upwards, lifting people out of poverty. And, crucially, an escalator that lifts everyone together.'* [1]

Cameron's analogy of an escalator refers to severe poverty; that, according to Conservative calculations, if the poverty line was set at 40% of the value of the median national income and not the conventional European Union figure of 60%, poverty levels would have increased since 1997.[2] Thus, proclaimed 'success' in poverty reduction has been through shifting those closest to the 60% threshold just above it.

In addition to poverty gap arguments, Cameron contended that there has been a lack of appreciable improvement in persistent poverty or social mobility, and that health inequalities are widening.

Cameron's speech relied on two reports for the Conservative Social Justice Task Force authored by Greg Clark MP and Peter Franklin.[3] In outlining why Conservative policy must move away from a Churchillian ladder-and-safety-net approach (as, somewhat contentiously, they argue that safety nets contribute to both persistent and inter-generational poverty), Clark and Franklin rely on an unusual source of inspiration – Polly Toynbee – by drawing on her analogy of society as a camel caravan crossing a desert:

> *'One can picture our nation as a convoy crossing the desert. Everyone may be moving forward, but if the distance between those right at the back and rest [sic] of the convoy keeps growing there comes a point at which it breaks up. This is an image I've borrowed from a book by the Guardian columnist Polly Toynbee. I realise that this might be scene [sic] as unusual [sic] point of reference for a Conservative MP, but I make no apology for wanting a society that holds together or for believing in a Britain that remains united.'*[4]

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ODI is the UK's leading independent think-tank on international development and humanitarian issues.

In the press release for their report, Clark and Franklin expanded on why Conservatives need to reform their conception of poverty:

> *'Ignoring the reality of relative poverty was a terrible mistake. It allowed the Left to dominate the poverty debate for a generation and to copyright the issue of social exclusion. This was an absurd position for us to be in, Disraeli's idea of One Nation is nothing if not a determination that no part of society should be alienated from the whole – in other words, socially excluded. In short, poverty is too important an issue to leave to the Labour Party and overcoming social exclusion is an essential ambition for a Conservative Government.'* [5]

In pressing Conservatives to rejuvenate their understanding of poverty, Clark and Franklin argue that their party needs to engage with the concept of social exclusion – understood as being when one 'part' of society is alienated from the 'whole'. To increase the palatability of the concept, in addition to tying social exclusion to Disraeli's notion of One Nation, Clark unequivocally ties both concepts to Adam Smith:

> *'This is not a new idea. Nor is it one alien to Conservative thought. On the contrary, the idea of a truly united kingdom is integral to the entire Conservative tradition, and stretches all the way back to Adam Smith. It was Smith who defined what we now call relative poverty and social exclusion in his Wealth of Nations:*
>
> > *"By necessaries I understand not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without."*
>
> *By way of an example, he spoke of a linen shirt, which he said was not, strictly speaking, a necessary of life:*
>
> > *"...the Greeks and Romans lived, I suppose, very comfortably though they had no linen. But in the present times, through the greater part of Europe, a creditable day labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty which, it is presumed, nobody can fall into without extreme bad conduct."'* [6]

Adam Smith understood that society's measure of what constitutes poverty has to move with the times. If it doesn't, then people will be left behind.

Camel caravans, social exclusion and inequality

This brief analysis of (the roots of) the Conservatives' shift towards relative poverty and social exclusion highlights three key issues: first, the implications of Clark and Franklin's (borrowed) camel caravan; second, how Adam Smith's work links directly to Townsend's important concept of relative deprivation, and the implications of this for measurement; and third, how Adam Smith's contribution to relative poverty and social exclusion is much more substantial than Clarke and Franklin allow for.

So, first, Clark and Franklin's use of the camel caravan analogy is significant because it highlights the centrality of inequality in social cohesion and inclusion – that when the caravan gets stretched it can lose members or break down. By using this analogy, Clark and Franklin implicitly accept that excessive wealth can also lead to the breakdown of the caravan – if the camels at the front of the train pull too far ahead, then the caravan will also disintegrate.

Second, the quotes used by Clark and Franklin from Adam Smith's Wealth of Nations do not relate to relative poverty as conventionally defined (the proportion of the population under 60% of the median national income), but to Townsend's classic (1979) notion of relative deprivation:

> *'Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong.'* [7]

There are two key shifts of emphasis between relative poverty and relative deprivation. On the one hand, there is an implicit switch from objective criteria to consensual criteria – that deprivation is judged by what is deemed important by society, not an objective measurement of wealth.[8] On the other hand, a shift from money-metric indicators to non-income indicators – thereby focussing on the ultimate ends of human welfare and not the means of achieving them. This is achieved by measuring multiple dimensions of human well-being: health and housing indicators; access to opportunities, employment and services; inclusion in everyday conventional social practices. There are key advantages to such a 'human development' approach: firstly, as implied above, it allows for participants to specify and define key dimensions of poverty; and secondly, it allows for non-material aspects of well-being, such as autonomy and security to be included.[9]

Moreover, Smith's contribution to the relative poverty and social exclusion debate is perhaps more substantial than Clark and Franklin allow for.

Specifically, Smith highlights how social exclusion is not only based on the comparison between individuals/groups, but is constituted by their social relationships.

In The Theory of Moral Sentiments (1759) Adam Smith picked up on this subject when pondering on the utility of large and small items that signify wealth:

> *'The palaces, the gardens, the equipage, the retinue of the great, are objects of which the obvious conveniency strikes every body. They do not require that their masters should point out to us wherein consists their utility. Of our own accord we readily enter into it, and by sympathy enjoy and thereby applaud the satisfaction which they are fitted to afford him. But the curiosity of a tooth-pick, of an ear-picker, of a machine for cutting the nails, or of any other trinket of the same kind, is not so obvious. Their conveniency may perhaps be equally great, but it is not so striking, and we do not so readily enter into the satisfaction of the man who possesses them.*
>
> *They are therefore less reasonable subjects of vanity than the magnificence of wealth and greatness; and in this consists the sole advantage of these last. They more effectually gratify that love of distinction so natural to man. To one who was to live alone in a desolate island it might be a matter of doubt, perhaps, whether a palace, or a collection of such small conveniencies as are commonly contained in a tweezer-case, would contribute most to his happiness and enjoyment. If he is to live in society, indeed, there can be no comparison, because in this, as in all other cases, we constantly pay more regard to the sentiments of the spectator, than to those of the person principally concerned, and consider rather how his situation will appear to other people, than how it will appear to himself.'* [10]

Through the elaborate language, we can clearly see that Smith (1759) places great emphasis on the significance of the observer – on how one is judged in a society. [11] It is not intrinsically what we have that makes us poor or not – it is how this is interpreted by others, and their expectations of us.

Why is this important? It is because poverty is a relationally-lived social experience – not only is it relative (in the sense of comparisons of income and assets, etc.) to those around you, but, as Layard (2003) argues, status matters – our broader wants and desires are derived from society, especially from within reference groups. Moreover, the (unconscious) outcomes from such comparisons constitute your self-worth, your confidence, influence how you interact with others who are richer or poorer – thus influencing your value orientation, affecting opportunities and possibilities in life, and ultimately impacting on health and well-being. Despite being common sense, this point is often lost in debates about poverty.

This relates very closely to social exclusion. In his discussion of wealth and poverty, Smith (1759) states explicitly that poorer sections of society admire the trinkets and trappings of wealth, and attempt, through hard graft and education, to obtain similar items:

> *'To obtain the conveniencies which these afford, he submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his life from the want of them. He studies to distinguish himself in some laborious profession. With the most unrelenting industry he labours night and day to acquire talents superior to all his competitors. He endeavours next to bring those talents into public view, and with equal assiduity solicits every opportunity of employment. For this purpose he makes his court to all mankind; he serves those whom he hates, and is obsequious to those whom he despises. Through the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at.'* [12]

In focusing on the social relational aspect of poverty, Smith highlights how poorer sections of society can feel shame and embarrassment with their position vis-à-vis others, possibly leading to a loss of confidence and exclusion. In a similar vein to the way in which Veblen (1899) later theorised that economic behaviour is filled with social motivations, Smith posits that the poor intentionally emulate the rich. [13] Such reasoning is overly simplistic, but in raising the issue Smith highlights a central tenet of social exclusion and one that is frequently forgotten – envy and grievance.

It is hardly surprising that your self-worth and confidence takes a battering when you spend your time servicing people who are wealthier than you, have more security and a more comfortable lifestyle than you, and who often (let you know that they) feel they are above you. It is hardly rocket science to deduce that through experiencing this, emotions of envy, jealousy and animosity can arise.

In addition to overt and covert resistance (the latter sometimes romanticised as the weapons of the weak), a reaction of some who work hard but never seem to move forward in society, and who see no future in the workforce within 'conventional' society (and perhaps whose life chances are defined at a young age) is to reject the society altogether – to unconsciously and consciously exclude themselves from 'conventional' society and survive through participating in the second economy, turning to criminality, severe and chronic abuse of alcohol and drugs, thereby destroying themselves as well as the communities they live within. [14]

"poverty is a relationally-lived social experience – not only is it relative to those around you, but ... status matters – our broader wants and desires are derived from society, especially from within reference groups"

The best way to explain this is to expand the camel caravan analogy – that walking at the front of the caravan is less inconvenient, tiring and depressing than walking at the back: at the front the sand is firmer so you get more leverage, and you get less dust thrown up in your face. At the front you can see where you're going, stop and start when you want, and you also get rest and water first.

The implication of understanding poverty as a relationally-lived social experience – that it is not intrinsically what we have that makes us poor or not, but how this is interpreted by others – is that a key determinant of social exclusion is extreme inequality. As Wilkinson (2005, p.23) clearly argues:

> *'Inequality promotes strategies that are more self-interested, less affiliative, often highly antisocial, more stressful, and likely to give rise to higher levels of violence, poorer community relations, and worse health. In contrast, the less unequal societies tend to me much more affiliative, less violent, more supportive and inclusive, and marked by better health'.*

"The implication of understanding poverty as a relationally-lived social experience ... is that a key determinant of social exclusion is extreme inequality"

Importantly, in highlighting arguments for tackling inequality, this note does not promote the argument that an egalitarian society is preferable – Cornia and Court (2001) clearly show that both very high egalitarianism and very high inequality lead to slow economic growth, a key driver in poverty reduction.[15]

The three issues that emerge from the poverty debate in the UK – that excessive wealth can decrease social cohesion; the need for consensual and non-money metric indicators of inequality; and how poverty is a relationally-lived social experience – link-up with a current debate in Development on inequality.

Development debate on inequality

Lagging somewhat within the 'new poverty agenda' of the 1990s, inequality has emerged as a central concept in debates around poverty reduction and well-being in the South. Due, in part, to the centrality of inequality in meeting the Millennium Development Goals, and through being reinserted into the mainstream development discourse by the 2000/01 World Development Report, inequality and inequity have been the main focus of three key development reports in 2005/06: 2006 World Development Report; 2005 Human Development Report; and the 2005 Report of the World Social Situation. Here I briefly summarise the central elements of the conceptual/theoretical debate, and briefly outline policy approaches to reducing inequality in the South. Lastly, I highlight some tentative common themes with the preceding commentary on the poverty debate in the UK.

Maxwell (2001) summarises the instrumental approach to limiting excessive inequality taken by the 2000/01 World Development Report: firstly, that inequality mediates the relationship between growth and poverty reduction such that the poverty elasticity of growth is greatest when inequality is low and falling; and secondly, that inequality is bad for growth itself – it can foster political and policy instability, undermine collective action and can contribute to fiscally destabilising populist short-term redistributive measures. Maxwell (2001) extends the WDR's treatment of inequality by outlining two intrinsic arguments for limiting excessive inequality: that it is necessary for a socially inclusive society; and that excessive inequality runs counter to the realisation of civil and political rights.

More recent work from ODI shows how the debate around inequality has broadened. A series of briefing papers produced for DfID by the Economists' Resource Centre (see McKay 2002; Nascold 2002; and Killick 2002) argues that income is only part of the story – inequalities in health, education, nutrition, power and security (often highly related) are important dimensions of well-being. Moreover, that whilst many studies of inequality relate to just outcomes, the study of inequalities of opportunity may offer clearer pathways for policy instruments. These papers highlight that, contrary to conventional wisdom, gini coefficients (the most common measure of income inequality) can change quickly. Moreover, there appears to be no inherent trade-off between growth and inequality, but that the kind of growth is critical, and that distributional policies can exacerbate the poverty elasticity of patterns of growth.

Anderson and O'Neil (2006), in their excellent summary of the three international reports outlined above, note three key changes of emphasis in the inequality debate. First, that there has been a shift towards the notion of equity, which can incorporate social justice and fairness as objectives. Equity can be understood as being constituted by two principles: equality in process; and equality of outcomes. The 2006 WDR defines these two principles as equality of opportunity, and an avoidance of absolute deprivation, respectively. Other definitions place greater emphasis on equality of outcomes.

Second, that the three reports have strengthened the instrumental case for tackling inequality in two ways. On the one hand, through a focus on how institutional inequalities can lead to cycles of disadvantage. On the other hand, through shifting the intrinsic argument that equity is a precondition for an inclusive society (the first of Maxwell's two intrinsic arguments outlined above) to being an instrumental argument as inequality undermines political legitimacy, citizenship and reform.

Thirdly, that pro-equity reform appears to be most likely in particular types of democracies, and can be fostered through a political economy analysis. Pro-equity reform can be supported through a number of measures – detailed sectoral political analysis, through being championed by elite reformers, and by being underpinned by horizontal and vertical alli-

ances. A key point in this argument is that elites are much more likely to favour 'dynamic' approaches to inequality – where the poor receive a greater proportion of future growth – over 'static' redistribution.

Despite expanding the debate on inequality, Anderson and O'Neil (2006) highlight how the three reports omitted a number of key issues, including affirmative action, expanding government revenue through income/expenditure taxes, and a discussion of basic income grants.

Further work from ODI has highlighted policies to tackle inequality. The Inter-Regional Inequality Facility (2006) argues that there are three strategies that best address inequality: firstly, lower barriers to the accumulation of assets by those on low income; secondly, avoid disequalising effects associated with external shocks and domestic policy reforms; and third, to tackle discrimination and exclusion.

The Facility argues that a range of policy instruments can be deployed to address each of these strategies: for the first, conditional or in-kind transfers, subsidized education and training, support to small-scale enterprises, and land reform; for the second, price subsidies for basic food items, public works programmes, unconditional cash or in-kind transfers; and for the third, equal opportunities legislation, affirmative action and public awareness campaigns. The extent to which a government is able to deploy such instruments is dependent on their efficiency vis-à-vis alternative expenditure choices, and their political acceptability. Because of this, the choice of instruments will be highly country specific.

Broad comparisons between North and South

From the perspective of this note, four key issues recur in the poverty debate in the UK and the inequality debate in the South:

- That extreme inequality contributes to a lack of social cohesion and a breakdown of conventional norms and values;
- That within debates on poverty and inequality, there is a need to include consensual and non-income indicators of well-being;
- That unequal status is often internalised, impacting on confidence, value orientations and reducing the capacity of individuals to demand and effect change, even if embedded in highly exploitative hierarchies;
- That horizontal (defined as severe difference between culturally-defined groups) and spatial inequalities impact on well-being and social cohesion in important ways.

In terms of policy responses, at first glance two themes emerge: firstly, strengthening the asset holdings of the poor; and secondly, tackling poverty/inequality through interrupting inter-generational transmission. A further potential area is in tackling discrimination. Such a partial comparison of policy instruments does a disservice to both debates, and is a clear area for further research.

A personal viewpoint written by Martin Prowse, ODI Research Officer.

Feedback and comment welcome.

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Footnotes

1. Cameron (2006)
2. These relative poverty line use equivalised net household income including state benefits.
3. Clark and Franklin (2006a, 2006b)
4. http://conservativehome.blogs.com/platform/2006/11/greg_clark_mp_p.html
5. http://povertydebate.typepad.com/economic_dependency/2006/11/press_release_e.html
6. http://conservativehome.blogs.com/platform/2006/11/greg_clark_mp_p.html
7. Townsend (1979), p. 31.
8. This point was picked up by Cameron in his Scarman lecture: "Because as well as absolute poverty, there is relative poverty. We exist as part of a community, as members of society. Even if we are not destitute, we still experience poverty if we cannot afford things that society regards as essential."
9. See Hulme and McKay (2005) for a comparison of human development approaches to poverty measurement.
10. Smith (1759) Part IV, Chap. I
11. This is in addition to his focus on shame and disgrace in The Wealth of Nations outlined above.
12. Smith (1759) Part IV, Chap. I
13. Veblen (1899) theorised that consumer preferences are determined in a hierarchical manner according to social class. Veblen crudely posited that individuals emulated the consumer patterns of those of higher social classes. In this formulation, individuals exhibited the symbols of financial wealth, to impress others and therefore "gain their esteem or envy" (Campbell 1995, p.39).
14. Bourgois (2003)
15. Cornia and Court (2001) suggest that Gini coefficients of between 25 (northern Europe) and 40 (China and the US) are optimal.

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