

Investing in infrastructure: a way to think about inequalities

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Inequality is good and necessary. Without inequality there can be no society we would want to call human. To be human is to be unique and conscious of that uniqueness. It is our individual inequalities that make each of us unique and without them we could not be free, in the deep sense of that word. A human society or nation is an association of unique individuals with common purpose.

The inequalities which make us unique and free might be called positive inequalities: our distinctive and distinguishing characteristics, our disabilities and abilities, for example, physique, looks, aptitudes, type and quality of intelligence and energy, degree of creativity or method, way of seeing things, humour, introversion or extroversion, heritage and whakapapa, voice, colour, attitude, age, gender. Such inequalities define human society's diversity, innovation, imagination, expression, coherence and enterprise. A society or nation aiming to enhance its wellbeing values the diversity in those positive inequalities.

But inequalities are also negative when they reduce our freedoms or set up tensions which undermine a society's or nation's cohesion and therefore capacity for common purpose. If a society or nation is to do well over time, it needs to ameliorate, reduce or eliminate those negative inequalities.

That is the choice we can make: to make the most of positive (distinguishing) inequalities and minimise negative inequalities, that is, to value what makes each of us unique and able to take part in society uniquely and freely and to do our best to ameliorate or adjust for what denies us that capacity.¹

This is an ethical, social and economic question. It goes beyond a simple focus on inequality of income and wealth and even beyond the feedback loops between that inequality and consequent and contributing inequalities of health and capacity to make a living.

Some inequalities we inherit. They influence how intelligent, physically and artistically capable and resilient we are and confer abilities (some exceptional), disabilities (some severe), health or ill-health. We have different neural wiring which affects how we deal with others and with adversity and opportunity.

Some inequalities we owe to our parents or our caregivers (or not-caregivers). Parents and caregivers influence our epigenetic experiences in very early life which determine how some of our genes operate. Parents and caregivers locate us in nationality, in heritage and culture² and in neighbourhood, all of which influence our early perceptions of the world, some of which perceptions stay with us. How parents and caregivers nurture, or don't nurture, our

¹ The words "positive" and "negative" are used in just this sense of enriching or undermining the capacity for common purpose in our society and nation, that is, in terms of their wider impact, not their positivity or otherwise for individuals. As I conceive them, positive inequalities are essentially intrinsic to individuals; negative inequalities may be intrinsic or extrinsic. And, of course, there are also inequalities between peoples which both distinguish societies from each other (and enrich diversity, etc) and potentially contribute to global disorder. But that is beyond the scope of this discussion.

² This includes ethnicity and thus the colonial impact, which can disadvantage indigenous people for generations until either the indigenous culture is reinvigorated or the descendants acculturate to the dominant culture.

bodies and minds sets the limits to our capacity for schooling and so for work, our state of health and our aspirations (or lack of aspiration) and capacity to realise those aspirations.

Some inequalities are the result of accident or luck, good and bad. These can open or close doors to opportunity.

Some inequalities are imposed by the society around us, or by the nation operating through the state, by way of customs, laws and administrative rules, markets and politics. Who has power and how it is exercised and constrained is important in building or reducing our inequalities.

Those many different inequalities determine to a large extent our different capacities to take a full part in the society, and societies, around us and our different capacities for a satisfying, enjoyable, rewarding, valuable life — and to fully participate in a subset of society, the economy, and its distribution of material goods, which determines our income and wealth.

In turn, income and wealth can intensify or ameliorate many inequalities. Low income and wealth — at the extreme usually called poverty — limit the quality of housing, nutrition, health care and education opportunities, often even for people who are determined, well-organised and capable. They increase the likelihood of disability and disadvantage, which in turn reduce capacity to earn income and accumulate wealth. Conversely, high income and wealth increase educational opportunity and enhance health status and thus expand earning capacity.

For example, the so-called educational meritocracy, comprising those who in the 1960s gained an economic advantage from the wider access to higher education made available in our sorts of society, have bequeathed that gain to their children, and then grandchildren, who have been much more likely to go on to higher education and so a higher income-earning capacity than the descendants of those who did not go beyond secondary school. The meritocracy has become a privileged group or class, able to transmit its privileges from generation to generation. Conversely, economic and social disadvantage has become intergenerationally embedded in some neighbourhoods.

Economic and social mobility, which enhances the contribution individuals can make to their own wellbeing and to national social and economic wellbeing, may have slowed.

As an aside, note that traditional iwi society maintains inherited inequalities of status tracing back to before the Treaty of Waitangi, though these may be beginning to be modified by a rising educational meritocracy.

What should be done about inequalities, if anything? Why not just leave them be?

There are several arguments for the nation, through its state apparatus and in other ways, to take action.

One argument is ethical.

An ethical case can readily be made for helping individuals offset or eliminate negative inequalities, at least those inequalities which are the result of accident — genetic or luck — and not the result of those individuals' reckless, wilful, immoral or unethical behaviour (though even in that case, it might be arguable that there is an ethical duty, or at least argument, to look behind the individual's actions to find if there are also exogenous drivers).

However, in the realpolitik world most politicians inhabit, by choice or perforce, an ethical case is usually not enough on its own.

A second argument for intervention is social. This has more appeal to politicians. It can take several forms.

A small-c conservative values order. A society in which there are large inequalities is likely to become disorderly or at least less orderly. In that event it would make small-c conservative sense to reduce those inequalities to the point where they do not threaten disorder.³

It might be argued that New Zealand society became less orderly with the widening income and wealth inequalities after the economy was deregulated in the 1980s and 1990s: the crime rate rose (though there were also other factors, including more comprehensive reporting of crimes and a bulge in the ratio of young males). The political response was an authoritarian regime of harsher penalties and over-filled prisons until Bill English, a small-c conservative, labelled prisons both a fiscal *and moral* failure in 2011. That intervention suggested small-c conservatives in the cabinet were beginning to reverse direction on law and order, coincidentally with a decline in the crime rate as the youth bulge ages.

Authoritarian regimes do maintain order, often for very long periods, but eventually, if authority is not relaxed, that order gives way to a sudden, great disorder in the form of revolution, as in Egypt in 2011, or civil war, as in Syria in 2011-13. In a democracy a tendency to authoritarian action undermines common purpose which can lead to disorder.

Since, to the small-c conservative, order without common purpose is not order, small-c conservatives are also wary of neo-liberalism, libertarianism and radicalism.⁴

A liberal-conservative values social and economic mobility. Material inequality is acceptable, including to those who are less-well-off, if there is high mobility, that is, if less-well-off individuals can improve their condition or their children can. This was arguably a secret of the United States' success through much of the twentieth century. Nancy Birdsall, formerly of the World Bank and more recently founding president of the Centre for Global Development in the United States, has argued (though some now dispute her analysis) that mobility, through education, was an important element in the rise of the east Asian "Tiger" economies in the 1960s-1980s⁵, to which we might now add China in the 1990s and 2000s. It is a reason why in this country after the second world war many on the National side of politics bought into social security, the expansion of free education and near-free health services. Indeed, it is arguable that National's broad support of those policies was the key to their durability until at least the 1980s.

Social, or left, liberals value equality of opportunity, which they see as critical to genuine individual freedom, that is, the capacity to take a full part in the society around them. They argue that intervention is required not just on ethical or social order grounds, but to ensure the disadvantaged are able to take advantage of opportunities — that they are genuinely free to make a good life, that there are not removable obstacles. In this way of thinking, just making education available is not enough if a poor start has rendered a child ineducable. The same goes for ensuring good health, which requires good housing, and ensuring a liveable base income for parents.

³ An example of this reasoning is the editorial ("Inequality and the world economy: True Progressivism") and supplement in *The Economist*, 11 October 2012.

⁴ For example, "So, Mitt, what do you really believe?", *The Economist*, 23 August 2012 editorial; Martin Wolf, "Paul Ryan's plan for America is not credible", *Financial Times*, 20 August, 2012, David Brooks, "The Real Romney", *New York Times*, 27 August, 2012 and "Party of Strivers", *New York Times*, 30 August 2012; Stephen Roach, "How Romney could go wrong from Day 1", *Financial Times*, 28 August, 2012; Mike Lofgren, "The Revolt of the Rich", *The American Conservative*, 27 August 2012. A small-c conservative might also be known as a communitarian or Burkean conservative, motivated by sentiment rather than ideology and a contrast with libertarians or reactionary conservatives.

⁵ Birdsall, Nancy, *Inequality Matters. Why globalisation doesn't lift all boats*, Boston Review, March/April 2007; Birdsall, Nancy, *The World is not Flat: Inequality and Injustice in our Global Economy*, WIDER annual lecture 9, UNU World Institute for Development, Helsinki, 26 October 2005

All three — small-c conservatives, liberal-conservatives and social liberals — thus logically could be expected to support action to reduce negative inequalities.

But there is a third, and harder, argument for intervention: self-interest.

We all have a self-interest in social order. An orderly society is likely to be safer and more congenial than a disorderly one. It is more likely to ensure its members get a fair go, to be genuinely free to make the most of life, which depends on mutual respect and support, to offset disadvantages and ameliorate mishaps and bad luck and to ensure access to the necessary skills and health. A free-for-all is a fair go only for a minority. If there are too many negative inequalities they block too many from a fair go and that undermines social order.

We also have a self-interest in a well-performing economy. We inherited from our earliest human ancestors' marginal survival compelling material needs: in those times for more food and drink and in modern times for more consumer goods and services. To meet these needs, economies must continuously expand output. There may well at some point be a limit to this continuous expansion, not least if ecosystems do not support it. Some argue we should anticipate that risk, recognise the reliance on ecosystems and invest in them to restore and maintain them, to ensure their capacity to support economic activity. But for now and for some time to come most people will demand that economic output expand, in rich as well as poor societies.

To meet that demand for continuously expanding output, a national economy needs to optimise its workforce and therefore capacity of the maximum number of its citizens to contribute fully to that workforce. Negative inequalities get in the way by limiting the capacity of many to make that full contribution.

Fifty years ago there were many well-paying jobs for people with limited skills. But the nature of "work" has changed and continues to change through a combination of computerisation of manufacturing and services and "mass customisation", rapidly growing personal and international interdependence and interconnectedness through digital technology, hyperglobalisation of production and distribution chains and rebalancing of the global economy.⁶ A greater capacity to become skilled and adapt to changing skill requirement is needed to avoid being confined to low-income, in-person service jobs or, worse, unemployment.

One determinant of that capacity is how children develop in their early years. Intervention very early in life to ensure a child is developing emotionally, socially and cognitively fits the child for education and delivers a work-ready, productive, taxpaying individual in the late teens or early twenties.⁷ This is no longer a matter only of intellectual inquiry. It is a pressing practicality. Business started to take an interest in 2012, as Business New Zealand's chief executive Phil O'Reilly's backing of Every Child Counts and membership of the Children's Commissioner's expert advisory group indicated. O'Reilly recognised that child development is critical to the quality of the future workforce available to business.

One way to think about the connection between inequalities and economic output is to follow the train of thought in *The Spirit Level*⁸: that there is a strong coincidence between material inequality and economic performance. But the *Spirit Level* authors are epidemiologists (their

⁶ Note, for example Rodrik, Dani, *The Globalisation Paradox. Why Global Markets, States and Democracy Can't Coexist* (Oxford University Press, Oxford, 2011).

⁷ Cf the evidence from the globally respected Dunedin Multidisciplinary Health and Development Research.

⁸ Wilkinson, Richard, and Kate Pickett, *The Spirit Level. Why More Equal Societies Almost Always do Better* (Allen Lane, London, 2009), first edition. A second edition has since been published.

own self-description) and have not demonstrated, or at least not adequately demonstrated, a causal link. Their book distils coincidences, not causes. The risk is that it may underweight the degree to which a loop is operating rather than an arrow. This is not just a criticism from the right (by, for example, Peter Saunders⁹). From the left David Runciman concluded in an article in the *London Review of Books* that "...the argument is not as straightforward as its authors would like...they fudge the central issue at crucial moments, whereas at others, perhaps in order to compensate they overstate their case".¹⁰

If Runciman is right, there needs to be a harder argument than coincidence. One such argument is to think of a cohesive, well-functioning society as economic infrastructure, just as some argue we should logically think of natural ecosystems.¹¹ A well-functioning economy requires investment in infrastructure: failure to build, restore and maintain roads or water or waste systems, for example, has an economic cost over time and investment in them a corresponding economic benefit over time. It can be argued that natural ecosystems are also economic infrastructure, with the same risk from underinvestment and reward from investment. If we accept that a cohesive, well-functioning society — one of unique individuals bound in common purpose — is also infrastructure, underlying and underpinning the superstructure of our material wellbeing and thus necessary to a well-functioning economy, we will invest in them, that is, build, restore and maintain them.

This doesn't tell us what investments to make. It is a way of thinking, a mentality, not a programme of action. But if we change the way we think we are likely to pose different questions. Different questions are likely to lead to different answers and they are more likely to be innovative answers.

Most important, because infrastructure is integral to an economy, there is no logic in choosing *between* infrastructure and economic output. The issue is not ecosystems *or* economic output, as it is often framed in the terminology of "balance". It is ecosystems *and* economic output. Likewise, reducing negative inequalities to enhance common purpose does not diminish the economy. It enhances the economy. The issue is not a cohesive, well-functioning society *or* economic output, It is a cohesive, well-functioning society *and* economic output.

If we think in terms of a cohesive, well-functioning society *or* economic output — that is, more of one is less of the other — we might shrug off negative inequalities with "the poor will always be with us" or "they make poor life choices" or "if the rich do well, all boats will rise and the goodies will trickle down". In that frame we are likely to choose economic output more often than not and regard inequalities as a given, an exogenous factor to be treated with palliatives: benefits, income support, subsidised houses, child welfare interventions and so on — necessary, or just charitable, *expenses* but not sufficient to get the most for the economy from the most people.

If instead we think in terms of social cohesion *and* economic output — that is, that a cohesive well-functioning society and the economy are mutually entwined and beneficial — the economic questions we pose are likely to take into account the value of investing in — building, restoring and maintaining — our society to be cohesive and well functioning and in turn the answers are likely to take into account the economic value of a such a society in

⁹ Saunders, Peter, "Prophecies of an egalitarian utopia based on false assumptions", *The Australian*, September 9, 2011.

¹⁰ Runciman, David, "How messy it all is", review of *The Spirit Level*, *London Review of Books*, Vol 31 No 20, 22 October 2009.

¹¹ I am indebted to Paul Reynolds, chief executive of the Ministry for the Environment, for opening to me this way of thinking.

addition to whatever intrinsic value we assign it.

The questions we pose and decisions we make are then likely to be directed to *investment*: building restoration and maintenance.

That suggests a programme of action which seeks to reduce or ameliorate negative inequalities, understanding that inequalities evolve, wax and wane, take different forms and have different intensities over time, within and between individuals. That is, it suggests a programme of action to enhance mobility across education, skill, income, health, lifestyle and aspiration bands, both of individuals within their lifetimes to maximise their potential and across generations. That way individuals might more readily align with the common purpose and contribute to it. Social cohesion would strengthen, society would function better and the economy would be more soundly based because social disorder, which is an economic cost, would be less likely.

This different way of thinking is likely to focus on enabling measures. Take-it-or-leave-it options do not reach those who, for some intrinsic or extrinsic reason, do not have the capacity to "take it". For those people there must be active encouragement and enabling. The list might include this very small selection of possible actions:

- very early childhood intervention and pre-school education to stop harm, improve cognitive development and capacity to socialise, so a child can and does make the most of formal education and develops aspirations and income-earning skills (focusing on individual children, not a generic "group");
- interventions in neighbourhood management, along the lines promoted by former Police Commissioner Howard Broad, to make neighbourhoods safe and supportive;
- multi-agency cooperation to reduce the damage which seriously dysfunctional households, "families" [in quote marks], gangs and so on do to individual young people;
- inventive and innovative methods of learning in schools, including digital learning, as in the Manaiakalani project in east Tamaki;
- and in behind those measures, a focus on commonalities and not on difference (and especially not on identity or group politics).

The linking theme is investment. The implication is that from the investment will come over time a return, a dividend. By 2012 the government had moved partway down that route and there was some indication future governments would continue down that path, refocusing the investment beyond the specific, narrowly-defined short-term "results" of 2012 and on long-term social cohesion, as building, restoring and maintaining social and economic infrastructure. That requires big minds — to be clear about the particulars of a well-functioning society and the values that underlie its common purpose (which requires a debate involving more than policy analysts, politicians and scholars but not so formless as to substitute wishful thinking for precision¹²). It requires big hearts — to break free of the ledger mentality which counts the palliatives listed above as costs to be booked and strictly reciprocated. And it requires big pockets — to stump up investment funds and see through the long wait for a return.

How possible is that in a hyperglobalised world? Are not nation-states now limited fiscally

¹² There is a variety of evolving methods by which such a debate can be generated and its outcomes taken seriously and acted on. Detailing those are beyond the scope of this chapter but are dealt with in a paper I prepared for the Treasury long-term fiscal forecasts conference, 11 December 2012, "Making big decisions", stored at www.colinjames.co.nz/speeches_briefings_index.htm. It would also be presumptuous to spell out a preferred set of particulars and values here.

and even limited in their capacity to legislate and regulate? Isn't that constraint — coupled with the complex and fast-changing production and distribution systems that come with hyperglobalisation — the real and irreversible reason for the growth in income and wealth inequality and the other inequalities which income and wealth inequality generates or makes worse?

Well, hyperglobalisation and its fellow-travellers haven't yet stopped nations building roads and internet broadband networks. So maybe there is scope for some inventive, innovative policy and action. A small country can do that much more readily than a big one. If it wants to.