

Punitive – and it works

Sweden proves neoliberals wrong about how to slash poverty. But Brown isn't listening

“Does not already the response to the massive tidal wave in south-east Asia,” Gordon Brown asked on Thursday, “show just how closely and irrevocably bound together . . . are the fortunes of the richest persons in the richest country to the fate of the poorest persons in the poorest country?”

The answer is no. It is true that the very rich might feel sorry for the very poor, and that some of them have responded generously to the latest catastrophe. But it is hard to imagine how the fate and fortunes of the richest and poorest could be further removed. The 10 richest people on earth have a combined net worth of \$255bn – roughly 60% of the income of sub-Saharan Africa. The world's 500 richest people have more money than the total annual earnings of the poorest 3 billion.

This issue – of global inequality – was not mentioned in either Brown's speech or Tony Blair's simultaneous press conference. Indeed, I have so far failed to find a reference to it in the recent speeches of any leader of a G8 nation. I believe that the concern evinced by Blair and Brown for the world's poor is genuine. I believe that they mean it when they say they will put the poor at the top of the agenda for the G8 summit in July. The problem is that their concern for the poor ends where their concern for the rich begins.

There is, at the moment, a furious debate among economists about whether global inequality is rising or falling. No one disputes that there is a staggering gulf between rich and poor, which has survived decades of global economic growth. But what the

neoliberals - who promote unregulated global capitalism - tell us is that there is no conflict between the whims of the wealthy and the needs of the wretched. The Economist magazine, for example, argues that the more freedom you give the rich, the better off the poor will be. Without restraints, the rich have a more powerful incentive to generate global growth, and this growth becomes “the rising tide that lifts all boats”. Countries which intervene in the market with “punitive taxes, grandiose programmes of public spending, and all the other apparatus of applied economic justice” condemn their people to remain poor. A zeal for justice does “nothing but harm”.

Now it may be true that global growth, however poorly distributed, is slowly lifting everyone off the mud. Unfortunately we have no way of telling, as the only current set of comprehensive figures on global poverty is – as researchers at Columbia University have shown – so methodologically flawed as to be useless.

But there is another means of testing the neoliberals’ hypothesis, which is to compare the performance of nations which have taken different routes to development. The neoliberals dismiss the problems faced by developing countries as “growing pains”, so let’s look at the closest thing we have to a final result. Let’s take two countries which have gone all the way through the development process and arrived in the promised land of prosperity. Let’s compare the United Kingdom - a pioneer of neoliberalism - and Sweden, one of the last outposts of distributionism. And let’s make use of a set of statistics the Economist is unlikely to dispute: those contained within its own publication, the 2005 World in Figures.

The first surprise, for anyone who has swallowed the stories about our unrivalled economic dynamism, is that, in terms of gross domestic product, Sweden has done as well as we have. In 2002 its GDP per capita was \$27,310, and the UK’s was \$26,240. This is no blip. In only seven years between 1960 and 2001 did Sweden’s per capita GDP fall behind the UK’s.

More surprisingly still, Sweden has a current account surplus of \$10bn and the UK a deficit of \$26bn. Even by the neoliberals’ favourite measures, Sweden wins: it has a lower inflation rate than ours, higher “global competitiveness” and a higher ranking for “business creativity and research”.

In terms of human welfare, there is no competition. According to the quality of life measure published by the Economist (the “human development index”) Sweden ranks third in the world, the UK 11th. Sweden has the world’s third highest life expectancy, the UK the 29th. In Sweden, there are 74 telephone lines and 62 computers per hundred people; in the UK just 59 and 41.

The contrast between the averaged figures is stark enough, but it’s far greater for the people at the bottom of the social heap. Perhaps unsurprisingly, the Economist does not

publish this data, but the UN does. Its Human Development Report for 2004 shows that in Sweden 6.3% of the population lives below the absolute poverty line for developed nations (\$11 a day). In the UK the figure is 15.7%. Seven and a half per cent of Swedish adults are functionally illiterate – just over one-third of the UK’s figure of 21.8%. In the UK, according to a separate study, you are more than three times as likely to stay in the economic class into which you were born as you are in Sweden. So much for the deregulated market creating opportunity.

The reason for these differences is straightforward. During most of the 20th century, Sweden has pursued, in the words of a recent pamphlet published by the Catalyst Forum, “policies designed to narrow the inequality of condition between social classes”. These include what the Economist calls “punitive taxes” and “grandiose programmes of public spending”, which, remember, do “nothing but harm”. These policies in fact appear to have enhanced the country’s economic competitiveness, while ensuring that the poor obtain a higher proportion of total national income. In Sweden, according to the UN, the richest 10% earn 6.2 times as much money as the poorest 10%. In the UK the ratio is 13.8.

So for countries hoping to reach the promised land, there is a choice. They could seek to replicate the Swedish model of development – in which the benefits of growth are widely distributed – or the UK’s, in which they are concentrated in the hands of the rich. That’s the theory. In practice they have no choice. Through the International Monetary Fund and the World Trade Organisation, the G8 governments force them to follow a model closer to the UK’s, but even harsher and less distributive. Of the two kinds of capitalism, Blair, Brown and the other G8 leaders have chosen for developing countries the one less likely to help the poor.

Unless this changes, their “Marshall plan for the developing world” is useless. Brown fulminates about the fact that, five years after “almost every single country” signed up to new pledges on eliminating global poverty, scarcely any progress has been made. But the very policies he implements as a governor of the IMF make this progress impossible. Despite everything we have been told over the past 25 years, it is still true that helping the poor means restraining the rich.