

# Egalitarian policies promote inefficiency in advanced economies

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Egalitarian policies aim to increase equality. They attempt to make the distribution of goods, benefits and burdens of society more equal allowing for a greater equality of both opportunities and out-comes. I shall consider whether egalitarian do promote inefficiency and then go on to establish whether parties and governments which have criticised and curbed these policies have benefited politically from doing so. One of the most important egalitarian policies in use in Britain is its progressive taxation system used to finance the welfare state.

They can discourage people from working harder if they do not believe the rewards from working harder are worth the effort once they have paid the government its share. This lowers the total output of the economy and so can be seen to be causing inefficiency. Individuals will also re-direct their efforts away from working to tax avoidance strategies and may even employ specialist tax lawyers. This is an inefficient allocation of resources since nothing is actually being produced.

In the 1970s there was evidence to suggest that the super-tax of 83% for the highest earners lead to a brain drain as highly skilled workers earning incomes in the top tax band left Britain to work in other countries where taxes were not so high. This was clearly detrimental to UK economic growth. Now let us consider some of the ways that these taxes are re-distributed within the economy. They are used to provide merit goods such as education and health care free to all who require them. They are also paid to the worst-off in society in the form of welfare benefits.

The provision of state education is very beneficial to society, not only does it help to give every child a more equal start in life but it helps to whole economy by ensuring a supply of literate, numerate workers are available. There are many positive externalities to education so on the whole it probably promotes efficiency in advanced economies. Free healthcare is slightly more complex causing efficiency and inefficiency in different ways. The main benefit to economic efficiency would be that many sick workers are treated and so can go back to work thus reducing output lost.

However the National Health Service appears to be a very inefficient provider of healthcare because the price mechanism is not used to deploy resources, and because people's choice has now been restricted. What is provided is not what people want, but what professionals and bureaucrats think they want, which makes public provision inherently less responsive to the needs and wishes of the individual. This is clearly allocatively inefficient. Budget increases tend to go straight into higher wages and demand for free healthcare is always greater than supply because supply creates its own demand.

When the government reduces waiting lists and makes state hospitals a bit less likely to kill you then more people decide it is worth the bother of going for less and less important ailments thus demand is never satisfied. The NHS does not currently have any clear policy on how to ration its supply and so is often economically inefficient in who it treats. The provision of state unemployment benefits allow people more time to select a job appropriate to them so no one is pressured into accepting a job which is unsuitable to them.

It also allows individuals to take on work, which is not as secure, because they know the state is providing a safety net for them to fall back on. These things therefore show that to a certain degree jobseekers allowance helps to increase the efficiency of the allocation of labour within the labour market however welfare benefits can also act as a disincentive to find work. Many people decide it is a lot easier to live from state handouts even though they could work and so take a free-ride through the generosity of this egalitarian policy.

If the government did not provide as much jobseekers allowance then perhaps many of the UK's 6 million unemployed would find employment which would be a more efficient outcome. Other welfare benefits such as in-work support via tax credits also cause similar problems. They result in many individuals facing very high marginal tax rate often approaching 90% because as their income rises their entitlement to benefits is lost and so act as a strong disincentive for workers to take overtime or increase their hours. This keeps people in poverty and is also economically inefficient.

Another policy which can be seen as egalitarian was the introduction of a minimum wage. Theoretically this should have been economically inefficient since placing a minimum above the market clearing level would have resulted in a fall in demand for labour and thus created unemployment but in practice since 1997 the minimum wage has been seen to have beneficial effects on the economy. The likely reason for this is that many workers were facing monopolistic employers who were depressing the wage rate and so reducing employment.

The introduction of a minimum wage  $W_m$  means the monopsonist now faces a marginal cost curve that is constant at  $W_m$  till  $L_m$  and so it will hire the value of the marginal product which equals  $W_m$  and so employment is raised in this example. Therefore this egalitarian policy appears to be making the economy more efficient however the main monopolistic employer in the UK is the government. If the government did not insist on providing so many goods and services as part of its egalitarian policies then the private sector would provide them and wages would already have been at the market clearing level.

It is government intervention in the economy that creates these imperfections in markets and so egalitarian policy can be seen to create economic inefficiency. Another egalitarian policy, which is now far less important, is the provision of state-financed housing for rent - council housing. This was done through local authorities and was allocated on the basis of need with priority for factors including the number of children, and the quality and degree of overcrowding in present accommodation.

Rents were usually held below market clearing level, a large proportion of council tenets in fact receive concessional rents and housing benefit to assist with payment. There are usually waiting lists to obtain council tenancies. This policy was allocatively inefficient and the costs to the government of running council houses spiralled upwards. It reduced the mobility of labour within the economy and so can be seen to have caused unemployment.

The vast reductions in the governments housing stock seen under the Conservative Thatcher government were popular politically and this leads us

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into the other main consideration of this essay - whether arguments advocating the view that egalitarian policies are inefficient are powerful politically? The era of paying of benefits fairly painlessly out of rapid economic growth ended in the mid-1970s: as long as the economy was expanding at a reasonable rate, private consumption and welfare spending could increase at the same time.

As the real wages of the middle class stagnated in the late 1970s, people naturally asked why they should support the homeless or other able-bodied people who do not work. When Thatcher was elected in 1979 one of her main aims was in 'liberating British people from social-democratic paternalism'. Her government slashed public sector expenditure and forced a reduction in public reliance upon state provision. These policies were on the whole met with praise from voters and the Conservatives stayed in power until 1997.

People had begun to become critical of egalitarian policies that appeared too generous and were not willing to pay high rates of tax for poor public services. However people also held the belief that the Conservative policy in its quest for freedom, choice and individualism was making the poor poorer and so reduced its popularity. The 1995 Rowntree report claimed that the incomes of the poorest people actually fell in real terms between 1979 and 1992 even if this was false it was certainly true that inequalities between rich and poor widened throughout the period.

It is hard to tell how much this reduced from the power of the Conservatives because many other political events occurred from 1979 to 1992 such as the Falklands War and the inability of Labour to mount an effective opposition

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but the current New Labour government has continued to curb egalitarian policies and this suggests it also believes that 'Egalitarian policies promote inefficiency' is a strong political argument.

New Labour have attempted to make claiming jobseekers allowance more difficult and forces those in receipt of it to enter government training schemes and work placements. It has attempted to start debates on the future of the National Health Service. It has reduced the provision of free education with the introduction of tuition fees and is currently considering increasing them further and imposing commercial rates of interest on student loans.

In conclusion therefore attacking egalitarian policies appears to have been popular among voters and so strong politically but in deciding whether all egalitarian polices deserve this treatment we cannot be as sure. It is clear that the removal of some policies has helped the economy and so increased welfare for all but the economic arguments for further reductions of welfare state have both virtues and failings therefore how much longer political criticisms of egalitarian policies will continue is unclear.