

Of course inequality is the result of market forces: th...

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Tim Harford [has an interesting article on inequality in the FT today](#). As he notes, the trend towards greater inequality is indisputable. Using data [from here](#) he notes that the income share of the top 1 per cent has roughly doubled in the US since the early 1970s, and is now about 20 per cent. The same trend is seen in the UK but the income share of the top 1% is 14%.

As he also notes the trend is worrying, noting that:

Between 1993 and 2011, in the US, average incomes grew a modest 13.1 per cent in total. But the average income of the poorest 99 per cent — that is everyone up to families making about \$370,000 a year — grew just 5.8 per cent. That gap is a measure of just how much the top 1 per cent are making. The stakes are high.

I must be fair: Harford notes that this trend has social consequences, but he does not address them. What he instead asks is why this is happening and says:

The uncomfortable truth is that market forces — that is, the result of freely agreed contracts — are probably behind much of the rise in inequality. Globalisation and technological change favour the highly skilled. In the middle of the income distribution, a strong pair of arms, a willingness to work hard and a bit of common sense used to provide a comfortable income. No longer. Meanwhile at the very top, winner-take-all markets are emerging, where the best or luckiest entrepreneurs, fund managers, authors or athletes Hoover up most of the gains. The idea that the fat cats simply stole everyone else's cream is emotionally powerful; it is not entirely convincing.

And that's where the nonsense begins, with discussion of well functioning markets following this comment, the suggestion being that these are what we have.

But we don't. We have markets where access is denied: as Harford notes in the UK you have best chance of a high income if your parents also had high income. And we have a system that ensures that the mechanisms that ensure access to privilege are maintained. So children attending private schools have much higher access rates to

Oxford than those from state schools with identical grades, for example.

And, of course, top pay is not market determined: pay committees are an oligopoly of the elite for the benefit of the elite. There is no evidence of a market, at all.

What is more, markets only work when no one participant can influence pricing but when some have 14 times more than the share of resources that would be allocated to them in an equal society - which by implication market theory assumes to exist - then the conditions for efficient markets don't exist: the votes are unevenly distributed.

There is, of course, an answer to this: it is more progressive taxation and it is wealth taxation. I made the case in a paper for the [Class think tank](#). Observing inequality is not enough. Action to reduce it is required.