the trouble with billionaires

How the Super-Rich Hijacked the World (and How We Can Take it Back)

LINDA MCQUAIG AND NEIL BROOKS

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'Few tricks of the unsophisticated intellect are more curious than the naive psychology of the business man, who ascribes his achievements to his own unaided efforts, in bland unconsciousness of a social order without whose continuous support and vigilant protection he would be as a lamb bleating in the desert.'

R.H. TAWNEY

'The disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition…is…the great and most universal cause of the corruption of our moral sentiments.'

ADAM SMITH

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return of the plutocrats

Imagine this: you are paid a pound every second.

After one minute, you would have £60. After one hour, you would have £3,600. If this spectacular rate of pay continued day and night, it would take twelve days for you to become a millionaire – something beyond most people's wildest dreams.

But how long would it take to become a billionaire?

Well, at that rate, it would take almost thirty-two years.

This little game helps illustrate that being a billionaire isn't just beyond most people's wildest dreams; it's likely beyond their comprehension. It also highlights how odd it is for society to regard the accumulation and retention of such vast material wealth by one individual as an appropriate aspiration.

Here's another thought experiment that illustrates how far beyond our regular comprehension the size of a billionaire's fortune is: imagine how long it would take Bill Gates, typically considered the world's richest man, to count his $53 billion. If he counted it at the rate of one dollar every second, and he counted non-stop day and night, he'd have it all tallied up in 1680 years. Still another way to look at it: if Bill Gates had started counting his fortune at that rate back in 330 CE – the year that the Roman emperor Constantine had his wife boiled alive and chose Byzantium as the empire's new capital – he'd just be finishing up now.

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The fortunes of the wealthy, as revealed in the 2012 *Sunday Times* Rich List, are more opulent than ever before in history. Having recovered from the minor bruising they took in the 2008 financial collapse – which some in the City directly helped bring about – the rich now tower over the nation as financial behemoths. The combined wealth of the 1000 on the list totals £414 billion – an amount greater than a third of the UK gross domestic product (GDP), and higher even than their previous combined record of £412.8 billion, set just before the crash. Despite this cornucopia, Prime Minister David Cameron announced plans in early 2012 to send more their way by cutting the top marginal tax rate by 5 percentage points. This provided an average saving of £14,000 a week for some 40,000 UK millionaires[1] – an extra treat that was probably barely noticed by many in the far upper reaches of the 1 per cent.

Meanwhile, for the masses there would be no such mollycoddling, but rather a stiff dose of austerity, cutting deeply into health care services, education and welfare. With unemployment pushing three million, including one million young people, and incomes generally stagnant or falling, those in government were fierce in their resolve not to scrimp on austerity. So while the rich were indulged, despite their role in bringing about the financial collapse, the burden of dealing with the resulting recession and debt was shunted on to millions of ordinary Britons, who played no role whatsoever in bringing about the financial disaster. It's a replay of the brutal austerity medicine applied in Britain after the First World War – a disastrous era that bears striking similarities to today, and to which we'll return in Chapter Eight.

There's growing evidence that the current austerity, even apart from issues of fairness and justice, simply isn't working as an economic cure. Indeed, the IMF, an institution with a long record of imposing austerity on debtor nations seeking aid, forcefully condemned the austerity mania that has gripped Europe. In a lengthy report in October 2012, the IMF pointed out that austerity can be self-defeating, causing sharp contractions in an economy. It noted that Britain's austerity plans will likely suck £76 billion more out of the economy than expected by 2015, and move the UK from the camp of continental European countries, with their generous social welfare models, towards the stingy American model. Indeed, as the IMF data shows, the coalition government's austerity plans are projected to plunge Britain's government spending below miserly US levels by 2017.[2]

The ultra-wealthy in the UK are part of a new global super-elite that is capturing an unprecedented share of the world's resources. As a report by the charity Oxfam noted in January 2013, the 2012 income of the world's richest one hundred billionaires totalled £150 billion – enough to wipe out extreme global poverty four times over.[3] So excessive is the hoarding of resources in a small number of hands that it is hard not to gawk in disbelief. The *Onion* magazine astutely describes the gap between rich and poor as the 'Eighth Wonder of the World', and as 'a tremendous, millennia-old expanse that fills us with both wonder and humility…the most colossal and enduring of mankind's creations'.

The rich–poor gap is indeed a millennia-old project. But it's worth mentioning that there was once a blip. There was a brief period of about four decades when a small dent was made in the edifice of the rich–poor gap in the Western world – a small dent that made a significant difference to millions of people. What makes that brief interlude particularly significant is that it happened quite recently, from roughly 1940 to 1980, and that it coincided with an era of almost unprecedented prosperity and economic growth.

By any logic that brief interlude should have sparked serious inquiry into just how it happened. Instead, there's been an almost deliberate avoidance of the subject in official circles, an unwillingness to probe the cause of the dent in the rich–poor gap, how it coincided with such robust prosperity, and how we might emulate it today. Like the memorable scene from the movie *When Harry Met Sally*, in which Meg Ryan dramatically fakes an orgasm in a restaurant, surely the appropriate response is the one from the woman at a nearby table: 'I'll have what she's having.' Instead, our ruling elites have tried to wipe out the notion that the widely shared prosperity of the postwar years is something we should aspire to create again, advising us to forget 'what she's having' and be content with the meagre bowl of gruel we're being served.

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There might have been a time when it could honestly be said that we didn't know that the massive economic project – known as Thatcherism, Reaganism, modern conservatism or neoliberalism – was going to lead to a society dominated by billionaires.

Of course, many people always suspected that it would. After all, if you aggressively roll back state intervention aimed at protecting workers and at the same time dramatically reduce the taxes of the rich, it's reasonable to expect that you'll end up with a top-heavy society. On the other hand, there was always the possibility that things would turn out differently, that the trickle-down effect would, as promised, unleash a rising tide that would lift all boats.

But it's now a good thirty years since the neoliberal experiment was launched in the early 1980s. We've since seen that, while the tide did rise, it certainly didn't lift all boats. Vast numbers became submerged, sank, or ended up battered on the rocks, while a flotilla of diamond-studded yachts, appearing out of nowhere, sailed on by out to sea.

There can no longer be any confusion about the impact of the set of neoliberal economic policies that have been applied in the UK and the US over the past three decades. The results are unmistakable: these policies have led to a massive shift in income and wealth from the bulk of society to the already-privileged few.

Yet, strikingly, this dramatic rise in inequality – coming right after the most egalitarian era in modern Western history – has not led to an overthrow of the neoliberal agenda. There have been plenty of challenges to that agenda, plenty of brilliant critiques, but the agenda has not yet been rejected. The neoliberal economic orthodoxy of the last three decades continues to guide policy in the Anglo-American countries, perpetuating and aggravating levels of inequality that are already extreme by the standards of the developed world.

This book is about that dramatic increase in inequality – particularly the extraordinary concentration of wealth at the upper end. Although the glittering lives of billionaires may seem like a harmless source of entertainment, the extreme inequality that they represent amounts to a profound change in society with drastically damaging results. There is ample evidence that extreme inequality has negative consequences for the social well-being of a nation, as well as for its potential for economic growth. Notably, it has been well documented that an individual's prospects for upward social mobility – something that even conservatives consider essential – are greatly reduced in societies that are highly unequal. But, of all the destructive aspects of extreme inequality, probably the most serious is the impact it has on democracy itself.

Of course, the incompatibility of democracy and concentrations of great wealth has long been understood. As Aristotle noted in the fourth century BCE: 'Where the possession of political power is due to the possession of economic power or wealth…that is oligarchy, and when the unpropertied class has power, that is democracy.' In the early twentieth century, US Supreme Court Justice Louis

Brandeis put it succinctly: 'We can have democracy in this country or we can have great wealth concentrated in the hands of a few. We cannot have both.' Mark Hanna, a notorious Republican backroom operator of the late nineteenth century, made the same point more crudely: 'There are two things that are important in politics. The first is money, and I can't remember what the second is.'

What these diverse political thinkers are all pointing to is the fact that economic power inevitably translates into political power, and that enough economic power concentrated in a small number of hands can transform a theoretical democracy into what is, in reality, an oligarchy – that is, a nation ruled by the few. We think a more appropriate word to describe today's extreme inequality is plutocracy – that is, a nation effectively ruled by the wealthy few.

While an extremely wealthy elite has always posed a threat to democracy, the danger posed by such concentrated economic power is far greater today than ever before. That's because the human capacity for destruction has grown exponentially, as a result of industrial and technological advances. Whereas powerful kings and elites of earlier eras could wreak great havoc and suffering, today's corporate elite has a far greater capacity to imperil the public interest – by ruining the planet for human habitation through environmental destruction. For instance, the phenomenally wealthy set of interests comprising the fossil-fuel lobby is the driving force behind climate change, and is effectively blocking the world community from mounting a concerted global effort to tackle the potentially catastrophic problem. We will explore this connection between plutocracy and environmental destruction in more detail in Chapter Four.

The point to be emphasized here is that today's extreme inequality poses a fundamental threat to the world. Yet it is often treated as a mere peripheral issue. Indeed, while poverty is generally acknowledged as a significant problem, rising inequality is frequently dismissed as unimportant. Conservatives even celebrate inequality, saluting it as just desserts, and discounting complaints about it as mere sour grapes, the whining of the envious. Margaret Thatcher famously promoted inequality, proclaiming in her days as prime minister: 'It is our job to glory in inequality and see that talents and abilities are given vent and expression for the benefit of all.'

Even liberals and progressives sometimes turn a blind eye to extreme inequality, arguing that poverty matters, but the fortunes of the rich don't. Tony Blair's New Labour government, while declaring poverty reduction a central goal, showed an almost aggressive indifference to the galloping increase in inequality during his years in office. As Blair quipped: 'It's not a burning ambition of mine to make sure David Beckham earns less money.' Alistair Darling, as chancellor of the exchequer, similarly commented: 'I'm not offended if someone earns large sums of money. Is it fair or not? It's just a fact of life.'

We profoundly disagree. We don't think extreme inequality is fair, nor is it a fact of life. And, given what's ultimately at stake – nothing less than the future sustainability of the planet – raising objections to the transformation of our democracies into plutocracies is less a sign of envy and more one of sanity.

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The good news is that the problem of extreme inequality is solvable: through the tax system.

In saying this, we are not minimizing the political difficulty of bringing about changes to the tax system, particularly of bringing about a return to more progressive taxation. We are simply noting that these difficulties are exclusively political – and not economic. Nor are we ignoring the many other social reforms that could – and should – be implemented in order to increase equality and social inclusiveness, including improvements to education, health care, child care, housing and social welfare systems. In addition, stronger minimum wage laws and labour laws protecting unionization rights are reforms that would significantly help reduce inequality.

Many progressives who are concerned about inequality argue that these reforms – not the tax system – should be the central focus of the campaign for greater equality. But while we wholeheartedly agree with all these reforms, we note that they involve fighting many battles on many fronts. This means that progress is likely to be difficult and slow, with reductions in inequality at best piecemeal and only realized in the long term. The goal of reducing inequality can be achieved more quickly, efficiently and comprehensively through changes in the tax system. With its sweeping reach over all citizens, the tax system is quite simply the most powerful tool for achieving greater equality. This is, of course, why modern conservatives have been so determined to render it off-limits, to turn 'tax' into a dirty word that even progressives fear to be associated with.

We must restore the notion that the tax system has a central, honourable role to play in a democracy. It is, in fact, one of the most basic tools of democracy. It allows us to make decisions collectively about what kind of society we want, and to finance the programmes and services necessary to create that society. In addition to the essential revenue-raising function, the tax system allows us to tackle directly extreme inequality. Through progressive taxation – in which a heavier burden is placed on those with larger incomes – it is possible to reduce the damage of extreme inequality and the risk of plutocracy. A progressive tax system can ensure that more of society's resources end up in the hands of ordinary citizens, who have a legitimate claim to a larger share than they currently receive (as we will argue in the next chapter), and ensure that the wealthy are prevented from capturing such an enormous portion that their economic power allows them to ride roughshod over our democracies.

Over the past three decades, conservative ideologues in Anglo-American countries have made an extensive list of arguments that boil down to 'governments bad, markets good', with the resulting conclusion that taxes should be reduced. The two assertions they have made most incessantly are that government programmes financed with taxes are generally ineffective in achieving their social objectives, and that increased taxes have huge economic costs. Therefore, they hope to convince us that we would all be better off if taxes were reduced.

If these assertions were true, one would expect countries with high taxes to be no better off in terms of social outcomes than countries with low taxes, and also to be economic basket cases. But the evidence suggests the opposite. In fact, countries with high taxes tend to have significantly better social outcomes than those with low taxes, and their economies appear to be unaffected or even improved by the higher taxes required. We review this evidence in Chapter Three, with a series of graphs.

Our graphs provide evidence, across a broad range of countries, to support the case for higher taxes – and not just on the rich. The graphs show that, throughout the developed world, there is a clear correlation between high total tax levels and better outcomes in social well-being, as well as a correlation between high total tax levels and as good or better economic outcomes. In other words, if we look at real-world results – not economic theories – we find powerful evidence that high tax levels are overall beneficial to society.

This clearly flies in the face of the anti-tax arguments we've heard in recent decades. Conservatives always present taxes in isolation, restricting the focus exclusively to the impact of taking money away from taxpayers, thereby reducing their disposable income. With this limited focus, it is hard to see much benefit in taxation. But this ignores what happens to the money that is taken away. Governments don't just dump it down a deep hole; they spend it.

Conservatives deal with this reality by restricting the focus to wasteful government spending. Needless to say, there is wasteful government spending and bureaucratic inefficiency. But, overall, governments spend on programmes and services that are enormously beneficial to the public. Taxes have brought us high quality schools that remain our democratic treasure, low tuition fees at world-class universities, excellent medical services, public parks, libraries, safe streets, liveable cities and freedom from fear of crippling health bills. None of these things come cheaply.

Taxes also assist us in spreading our incomes over our lifetimes to maximize our well-being by, for example, transferring income from our high-income years to our retirement years, from times in our lives when we don't have dependents to support to times when we do, and from periods when we are well and able to take care of our own needs to periods when we are ill or suffering from a disability.

Just as importantly, the public goods and services that we pay for with taxes leave working people healthier, better educated and more economically secure, and therefore less vulnerable in the face of lay-offs and plant closures. With this greater security, working people are more able to demand and win their fair share of the national income that we all collectively produce.

Ultimately, what is at stake with taxes is the question of who will exercise power in society. In low-tax countries, a small class of wealthy people tend to exercise power through their dominance over private markets; in high-tax countries, a majority of citizens tend to exercise it through democratically elected governments.

Despite all the right-wing jaw-boning to the contrary, the almost universally condemned notion of higher taxes turns out to be a very sensible approach.

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Of course, many people will strongly object to the suggestion of higher taxes. In the course of this book, we will deal with the main objections. Right now, however, we want to highlight one objection that many people seem to find particularly compelling – the fear that higher taxes will prompt capital flight and the departure of the best and the brightest. We want to deal with this objection up front, not just because it seems to capture the attention of many people, but also because it is, quite simply, highly overrated as a concern.

Certainly, the mention of higher taxes quickly provokes speculation about the departure of the well-heeled. In June 2012, David Cameron seemed almost gleeful at the prospect of luring France's wealthy elite to Britain when the newly elected French government moved to raise taxes on the rich. 'If the French go ahead with a 75 per cent top rate of tax, we will roll out the red carpet and welcome more French businesses to Britain and they will pay taxes in Britain and that will pay for our health service, and our schools and everything else.'

First, it's worth noting the malice Cameron is directing towards the people of a neighbouring country, which is also a valued trading partner and ally. The French people had just elected François Hollande, who had run on a platform of higher taxes on the rich. And yet Cameron is urging the French elite to punish their fellow citizens – depriving them of revenue for French health care and education – for exercising their democratic rights. As Richard Murphy pointedly noted in the *Guardian*, Cameron was seeking 'to undermine a decision that the people of France have democratically chosen. That's what tax havens do – they hold democracy in contempt.'[4]

The threat of exodus has always been a powerful trump card in the pockets of the wealthy. And they haven't hesitated to make use of it by threatening – often through spokespeople such as tax lawyers and business associations – to use it. The extent to which they actually move to another country to avoid high taxes is less clear. Some evidence suggests that, except for a small number of high-profile, loudly proclaimed cases, few rich people leave their native lands primarily as a result of taxes. But, whether or not they actually do leave, the threat of their departure – made by them or by their proxies, or simply invoked by politicians explaining the need to cater to the demands of the wealthy – has undoubtedly served as a mighty weapon in warding off high taxes on the rich.

What is rarely mentioned is that, even when the rich actually do carry out their threats and depart, the negative impact on society is small or non-existent. In other words, while the wealthy have managed to induce fear in the public and to keep politicians in line with threats of their departure, there is little or no evidence that their exodus actually hurts us.

In the mid-1970s, there were frequent claims in the British press that many senior managers were considering moving abroad due to raised tax levels. But a survey of corporate executives conducted by the Institute for Fiscal Studies concluded that 'the changes in the income and tax levels of senior staff in the United Kingdom during the 1970s had very little impact on their ability to retain, recruit, or transfer the managers required to fill senior positions'.[5] More recently, a 2011 report from the High Pay Commission found that global mobility among the elite is more limited than is widely believed. The independent commission, sponsored by the Joseph Rowntree Charitable Foundation, found 'only one successful FTSE 100 chief executive officer poached in five years – and even this person was poached by a British company'.[6] Contrary to the hype about the perils of a brain drain, departing professionals and business executives are not common, nor would they be difficult to replace with equally talented individuals, including people who never had the advantages of nepotism that likely greased the careers of many of those they'd be replacing.

Nor is there evidence that we would suffer from wealthy individuals leaving and taking their capital with them. It might be different if we lived in a world where citizens were prevented from investing beyond their borders, or were required to invest their savings in enterprises within their country. But this is not even remotely the case in modern Western nations. Keeping the wealthy in their native lands thus has little influence over where they invest their fortunes, given the rules of the global economy. The financial industry – backed up by mainstream economic thinking – is deeply committed to the notion that the rich should ignore the concept of citizenship when they invest. Indeed, one of the central tenets of 'globalization' is that citizenship is no longer relevant to those who control pools of capital. Why, then, the big fuss about where billionaires call home?

It may seem that the very wealthy, even if they aren't obliged to invest where they live, are at least obliged to pay taxes where they live. But there isn't even much truth in this, given that so much of the wealth of the mega-rich is stashed in offshore tax havens, beyond the reach of national tax authorities. According to compilations by the Tax Justice Network, the global rich have hidden some £13 trillion in tax havens – as much as the combined GDPs of the US and Japan.[7] This raises the question of whether Britain's extensive effort to woo the rich to British soil even makes sense economically. Britain actually acts as a tax haven for rich foreigners, offering them significant tax advantages as 'non-domiciled' residents. So David Cameron's keenness to lure the French elite to Britain isn't just an insult to French sovereignty; it is also pointless if the goal is more revenue for British health services and schools. Rich French exiles living in the UK would qualify as 'non-doms' and therefore pay shockingly low rates of tax (more on this later).

Of course, the presence of a wealthy elite in our midst means lots of work for butlers, chauffeurs, tax professionals, cosmetic surgeons, gardeners and all those whose work relies on catering heavily to the rich. Another likely outcome is higher real estate prices, as the rich invest in local luxury properties. This is a mixed blessing; it benefits other property owners, but also pushes home ownership beyond the reach of most citizens. In any event, higher real estate values and an economy dependent on servicing the rich are probably the only two certain consequences of living in a country with a lot of wealthy people. These benefits, themselves dubious, should be weighed against the well-documented negatives. In their highly acclaimed book *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Richard Wilkinson and Kate Pickett draw on a vast body of social science evidence, as well as their own research, in revealing the long list of problems that large income inequalities exacerbate, including poor physical health, mental illness, drug use, violence, obesity, shorter life spans, diminished social relations and reduced prospects for upward social mobility.

Accordingly, an appropriate response to threats of departure from the rich might be: have a safe trip.

One might also point out the sheer selfishness involved in their decision to depart, considering all the privileges they have enjoyed and the huge extent to which society has helped them get to where they are. As the Paris newspaper *Libération* declared in a front-page headline after ultra-wealthy French fashion tycoon Bernard Arnault applied for Belgian nationality, apparently to avoid higher taxes: 'Get lost, you rich bastard!'

Back in the 1890s, William Jennings Bryan, the firebrand American populist leader, made the case more eloquently in an address to the US Congress, after 400 top business leaders threatened to leave the country if income tax became law. Bryan memorably shrugged off fears of dire consequences caused by their departure, noting: 'we can better afford to lose them and their fortunes than risk the contaminating influence of their presence…Let them depart, and as they leave without regret the land of their birth, let them go with the poet's curse ringing in their ears!'

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After years of basking in the glow of a flattering limelight, by the autumn of 2010 the very rich were experiencing something new and altogether jarring: the glare of a harsh spotlight trained menacingly on them. Those operating the spotlight were swarming through dozens of cities and towns across the UK, behaving like the sort of unruly mob one finds in faraway places where the ways of the free world are not sufficiently appreciated. In London, just before Christmas, on one of the busiest shopping days of the year, the swarmers, furious at reports of massive tax avoidance by the rich, were staging protests in some of the leading fashion stores on Oxford Street. They honed in on those owned by multi-billionaire retail magnate Sir Philip Green, a keen supporter of the austerity agenda, and his wife Tina, whose distaste for personal austerity is reflected in her decision to reside in the tax haven of Monaco.

Unrest even erupted in the US the following year. All of a sudden, in September 2011, being wondrously, fulsomely, voluptuously rich was no longer a badge of honour, something to be announced gleefully to the world by squealing the tyres of one's Lamborghini at pedestrians who were in the way. Wall Street – the nexus of ambition, greed, glamour, the very g-spot of the American Dream – was no longer something to be glorified, but rather to be occupied.

Being the target of all these protests was no doubt baffling to members of the financial elite, who still had trouble grasping the notion that they were supposed to feel culpable for the 2008 financial crash.

That bewilderment had been evident in January 2009, only months after the crash, at the elite get-together held every year in the Swiss town of Davos, where bankers, business leaders, political shakers and other big thinkers gather to celebrate the globalized world of liberated financial markets, shrunken government and reinvigorated capitalism. The headline on a dispatch that appeared on the website *Slate* captured the mood: 'Davos Man, Confused.' Journalist Daniel Gross explained in the piece that there was a broad consensus at Davos that '[s]uccess is the work of Great Men and Women, while failure can be pinned on the system.' Or as Julian Glover noted in the *Guardian*: 'The shock is real, the grief has hardly begun, but no one in Davos seems to think [this] means they should be less important or less rich.'

That would involve a change of mindset, which was not what this group seemed inclined toward. After all, a key concept behind the economic order of the past few decades has been the central importance of individual talent – and the need to bestow upon 'talented individuals' abundant rewards in order to lure them to the all-important jobs on Wall Street and in the City. The fact that these same individuals were, in part, behind the disastrous global economic meltdown didn't seem to make a dent in the sky-high-pay mentality.

And so the Royal Bank of Scotland, on government life support in the wake of the financial crash, still paid out £340 million in cash bonuses in February 2009. In Manhattan, then-CEO of Merrill Lynch John Thain explained that he was paying $4 billion in executive bonuses in order to keep the 'best' people – right after those same overachievers had steered the company to a staggering net loss of $27 billion. The decision by the Wall Street crowd to pay themselves collectively a record $140 billion in 2009 – outstripping even their 2007 record – may have seemed odd under the circumstances, but then no one ever accused Wall Street bankers of being modest or prone to self-doubt.

Away from the rarified air of Davos, Edinburgh, London and New York, doubts were beginning to appear. Some 'less-gifted' types were now clamouring for reform, even suggesting that cutting executive pay might induce the hyper-talented to seek more socially useful employment in areas such as teaching or health care. But a letter to *The New York Times* drew attention to the danger of this approach, making a compelling case for maintaining extravagant pay, even huge executive bonuses: 'Without them, Wall Streeters will all look for other jobs. Do we really want these greedy, incompetent clowns building our houses, teaching our children or driving our cabs?'

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Before going any further, we should point out that we are not against all rich people. Our criticism is directed at those who have supported the aggressive drive in recent years to redirect society's rewards towards themselves at the top, particularly those who use the threat of their departure to intimidate governments into keeping their taxes low. Furthermore, we note that among the critics of this aggressive advocacy for the wealthy are some wealthy individuals themselves. Eduard de Rothschild, of the famous banking dynasty and a major shareholder in *Libération*, backed the newspaper's attack on Bernard Arnault for threatening to give up his French citizenship after France raised its top tax rate. Rothschild noted that he himself would pay the new taxes 'wholeheartedly'. Similarly, multi-billionaire investor Warren E. Buffett has been a key backer of Barack Obama's attempt to raise taxes on high-income Americans, endorsing Obama's 'Buffett rule' to ensure that the rich face tax rates at least as high as Buffett's secretary.

We should also point out that we are not against all inequality. On the contrary, some reasonable degree of inequality is not only acceptable and inevitable but also desirable, because it allows for different rewards for different levels of individual effort, contribution and risk-taking. But what exists today in the UK is a level of inequality that is extreme compared to most of the nations in the advanced, industrialized world.

It's also extreme by the recent historical experience of Britain itself. England has, of course, a long history as a plutocracy, in which a small propertied elite has enjoyed a virtual monopoly on wealth and power. But there was remarkable progress towards reducing income inequality in Britain, starting in the 1940s. The notion that 'the rich always get richer' was shown to be quite untrue in the decades that followed the crash of 1929 and the Depression of the 1930s. The great banking barons who had ruled the City in the 1920s found their wings clipped in the new era of financial regulation and progressive taxation. While there were more than a thousand millionaires in Britain in 1939, there were only 36 by 1953.[8]

The declining ranks of millionaires coincided with the rising fortunes of the rest of the population. From 1940 to 1980, national income kept growing, but it was much more widely shared. While the affluent crowd comprising the UK's top-earning 1 per cent captured fully 16.9 per cent of national income in 1937, that share declined significantly in the early decades after the Second World War. By 1955, the top 1 per cent captured just 9.3 per cent, and by 1978, the top 1 per cent's share of national income had declined to an all-time low of merely 5.7 per cent. Not surprisingly, this early postwar period has been dubbed the 'Golden Age of Capitalism' because it was an era in which capitalism delivered the benefits of economic growth not just to those at the top but broadly across the social spectrum.

At the time, this rising level of equality was typically viewed as simply part of the march of progress, part of the evolution towards a more advanced, modern way of life. A similar historical progression towards greater equality can be seen in other areas – in the evolution of legal and political rights. This general advance towards greater equality and social inclusiveness has continued, as legal and political rights have kept on evolving. In recent decades, there have been significant breakthroughs, for instance, in the recognition of rights for disadvantaged groups – racial minorities, women, gays, lesbians, the transgendered and the disabled.

Fig. 1 The rise of the super-rich in the UK[10]

But while the *general* march towards greater equality has continued and advanced considerably in recent decades, the march towards greater *income* equality has been firmly halted, and turned sharply around.

In the past three decades, real incomes (with inflation factored out) have stagnated for most Britons. Virtually all the income growth has gone to the top 10 per cent, with particularly large gains going to the top 1 per cent, and spectacularly large gains going to the top .01 per cent. As a report by the Resolution Foundation noted in 2011, the bottom half of workers in the UK have seen their share of the national income fall by a quarter over the past thirty years. At the same time, the share going to the top 1 per cent has increased by half.[9] Figure 1 illustrates this dramatic surge in the share of national income going to the top in recent decades.

Of course, the rise of the super-rich has been even more pronounced in the United States. Between 1980 and 2008, the incomes of the bottom 90 per cent of Americans grew by a meagre 1 per cent (or an average of $303). Over those same years, the incomes of the top .01 per cent of Americans grew by 403 per cent (or an average of $21.9 million). The top 300,000 Americans now enjoy almost as much income as the bottom 150 million.[11]

To put this in perspective (as much as it's possible to put something like this in perspective), let's stack up today's top US incomes against the income of John D. Rockefeller, who in his day and for many decades afterward served as the legendary Richest Man Imaginable. In 1894, at the height of the Gilded Age when grand mansions lined Fifth Avenue, Rockefeller had a staggeringly large income of $1.25 million ($30 million in today's dollars). This was 7000 times the average US income at the time. But in 2007, hedge fund manager John Paulson had an income of $3.7 billion – more than 80,000 times the average US income.

Another way to look at it is this: Paulson, whose actions betting against the sub-prime mortgage market helped trigger the 2008 financial collapse and global economic meltdown, received as much income as did 80,000 nurses, who provided essential health care for more than six million Americans.

Fortunately, we have the teachings of modern economics to help us make sense of such a gap. Otherwise, we might be left struggling to understand by what logic Paulson could possibly be worth as much as 80,000 nurses – or, for that matter, as much as a single nurse.

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The financial figures become numbing after a while. To get a clearer sense of how very rich the top income earners have become – and how dramatically they've pulled ahead of the population at large – it's helpful to create a visual image. To do so, we've borrowed a concept created by Dutch statistician Jan Pen. Pen's idea was to present the distribution of income as a national parade in which everyone in the country marches. The height of the marchers is determined by their incomes. The entire parade takes one hour, during which time the entire nation marches by very quickly, in order of height, starting with the shortest marchers (the lowest income earners) and ending with the tallest ones (the highest income earners).

The parade illustrates inequality, and it can be adapted to show the level of inequality in any country at any time. So, before we take a look at the British national income parade today, let's put things in a really broad context by looking at what a national income parade would have looked like in pre-industrial Britain.

There's a tendency to think of extreme inequality as a relic of a less advanced age. But while kings and nobles of pre-industrial times enjoyed a standard of living that was wildly lavish compared to the poor of their day, that gap was actually considerably smaller than that which exists today between billionaires and the homeless living on the streets of major UK cities. The lives of the destitute probably haven't changed that much over time, but the rich have become vastly richer than their pre-industrial counterparts. Here, then, is what the national income parade would look like for England and Wales in the late seventeenth century (1688, to be exact).[12]

At the outset, we'd see some very tiny characters – vagrants, gypsies, rogues, vagabonds – who manage to collect about £2 a year by begging or performing magic tricks at village gatherings. These extremely small people are followed by a large number of paupers and cottagers, who are still very low to the ground. Following close behind, about fifteen minutes into the parade, are household servants and common labourers, with incomes of about £15 a year, measuring about sixty centimetres tall.[13] Eventually, we start to see the 'middle class' – blacksmiths, silversmiths, masons, tinkers, tailors, weavers, cobblers, cordwainers (leather workers) – all earning about £38 to £40 a year and standing about average height. Just slightly taller are prosperous shopkeepers, ale-sellers and innkeepers. Next, there are naval officers, about three metres tall. Only in the last few minutes do we start to see some giants – successful merchants and sea traders, measuring about fifteen metres. Then in the last second, a cavalry of heavily armed knights appear, thirty-three metres tall (standing on the ground). Behind them, in weighty church garb, are pious-looking bishops and archbishops, earning £1300 a year and soaring up to fifty-three metres, even as they proclaim that the poor will inherit the Earth. Finally, a couple of dozen magnificently attired dukes and earls, with incomes above £6000, stretch a lofty 248 metres into the air.

Now let's see what a national income parade would look like in Britain today. What is striking is the much greater height discrepancies in today's parade, reflecting the fact that income inequality is now considerably more extreme than it was some three hundred years ago.

For the first six minutes of today's parade we see nothing but very tiny people – less than thirty centimetres tall. This low-income crowd, all earning less than £4500 a year, includes people on government assistance, part-time workers and senior citizens on fixed incomes. The height of the marchers rises ever so gradually. After about fifteen minutes, there are fast-food workers, retail shop workers and parking attendants, all less than ninety centimetres tall Eventually, slightly taller receptionists, factory workers and lorry drivers appear, but they're still awfully short, generally measuring less than 130 centimetres high. Their ranks seem never-ending.

The parade goes on for almost forty minutes before we start to see people of normal height, reflecting average income levels of around £25,000.[14] It is only in the last ten minutes that tall people start to appear. These are typically high-income professionals – lawyers, doctors, accountants, architects, engineers – and they stand well above the crowd, 3 to 3.5 metres in height. In the last minute, the marchers are much taller still – surgeons, corporate lawyers, advertising executives – standing over 4.5 metres tall.

Just before we come to the very end of the parade, let's recall that we're measuring inequality of income. If we were measuring inequality of wealth – that is, net worth – the size differences would be even more dramatic. In that parade, a good portion of the marchers would actually be underground, reflecting the fact that their debts are larger than the value of their assets.

But in this parade we're measuring income inequality, so the height differences reflect the differences in what individual Britons earn in a year as they go about working and contributing to the overall economy. For the most part, everybody works and contributes in some way. The varying height levels reflect the fact that some individuals earn more because they work harder, are smarter, more talented, better educated or just ended up in better jobs than others. But, towards the end, the marchers soar to such great heights that it's hard to account for the vast discrepancy between them and the others in the parade.

With a few seconds to go, we begin to spot some famous faces in the crowd. There's supermodel Kate Moss, with an annual income of £5.74 million, stretching half a kilometre into the air. Less stunning but taller, measuring 1.5 kilometres, is Rupert Murdoch, who collected £18.7 million from his News Corporation, even in the wake of the company's phone-hacking scandal. Also recognizable among this group of giants is former Barclays chief executive Bob Diamond, measuring 1.9 kilometres high, who collected £23 million in share options (which he surrendered under public pressure over his disgraced role in the LIBOR scandal, leaving him with total compensation of £100 million since 2006).[15] David Beckham, with an income of £28.7 million (including endorsements), jogs by at a height of 2.3 kilometres. Then there's media mega-star Simon Cowell, standing 4.6 kilometres tall, with an income of £57 million.

Now, with less than a second to go, we get a glimpse of some of the hedge fund crowd – or at least of their lower legs. Their bodies stretch so far above us, we can't see their faces. Chris Rokos, co-founder of Brevan Howard Asset Management, with a take-home income of £100 million, stands a gigantic 8.1 kilometres tall. David Harding of Winton Capital Management, with an income of £390 million, shoots up to a towering 31.6 kilometres.

Then finally, there he is – the very tallest person in the parade, Alan Howard, the key fund manager and co-founder of Brevan Howard. The recipient of the nation's largest income, Howard relocated to Geneva in June 2010. His firm said the move was for lifestyle reasons, but there was widespread speculation he was trying to avoid the 10 percentage point increase in the top British tax rate. His firm also caught some attention last year with accusations from a fired RBS trader that Brevan Howard had requested the bank make changes in the LIBOR rate.[16] Nonetheless, Howard, with an income of £400 million, stands a phenomenal 32.4 kilometres tall. A high-cruising airplane would fly past him at thigh-level. His head juts into the stratosphere, well beyond view of the millions of Britons still mired in recession and austerity down below.

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As we've noted, there is strong evidence that a more equal distribution of resources would provide significant social and economic benefits. But the case for a more equal society also rests on compelling moral grounds.

It is our contention that the concentration of resources in the hands of a small elite amounts to a profound moral wrong that cries out for correction. The distribution of economic resources in a society is one of its most influential social structures. In a market economy, to have money is to have freedom. Income and wealth confer extraordinary freedom and advantages. Conversely, inadequate income and wealth give rise to exceptional disadvantages and the denial of freedoms. Indeed, the concentration of income and wealth, and in particular the wide gap between rich and poor, shapes every aspect of society. Vast numbers of citizens are effectively denied entry to the main activities of our society because they lack money, the basic ticket of admission.

Furthermore, it is our contention that there is no moral legitimacy to the claim of the rich to such a large share of the nation's resources. Perhaps stung by charges of moral illegitimacy coming from protest groups including UK Uncut, the mega-rich have strained to come up with fresh justifications for their oversized portion. One line of argument that has gained currency, at least among the rich, is the notion that today's vast fortunes were earned in a 'meritocracy'. The argument emphasizes the notion that inherited wealth plays a smaller role today than in the past. In particular, the rise of 'self-made' billionaires and the emergence of a wealthy class of corporate and financial professionals has led some observers to conclude that today's rich are deserving of their huge rewards, that income is now meted out in a ruthlessly competitive global economy where the best and the brightest rise to the top because of their own worth and contribution.

Not surprisingly, the meritocracy concept has become a staple in the literature on which members of the new elite rely. In a special report in January 2011 – shortly after the launch of UK Uncut – *The Economist* heralded the rise of what it described as 'the few': 'Societies have always had elites…The big change over the past century is that elites are increasingly meritocratic and global. The richest people in advanced countries are not aristocrats but entrepreneurs such as Bill Gates.' The magazine went on to celebrate today's super-rich, arguing that 'to become rich in the first place, they typically have to do something extraordinary. Some inherit money, of course, but most build a better mousetrap, finance someone else's good idea or at least run a chain of hairdressers in a way that keeps customers coming back. And because they are mostly self-made, today's rich are restless and dynamic.'

In fact, entrepreneurs make up a very small portion of today's top earners, estimated at less than 4 per cent.[17] Today's super-rich elite is composed mostly of corporate and financial professionals, who account for some 60 per cent of those in the top-earning 0.1 per cent (with lawyers and real estate developers accounting for another 10 per cent). In the past, corporate and financial professionals were regarded as agents who managed the enterprises of the owning class. In recent decades, however, these management professionals have moved centre-stage, grabbing more power for themselves – and a much larger share of the financial rewards.

The result, according to John C. Bogle, founder and former chairman of US-based Vanguard Group mutual fund organization, has been 'grotesquely excessive compensation paid to executive chiefs' – compensation that is 'unjustified by any remotely comparable business achievement'.[18] Bogle argues that the corporate world is now riddled with conflicts of interest, leaving little check on the cosy relations between CEOs and corporate directors, compensation committees and auditors. Similarly, in the UK, the High Pay Commission concluded that 'pay at the top has spiralled alarmingly to stratospheric levels in some of our biggest companies'. It also found that corporations were attempting to '"camouflage" executive pay' and hide 'ever more complicated pay arrangements… within reams of remuneration reports'.[19]

Nowhere has the money grab by the professional class been more evident than in the financial world, whose top players are members of an elite group that financial historian Charles Geisst has called 'the highest earners of all time'.[20] Among the top-earning 0.1 per cent of Britons, fully 30 per cent now work in finance.[21] This not only reflects how big the rewards have become at the top in the financial world, but also the changing nature of finance and its role in the economy. Traditionally, the role of finance was to raise capital for business ventures, to 'finance someone else's good idea' – as *The Economist* put it. But today's financial barons mostly avoid the slower, riskier rewards to be won in financing good ideas. Instead, they concentrate on financial speculation (also known as gambling) where the rewards can be much quicker and truly stupendous, and where there is often little at risk, since governments end up bailing out massive losses. Hedge fund managers have used financial speculation to catapult themselves into a stratosphere of income compensation that is in a league all of its own, vastly higher than even the wildly extravagant CEO pay levels at leading corporations. In 2009, the top twenty-five hedge fund managers in the world made a total of $25.3 billion – averaging a little more than $1 billion *each*.

Images of the super-rich financing good ideas or building better mousetraps or hairdressing salons cast these characters in an attractive light. But, outside the pages of *The Economist*, members of the new global elite aren't actually doing much of this. Nor are they especially talented or indispensable – or even particularly beneficial to society. More often, they are receiving gigantic rewards because of brute luck, ruthlessness, speculation, cheating, or simply because they were well positioned to direct income towards themselves or to capitalize on socially created opportunities that could have (and would have) been taken by others in their absence. Certainly there is no evidence that members of today's elite are any smarter, more talented or harder working than were the elite of a generation ago, who received a fraction of the pay for doing work that was at least as good and as valuable to society.

In fact, the sums of money earned by the rich – and everyone else for that matter – are hugely influenced by the particular laws and institutions that govern a society and that have been put in place by those with the power to make the rules (a subject we'll return to in the next chapter). It is often argued that today's big incomes are the result of 'globalization'. In fact, what is referred to as 'globalization' is simply the particular set of laws that govern the global economy, codified in trade deals and enforced by bodies such as the World Trade Organization. And these laws, conceived and put in place by the elite, have tended to favour the elite. Furthermore, while globalization has been experienced by all advanced nations, it is really only in the Anglo-American countries that the rewards at the top have grown so spectacularly. Continental European nations, and in particular the Nordic countries, remain more equal societies – because they have continued to redistribute incomes more equitably, as a result of the laws that make up their tax-and-transfer systems.

As we will argue in this book, the biggest factor in explaining today's colossal pay at the top isn't better performance or the effects of globalization. Rather, it's that our highest earners have managed to shape the agenda in the past thirty years, using their influence to put in place laws – domestically and internationally – that favour their own interests. Rather than wealth creation, their main achievement has been ensuring the diversion to themselves of an enormous share of the wealth created, what is known in economics as 'rent-seeking'.

The growing concentration of income and wealth at the top is thus largely the product of deliberate policy changes affecting the corporate and financial world, as well as the gutting of labour laws and social programmes that protected those lower down the income ladder. The rise of a hugely rewarded class of financial professionals has been greatly facilitated, for instance, by the dismantling of financial regulations that were wisely put in place in the 1930s, following the 1929 crash. And no discussion of how the rich manage to rig the rules in their favour would be complete without highlighting their role in convincing governments to reduce their tax burden.

Most crucially, the elite has managed, through a pervasive propaganda campaign, to convince much of the public that the huge redirection of rewards to the top is simply not an issue. This campaign – reflected in the media and in public discourse – has effectively changed social norms and expectations, putting forward a new social creed that celebrates greed and personal acquisitiveness (particularly in those at the top). With business-funded think-tanks churning out pseudo-theories about how enriching the rich benefits us all, rapacious behaviour on the part of the elite has come to be regarded as natural and healthy, even something to be admired and rewarded.

This is a sharp departure from the more egalitarian values of the postwar era, when such gluttonous conduct would have been frowned upon. Back then, there was a largely unspoken agreement in society as to the acceptable levels of remuneration for jobs at all levels, including at the top. Thus, business executives and the corporate boards overseeing them had a sense of the boundaries. They didn't reward themselves with princely compensation, because such behaviour would have been regarded by the public as inappropriate and improper, even vulgar. This social disapproval was reflected in the very high top marginal tax rates that prevailed in the postwar era, defining the limits of what was considered reasonable pay for even those performing the top jobs. Anything beyond that was seen as excessive, and society weighed in by taxing it almost all away.

In recent decades, those social constraints have been all but wiped away, silencing the popular outrage that would surely have otherwise accompanied such a massive heist of national income by the richest members of society. The propaganda campaign selling the virtues of unbridled acquisitiveness seems to have convinced large segments of the public that mind-boggling greed is acceptable or at least 'a fact of life', an inevitable, pointless-to-resist aspect of the postmodern age. With public outrage largely muted or deflected onto gazing breathlessly at the lifestyles of billionaires, there has been little to deter those at the top of the corporate and financial world from dipping ever deeper into the till.

The implications of all this – for social equity and harmony, for the well-being of individual citizens, for British democracy and for the very survival of the Earth's ecosystem – are clearly mammoth, and are the subject of this book. But let's start with some clarity about what's taken place and not be sidetracked by misconstruing as a 'meritocracy' a system that is delivering the largest rewards in history to a group whose main distinguishing characteristic is an unusually fierce determination for self-enrichment.