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CHAPTER ONE

The trickle-up effect: what is the state for?

The modern welfare state should perform a number of duties for its population. It should carry out social activities, such as providing education and welfare support. It should give its population physical security, which includes acting against crime and public disorder within the state and providing a defence against attack from outside. And it should provide a range of relevant functions to the economy, such as establishing a legal framework for economic activity, so that businessmen know what they may and may not do, and a sound-money foundation so that the process of buying and selling can proceed smoothly. It raises money through taxation on individuals and businesses within the state to pay for what it does. In democracies, individuals are elected to office in order to decide the form and extent of state powers needed to carry out these functions.

If the functions work in favour of a particular group over another, because they reflect the interests of a dominant coalition of individuals within the state, they could be seen as being performed unfairly. Unfortunately even modern welfare states may be less than civilized in that the overall balance of benefits is not fair. Some citizens may be favoured at the expense of others. One of the purposes of this book is to explain why some groups might be correct in seeing the state as unfair. The groups who feel they are not well served might well ask: what is the state for? And if it is not for us, who, or what, is it for? Has it become merely a tool for the maintenance of an unfair system which favours a particular group? Such unfairness might be contrived deliberately because of the intentions of dominant individuals or unintentionally because of faults in the system.

One indicator of fairness in the state is the extent to which the incomes of the rich are greater than those of the poor. In the states which approximate to the Anglo-American socio-economic model – Britain and the United States – the income difference is much greater than in the social democratic states of continental Western Europe. The income inequality is the difference between the median incomes of a significant group at the top, say the richest 10 per cent, and a significant group at the bottom, say the poorest 10 per cent. Whether the poorest 10 per cent are above the line of absolute poverty is an important but not necessarily a decisive question: in the absence of absolute

poverty, the difference in wealth may be so great as to appear unjustifiable in what purports to be a single community of people.

It was reported that in the United States in the early twenty-first century chief executive officers (CEOs) were on average paid 400 times more than their employees, whereas 40 years ago they were only paid 20 times more. In Britain top bosses earned 100 times average earnings, and their income was rising at a rate of 16 per cent compared to less than 3 per cent for their employees.¹ In April 2008, it was reported that income inequality in the United States had reached its highest level in 37 years. The income of the richest 5 per cent had increased by 60 per cent in the past 20 years, whereas that of the poorest 20 per cent had increased by 11 per cent.² In 2006, bonuses in the City of London, the UK's financial centre, totalled £19 billion (US)³ and had a serious impact on the city. 'The effect of that money has become truly toxic. The presence of so many people who don't have to care what things cost raises the price of everything'.⁴ Is there an acceptable and fair difference between the incomes of the rich and the poor? The experience of prices and incomes policies in Britain in the 1960s suggested that the question could not be answered.⁵ Perhaps it should not be raised at all and simply left to the market. Yet reasonable people instinctively know that too big a difference is unacceptable, and even bad for the economy.⁶ They conclude that if this is what the market does, then the market needs correcting.

This book concentrates primarily on developments in Britain, but it should be stressed that events in this country were very much connected with events in the United States. Paul Krugman wrote a brilliant account of the way in which the difference between the incomes of the very rich and the middle rank in the United States was reduced in the years from the late 1930s until the early 1980s, and how the Second World War and the policies of President Roosevelt led to a more equal society.⁷ For about 40 years the United States was a middle-class society, in which most people had a reasonable standard of living and gains in wealth were spread across the social spectrum. Krugman argued that in the 1980s, under President Reagan, great differences in income began to reappear to produce what he called a new Gilded Age. The new inequalities in society, with great differences in income, and gains in wealth given mainly to the rich, were generated not by economic forces, which right wing economists would have us believe, but by deliberate political engineering. Indeed Milton Friedman shaped his theories to suit his politics, not the other way round. (Perhaps this is the case with

all economists.)⁸ The rich were encouraged in their wealth seeking by lower levels of income tax and corporate taxation. While the middle class relied on earned income, the super-rich could gain wealth in much larger amounts from returns on capital as well as income. Thus by the end of the twentieth century the United States returned to levels of income difference it had not seen since the first Gilded era, which ended with the great crash of 1929.

Across the Atlantic, these trends were mirrored more or less precisely in the United Kingdom. Not only was there an imitation of the policies, with Mrs Thatcher imitating Reagan, and Blair following in her footsteps, but the business world was encouraged to imitate levels of reward for managers because of what they argued was the need to pay the growing rate for talent. Krugman rightly pointed out, however, that the economic explanation of this was weak, and the more persuasive argument was the success of a strategy that was driven by politics, not economics. The people who favoured making the rich richer and the poor poorer managed to regain power. The United Kingdom also became a country with light regulation. No one had the courage to challenge this argument. So the Anglo-American economies moved together, in, as it later appeared, a tragic *pas-de-deux*, towards a greater income differentiation, and partly because of that, a greater carelessness about welfare. Krugman argued that after the early 1980s the number of the comfortably off in the United States was significantly reduced, as the number of super-rich increased. The same thing happened in the United Kingdom, as this book explains, because of, to a considerable extent, the lead given by the United States. This was the flip side of the special relationship.

It should not be assumed that increase in national wealth means everyone was better off. Indeed the opposite might be the case, and this would be an indication of a state that is becoming less fair. In 2007 the Joseph Rowntree Foundation reported: 'there has been [in Britain] an increase in the number of households living below the poverty line over the past 15 years. These households account for more than half of all families in areas of some cities. In the same period, households in already wealthy areas tended to become disproportionately wealthier, with many rich people now living in areas segregated from the rest of society'.⁹ The report stated that since 1970, levels of poverty and wealth in different areas of Britain had changed significantly, with the country now moving back towards levels of inequality last seen more than 40 years ago. While the number of people who were living in extreme poverty had fallen, the number of people living below the poverty line had

increased, with more than one in four households classed as being breadline poor in 2001. From the point of view of the stability of society, this was probably a more dangerous situation than would have existed if there were more people in extreme poverty as in Victorian England. The level of active protest tends to increase when things begin to improve.

These developments raise questions about what it means to say that a country is wealthy. If the average income or standard of living has gone down, it means very little that the total wealth has gone up. The easy assumption, much liked by neoliberal governments, is that an increase in national wealth is good. They like to think that the wealth trickles down – a phrase adapted in the title of this chapter. The happy theory was that wealth created by the few was spread out to the rest by the acts of paying for services and buying goods, the so-called trickle-down effect. The wealth of the few permeated through the strata of society to the benefit of the many.

There was no evidence that this happened. The great wealth of some could get in the way of a more general increase in wealth, as is shown later in this book (see, in particular, Chapters 6 and 8). A better definition of a rich state would stress on the percentage of the population that were well off, and the difference between median incomes at the top and bottom, rather than total wealth. A high number of billionaires in Kensington and Chelsea do not improve the economic standing of people in the rest of London and Britain, and they might indeed be a hindrance to the more equitable distribution of wealth. They make the rest worse off.

Increasing differentiation of income, such as that noted above, was normally associated with a number of other forms of unfairness, especially with regard to the functions for which the state was responsible.

- It was common in states with large differences of income that less well off individuals paid a greater *proportion* of their income in taxation than the rich. Most richer people probably paid more in tax in absolute terms than the poorest individuals. But it often happened that in the balance of expenditure and receipts from the state, through tax on purchases and receipts from benefits, the proportion paid by individuals who were poor was larger than that paid by those who were rich. This was the case in the United Kingdom.
- In such states the children of the poor often received poorer educational support than that provided for the children of the rich. Richer parents were able to afford to live in areas where the schools were better, or paid for private education. This was the case even though it would seem

unfair that children, who are innocent of responsibility for their economic circumstances, should be deprived of the opportunity to succeed because of the chance factor of where they were born and to whom. A reasonable view would be that it was fair that the state should make sure that all children should receive a level of education which was sufficient for them to identify their ability and equip them to use opportunities for further education or profitable employment. But this was less likely as the difference between rich and poor increased: it has never been attempted.

- Despite more investment in education by the British New Labour government, inner city state schools remained of low quality. Politicians were inventive in their approaches to putting right the problem – with new privately sponsored academies and the like – but failed to employ enough good teachers. In fact the richness of improvisation of new ways of types of school was a reflection of the underlying problem: not enough money was allocated to schools to teach properly. Classes in the state sector remained too large. Indeed a Minister of Education was booed at the annual conference of the National Union of Teachers in early 2008 when he claimed that a class of 70 was perfectly manageable in the state system. In the private sector in contrast classes were kept small.
- In such a state it was also more likely that the children of the poor would be denied opportunities to enter prestigious employment, such as the professions, or government, even though they were as able as those who succeeded, because of barriers to do with social class or prejudice. In the United States as in the United Kingdom, the idea that there was considerable upward mobility was a myth. For most immigrants, the United States was not the land of opportunity.¹⁰ Some professions in the United Kingdom had been guilty of excluding those whose face did not fit. These included the medical profession, which a few years ago was found to be excluding British students from the wrong background or from ethnic minorities.

A number of books have been written about the tendency for judges, army officers and senior civil servants to come from public schools and the upper middle class.¹¹ It was claimed that this was because the range of skills possessed by such people, but not by those from other backgrounds, was more suited to the job. It was more likely that existing members of these professions preferred people like themselves.¹² The pool of appropriate talent was invariably much bigger than it appeared to be to

insiders. This point is confirmed by the stress placed in a 2008 recruiting advertisement for judges that appointment was now on the basis of merit, which implied that this had previously not been the case. (The advert appeared in *The Independent*, 14 February 2008.) Things are changing but too late and too slowly. Some efforts have been made to alter this situation in recent years – not entirely successfully.

- It was also likely in a land of wide income differences that the legal system would favour the rich over the poor. The public myth was that the law served everyone equally but a glance at the popular press in the United Kingdom would rapidly indicate that this was not the case. The law was too expensive for the poor, or it could be used by the rich to serve their purposes above those of the community. The fact was that the restriction of legal aid in the early twenty-first century made it more likely that the legal system would serve the rich more than the poor (see Chapter 2). In the autumn of 2008, a judge in the family court took the unusual step of publicly complaining that many people, including single mothers, had to defend themselves without the benefit of professional support by a barrister because of the lack of legal aid. It became more likely that poorer elements in society would not risk going to court as even if they could pay to bring a case they could not afford to lose it.
- In a country with wide income differences it was also likely that the rich would be more likely to obtain good medical support than the poor. The National Health Service was in many ways excellent, but the claim that it treated all equally and according to need was false. In practice, priority treatment could be obtained through influence or money which resulted in the postponing of treatment for others. There were also wide regional variations in the quality and availability of treatment. Those who could afford to pay for treatment could be treated privately often by the same consultants who worked in national health hospitals. In countries other than the social democracies of Western Europe, the rich could buy an unfair proportion of the available medical resources, human and capital. In Britain those with influence and money could usually find ways of jumping the queues waiting for medical treatment.

Globalization and fairness

Globalization and increasing differences in wealth were positively related. Various social aspects of globalization reflected the increasing differences and added effects of their own. In a more globalized world, individuals

and companies could more easily obtain free exit from the state in various senses, thus avoiding its laws or taxes, or the obligations of citizenship. These individuals were normally the richer members of society. The companies were the larger and multinational ones. They could more easily avoid tax by locating themselves where taxation was low or non-existent as in one or more of the large number of tax havens around the world. Individuals might reside in a state, and benefit from its functions, but in Britain they could claim the status of being *non-domiciled* (non-doms) and thus avoid tax. Companies could avoid taxation by choosing to be registered in a country with lower levels of company taxation.

It was reported that in Britain in the early twenty-first century a large number of well-known companies, which purported to be British, in fact paid little British tax. In 2007 about 112,000 individuals living in Britain claimed non-doms status, an increase of 74 per cent over the figure of 2002 (*The Observer*, 9 September 2007). The Trades Union Council claimed that closing this loophole in the UK tax law would increase revenue to the Government by about £4.3 billion even after allowing for those choosing to leave the country after the change (*The Observer*, 9 September 2007). Spokespersons for the rich non-doms naturally made different calculations.

Non-doms benefited in London from a range of assets, such as a rich cultural life, excellent housing and physical security, and yet paid little or nothing. They were not liable to take on public duties such as jury service. The modern super-rich, in general, with a few honourable exceptions, were singularly mean when it came to charitable giving. They would also find it easier than the less well off to leave a country when accused of wrongdoing. They could choose among countries from which they were less likely to be extradited. In the age of globalization, the number of those who could exit from states in these various senses had greatly increased.

Globalization also added to the difficulty of attaching responsibility to individuals and companies. It was more difficult to identify precisely who was responsible for what because of the impenetrable layers of interlocking decision-making. The practice of outsourcing, in which the work of a company was performed under contract by another company – often in another country, added to the difficulty. Finding who was responsible was hard enough within modern countries but became much more so in the world of multinational business. Multinational companies might be identified as the immediate agent of harm to local populations, but they had become adept

at shifting blame onto governments, or local agents, or even local criminals. The behaviour of oil companies in Nigeria damaged the health of indigenous populations and the environment, but was impossible to challenge through the courts. Although organizations concerned with environmental standards and human rights tried to closely monitor the behaviour of such companies, and succeeded in getting them to be more careful about their public face, there was need for constant vigilance. The companies inevitably tried to promote lower standards with regard to the environment and human rights, including labour standards, if they could.

As will be seen in the following chapters, in the age of globalization a new kind of risk for publics had emerged: increasingly complex financial mechanisms, such as multi-layered hedge funds, and trading in a range of opaque derivatives, such as collateralized debt, serviced the financial needs of the super-rich.¹³ The ever-increasing range and scale of such instruments made it more difficult for national authorities and international organizations to manage the international economy and to identify the sources of wealth. If things went wrong, as they did in the 1990s and the first decade of the twenty-first century, it was the general public which ultimately paid the price. The mortgage company Northern Rock was supported by a massive £20 billion out of general taxation when it ran into difficulties in 2007–8, a contribution of several hundred pounds by each man, woman and child in the country. (This was but the start of the handouts.) After much delay it was eventually taken over by the government. These new instruments increased the risk of uncontrollable collapse if things went wrong, and the public paid out of taxation to keep banks afloat.¹⁴ At the time of writing in the autumn of 2008 the danger of a collapse in the financial system seemed very real. As will be seen organizations like hedge funds and investment banks found themselves in deep trouble, but it was unlikely, even given more and better regulation, that this would have much effect on the distribution of wealth. Indeed the rich were likely overall to emerge from the crisis even richer, and the less well off even worse off.

There were, therefore, four interlocking developments which made it more likely that corporations and their managers would benefit, and others lose, in a globalized world, even when their states were formally dedicated to a civilized form of government. These were

- Money was earned and business opportunities exploited outside the jurisdiction and beyond the field of visibility of the home state. International

controls were incapable of dealing with this problem. Companies could be located in territories where taxes were lower and regulation was light. Individuals could conceal their earnings in offshore trust funds.

- There was increasing difficulty in attaching responsibility to managers or individuals because of the complex multitiered structure of management in big multinationals. No one was to blame, no one had responsibility. Globalization added to the diffusion of responsibility.
- For companies and the rich it was easy to exit from the modern state, in the formal sense of moving beyond its jurisdiction or in the physical sense of escaping from its frontiers. It became common for the very rich to be multinational, or deracinated, and the number of these was rapidly increasing in the globalized world. Any attempt to subject them to national jurisdictions, even as regard paying parking fines in London, or to pay a fair tax, led to threats to exit to more congenial regimes.
- The richest groups within modern states were often dominated by individuals who were not from the community in which they lived or of that nationality. Their group was one that transcended the state. The poor in contrast were more likely to be unable to obtain any form of exit from their state. Their incomes were wholly open to levy by national tax authorities. They were physically more confined, not just because they could not travel, but because their attachments to their state of origin were relatively immutable compared with those of the super-rich.
- The economic crisis of 2007 onwards illustrated another failure of trickle-down. The retailers in the developed world who adapted best to the recession were those in the cheap and low quality sectors, such as the clothing retailer Primark. These were the companies which depended on keeping the costs of their T-shirt producers in the third world as low as possible. In effect the squeeze in the developed world led to a further squeeze of the already meagre incomes of even poorer people.

The visible expressions of trickle-up

It was like the appearance of grand houses on the landscape in earlier times which announced the visible presence of wealth. The modern equivalents were the compounds which separated the rich from the rest of the community and the extraordinary conversions of property within them. In villages within commuting distance all around London there sprang up gated compounds. In London, streets in the better heeled suburbs were

constantly disturbed by the re-development of millionaire mansions, the knocking through of walls between adjacent houses and the installation of swimming pools and underground sports facilities. In Europe, the US practice of building gated communities had become more common through the twentieth century. Every city had acquired its Mulholland Drive, the Los Angeles prototypical avenue of gated communities.

In many other countries, including those in Western Europe and in Asia, these became the model in both the physical and the metaphorical senses. The richer individuals were protected on the inside and the poorer individuals, often seen as threatening, were kept at the gate. But there were also centres of wealth, such as London and South Eastern England, which formed separate economies within the larger national economy, where prices were only affordable to the rich, and poorer individuals were unable to pursue lives that would be called normal. Those who did the supporting jobs, cleaners, hospital support staff and the like, had to travel increasing distances to their work. This situation had adverse consequences for those who lived outside the compound. It was not just that the people inside did their own thing but also that they made life more difficult for those outside.

The countryside beyond was also deeply marked. For instance the buying of second, or more, homes, often made housing unaffordable to locals in more desirable areas outside the zone. The situation in the United Kingdom was summarized by Bella Bathurst as follows: 'In the most coveted areas of England, Cornwall and the Lake District, nurses, fire-fighters, teachers and shop workers are being forced to turn down jobs because of the lack of affordable accommodation. In the most picturesque villages there are now so few locals that the infrastructure has begun to break down, forcing primary schools, shops and health centres to close'. (*The Observer*, 2 September 2007) Estate agents reported that there were about 500,000 second homes in Britain, but there was evidence that the real number was much higher. It was also noted that the practice of buying property to let had the effect of driving up the price of housing for those who wished to buy. Those who had wealth were able to make investments, involving what was called building up a *portfolio* of properties, which made things more expensive for others. It was reported that in 2006, 70 per cent of the 20,000 new apartments created in London had been bought up for let. In the crash of 2008 some of these new landlords ran into financial difficulties, but it was highly likely that when the smoke had cleared the concentration of ownership would be largely untouched.

The compounds of the rich were also remarkable in that they became organized transnationally. Their inhabitants, in say, London, maintained affinities and strong social connections with their inhabitants in New York and Washington, New Delhi and Tokyo. There was a sense in which such people in these various cities inhabited a single transnational compound. They often owned property in the other cities, and visited frequently to shop and enjoy the various amenities of the other cities. Rich individuals from Colombo had flats on the fringes of Hyde Park. Russian oligarchs owned one or more billion pound mansions in Chelsea or Kensington – and so on. Hence attitudes and standards were shaped multinationally, across compounds which were linked together across states, rather than nationally. These might be reflected in a mutual reinforcement of confidence in the right to top salaries, the legitimization of money-gauging practices and the general acceptance of neoliberal economic ideas.

Such views were sometimes cloaked in a thin veneer of economic theory that high salaries were necessary in order to attract the best individuals in the international market place as skilled managers. This theory had yet to be tested since the pool of skilled managers was artificially restricted by the habit of giving preference to those who were already insiders. This pool was almost certainly much bigger than insiders claimed.

The transnational compounds of the rich were surrounded by clusters of privileged natives. In Britain members of top schools or universities often appeared to think that only people from their own schools or universities could do the job. The older the school or university the more likely this was to be the case. Evidence produced by the Sutton Trust in 2008 concluded that the way to the top was still through private education.¹⁵ Ninety three per cent of pupils went to state schools. But private schools – called public schools in Britain – still contributed 52.9 per cent of the Oxford intake, and 56 per cent of that of Cambridge – the latter having increased by 6 per cent in 20 years.

It was not just that the private schools had better A level results. It was also that a much larger percentage of their intake stayed on to take A levels. In the state sector many pupils left school before A levels at the age of 16! (Outside Oxbridge, other leading universities, like the London School of Economics, which had a reputation for being left wing, also took most of their British undergraduates from the private sector.) Oxbridge graduates went on to dominate the elites in most areas of British life. In 2007, 81 per cent of the judiciary went to either Oxford or Cambridge, as did 82 per cent of all

barristers, 45 per cent of leading journalists and 34 per cent of front bench ministers and shadow ministers.¹⁶ In other words 34 per cent of top politicians come from a cohort of 7 per cent of school leavers, and similar points could be made about the other elites. One view of these calamitous figures was that they confirmed that the best pupils were from the private sector and were rightly selected by the best universities. Another view, however, was that they indicated a shocking waste of national talent.

One enlightened Cambridge admissions officer concluded that allocating places on the basis of a lottery would produce the same degree results.¹⁷ There was little correlation between entry qualifications and the quality of degree, and Oxbridge teaching would still be excellent. It was also alleged that the figures reflected the lack of ambition in the state sector: too few state school students applied to Oxbridge and too few teachers encouraged them to do so. Evidence was still needed to sort this out: what percentage of those who applied to Oxbridge from the state sector gained entry, compared with those from the private sector? Was the dominance of Oxbridge and the public schools a consequence of their discrimination against pupils from comprehensive schools, or was it the result of the low ambitions of the rest? Probably it was a bit of both but the jury was still out. Yet the broad impact of this situation on the structure of British society in the early twenty-first century was clear. It was to make it easier for the off-spring of the local rich to gain the kind of experience, and establish the kind of social connections, which made it likely that they would end up alongside the transnational super-rich. They would be working in the same companies and mixing in the same society. To see this one only needs to attend a game of polo.

What was clear was that there had now emerged an international class of the super-rich which generated a set of norms justifying their wealth and discrimination against others. This class was connected with the class systems of nation states: it was now becoming linked with and helped to sustain the privilege of natives. But it had no hesitation in detaching itself from its states of origin. Often it did so in order to increase its capacity to create wealth, and in consequence achieve political power, and to protect its ability to move on if necessary.

Trickle-up also had an impact on national politics. Local politicians in democracies became more closely linked with moneyed communities, local and multinational, because of the need to obtain ever-increasing subventions to fight elections and maintain political parties. This became a vicious circle

since the availability of such wealth to one party made it necessary for other parties to do the same. The attentive public was hugely entertained in October 2008 by accounts and photographs of a party at the holiday residence in Corfu of British millionaire Nathaniel Rothschild attended by Conservative Shadow Chancellor George Osborne, himself from a moneyed family – and educated, like a majority of his Tory colleagues, at a top public school, Eton, and Oxford University.¹⁸ This group was joined by the chairman of the Conservative Party, who also owned an expensive holiday retreat on Corfu, and together they visited the yacht, moored nearby, of Russian oligarch Oleg Deripaska, allegedly to arrange a large donation to Conservative Party funds by the Russian, filtering it, to comply with British electoral law, through a British company owned by him. British New Labour Minister of Business – then Commissioner for Trade in the Commission of the European Union – Peter Mandelson, was a guest of Deripaska on the yacht, and apparently picked up something of what was going on. What was amusing and damaging to the Conservatives – and the Labour Party – was not so much the allegations, which were hotly denied, as the glimpse of the lifestyle of this privileged group and the company they kept. Suddenly the curtain was drawn aside and there was a tableau of top politicians, from both sides of the British political spectrum, at play with the super-rich British and Russian.

The problem of controlling the rapidly escalating costs of electioneering was related to the development of transnational coalitions of the rich. The biggest donors were often the local representatives of these coalitions. In turn those who donated to party funds expected a say on policies and national structures. Hence companies such as Exxon gave vast sums to the Republican Party in the United States and obtained in return permission to exploit Alaskan oil and large reductions in taxation for high earners. British Labour governments were comically sensitive to the danger of adopting policies which annoyed multinational businessmen such as Rupert Murdoch, as was revealed in Alastair Campbell's diaries. It was very difficult to escape from this vicious cycle. It took great political courage to limit the size of donations from such donors, since it might lead to failure at the next election. Hence there was the prospect of an ever-increasing domination of local politics by transnational coalitions of deracinated individuals.

The policies which emerged from such links were generally to the disadvantage of those with middle and low incomes. The rich succeeded in protecting lower levels of taxation for themselves in the state, but at the

same time pushed to reduce the social wage. The norm for the upper limit of income tax in Britain was fixed in practice at 40 per cent, not for any particular reason of economics, but because it had become the acceptable upper level. (The economic crisis led the suggestion, hotly contested on the political right, that this might be increased to 45 per cent.) The 40 per cent limit is an oddity. It is upheld in the Anglo-American economies, partly, as will be seen, because of an economic argument, and partly because it seems to conform to the ideology of the super-rich. They will of course avoid taxation where they can, but, if forced to accept the need to contribute, they draw the line at 40 per cent. In this way they cut off a return to what they see as the evils of socialism which sanctioned much higher levels of taxation, even marginal rates of 90 per cent on the very highest earners.

One effect of this was that advocating an increase in income tax, even when it was clear that this was just for the very few richest individuals, was politically unwise. The Liberal Democratic Party recommended a higher rate of 50 per cent to pay for better schools in the British general election of 2005. They lost votes because of it. The political debate on whether there should be more or less taxation was normally not so nuanced: the politicians, particularly those on the right, were happy for it to be assumed that more taxation meant more for everybody. The New Labour Party was reluctant to challenge this presumably because they did not want to be accused of old style socialism.

The American right wing economist Arthur Laffer proposed in 1971 that government receipts from taxation increased as tax went up from zero and became zero again if taxation reached 100 per cent.¹⁹ In between the two extremes there was an optimum level of taxation at which returns to government from taxation would reach a maximum. Laffer held that the changes in tax returns were smoothly related to tax levels. Those on the far right were delighted to be told that tax reductions could be justified as a way of stimulating an economy as well as increasing government revenue. Apparently a lower tax rate meant more work, higher incomes, and an increase in the amount of tax paid. Those who were not ideologically motivated concluded, however, that the effects of changes in the middle were unpredictable. There was some discussion on the ideal level, but no overall agreement. The best guess – and it was a guess – was that as long as taxes were kept below 40 per cent there would be no economic disincentive to further work and enterprise. This level could just as easily have been 50 per cent or even 60 per cent.

But 40 per cent was the level which stuck in the United Kingdom, as well as other countries, with a hankering after supply-side economics. It was a pretty shaky foundation on which to base judgements about how much money could be taken from the rich to support a state which was fair to, and for, all its citizens. The idea of a smoothly progressive tax system was undermined by a hunch on the part of an ideologically motivated right wing economist.

Before the British budget statement in April 2009, in which an increase of the top income tax rate to 45 per cent was to be proposed, researchers at the think tank, the Institute of Fiscal Studies (IFS), sprang to the defence of the rich.²⁰ They estimated that such an increase could lead to a net loss of tax of about £800 million a year because the rich would pay more into their tax-free pension funds, take salary in the form of capital rather than income, move funds out of the country or – amazingly – work less hard.²¹ A higher level of taxation would also lead to the exit of the targeted individuals and their money. But the rich could simply not be allowed to get away with this argument. Any government concerned to defend the civilized state had to insist that the moral argument must prevail over short-term economic expediency. The IFS study at least revealed some elements of a counter strategy. Pension fund contributions would have to be limited, international movements of money made transparent and substituting capital gains for income and tax havens eliminated.

It was certainly true that capital fled from France in the early 1980s because of President Mitterrand's attempts to make France more socialist. But in the European Union there were several successful economies, and more civilized states, which had found it possible to have a much higher level of taxation than that of the United Kingdom without any outflow of capital (discussed further in Chapter 3). These included Germany and, after Mitterrand, France, as well as the more well-known examples such as Sweden and Denmark. In Britain the business world claimed that the total tax take was the highest in Europe. This was not the case: it was amongst the lowest. The rich were good at threatening exit even for marginal increases. And if, as the IFS argued, top people would not work as hard why not let others take their place who would?

The super-rich put pressure on governments to keep taxes, as well as the social wage to which they contributed, low. In consequence the social-economic arrangements of Britain in the early twenty-first century were concerned primarily to create wealth, and were relatively careless about its

distribution. Naturally the greater the wealth the more the government was in thrall to the individuals who made it, and the less attention it paid to the well-being of the rest.

The more globalized an economy, the stronger the pressures downwards on the social wage were likely to be. Hence they were much stronger in the United Kingdom than in most other West European states. In Western Europe the countries with the largest social wage, and the highest proportions of national income paid in taxation, were those states which were less involved in the globalized economy. Britain – and Ireland – with a lower social wage was more globalized than Sweden, which had a larger social wage. As will be seen, there were colossal risks in being so open to the globalized economy. The crisis of 2008 seemed to support the judgement that the continental Europeans had been right to resist the demolition of their social democracies. Their banks and their citizens were less badly hit than those in the Anglo-American Britain.

The international social economy of trickle-up

It paid business to source production in countries with low labour costs. The condition of this was that there should be access to the market. In the age of globalization this condition was likely to be satisfied since the principle of unregulated free trade was one of its orthodoxies. If management had to live near the factory, there might be pressures to locate in areas with good schools, golf clubs and the appurtenances of the civilized life. This was one of the reasons why countries with a higher level of taxation on incomes in Europe nevertheless often had good levels of inward investment. But always, naturally, the condition was that production should be the cheapest, given that the right conditions for a congenial lifestyle were met. It often happened, though, that high level management did not need to be nearby, and in this case only local gangmasters were required. Production could be located in China and management, and research, remain in California. Textiles and shoes could be made by the cheapest possible labour, including children, in Indonesia and the Philippines, and marketed by posh shops in the West.

The consequences of this situation for non-management in the developed state were also well known. The policies of the European Union were illustrative. Labour had to be more flexible, there could be no jobs for life and there had to be more focus on high added value occupations and preparedness to accept lifelong retraining and frequent relocation. Redundancy was now a

feature of the labour market at all levels, for the skilled as much as for manual labourers, and workers had to be equipped with advanced transferable skills.

A measure of freeing up the market place for labour, which had been too rigid, might well have been necessary in Europe, and the European Union's strategy for jobs was a reflection of this.²² But there were problems also. The social and financial costs of adjustment were heavier for the employed than for the employer. The employer might seek to remove jobs altogether, or to insist on worse conditions of employment, and certainly pay as little as possible for retraining and relocation. The process of dealing with economic failure was also likely to cost the workers more than the employers. If a business failed the first claim on assets was that of the tax authorities, the second was that of the banks for repayment of its loans, the third, and last, claimant was the workforce, which might well have to accept a severe diminution of pension funds in order to satisfy the other creditors. It was common for the management of the failing business to come out of the process of receivership and bankruptcy with their personal assets well protected, and with enough capital to start again.

In modern Europe it was the employees who paid most of the costs of business failure. They were required to be flexible. As with states, those with wealth had the power to resist change. The rich had an extraordinary capacity to survive untouched by the outrageous fortune that troubled others. Business failure was no impediment to large bonuses. A collapsed company would lead to a loss of jobs for the employed but not for those who managed. At least not for those with the highest incomes!

It does not seem too long ago that economists argued that there was a case for an international specialization of labour, with textiles and work that relied on physical skills transferring to the developing world, and more advanced industries, and research, remaining in the developed world. This now seems entirely irrelevant. No matter how flexible a workforce, or how highly trained, the outflow of jobs to areas where costs were lower could not be prevented. Technology and education had now moved to the point at which even the most advanced skills were also transferable, and labour in countries such as China and India had already proved highly adaptable and capable. The lower cost centres could also draw in the more skilled jobs of the modern states. The idea that there could be an international division of labour was discredited since most jobs at any level could be carried out anywhere. Getting more flexibility

and education was only a holding action since they did not interfere with the longer term process of transferring economic activity, including jobs, to where it cost less, and where it was more likely that managers would be able to hold the labour costs down. If they failed in the new centres of the present, they could move on to other cheaper centres.

Managers now focussed on protecting their interests in the new centres, by, for instance, preventing the unionization of labour. Capital which had relocated to such countries was likely to reinforce illiberal practices in the host country. The poor record of China on human rights and enfranchising workers was one of its attractions for mobile international capital and not a difficulty. One of the benefits of moving production to places where it was cheaper was that it was easier to prevent labour acquiring any collective muscle. In contrast the coalitions of business elites survived largely intact, as long as they remained prosperous enough to generate the necessary amenities, and indeed continued to protect and promote their interests in the old centres as much as in the new. The responses of the modern states, such as those in Europe, have so far not been effective.

Globalization helped the emergence of a group of rich, highly mobile, employers with incomes which were rising further and further above those of the rest. It also encouraged the appearance of massive amounts of highly mobile investment capital which in its most recent form, private equity, could even escape from the disciplines imposed by the stock markets. In consequence the states of Western Europe became less civilized in the sense that they were less capable of carrying out their functions fairly. Those who were treated unfairly might reasonably claim that the state in which they lived did not serve their interests. What was the state for? If the question was interpreted to mean – whom did it serve? – the answer must be that it served the transnational coalitions of rich individuals better, and the middle and lower income locals less well. That was one of the consequences of globalization.

Justifying economic unfairness

Inequalities among populations within a state were analogous with inequalities between developed and developing states. One argument was that these inequalities were the result of the deliberate policies of the developed states, which is analogous with the argument that a failure to act fairly by the rich within states is a cause of disadvantage to the rest. The better off failed

to act to put things right, possibly because it was believed that correction would happen automatically, for instance, through the trickle-down effect, or because the rich had hardened their hearts. One puzzle was that whereas the rich were traditionally likely to promote the common good through charity the modern super-rich gave less to charity than those on middle or lower incomes. Perhaps, as already indicated, the explanation was that a good number of the modern super-rich, unlike their predecessors, did not identify with local communities. Globalization, and insulation within metaphorical and actual gated communities, had detached them from those to whom they might have felt obliged to give. There was also an ideological factor: the values of such people might be influenced by extreme forms of neoliberalism which supposed that there was no such thing as the deserving poor. This was the kind of Tory view which in mid-nineteenth century England had led directly to the 1846 Irish famine.

A second explanation, which applied to individuals as well as to states, was that the increasing differentiation was to do with the system. Perhaps it was the system of globalization which dominated and made the exploitation of the poor, and the unfair state, inevitable. No group was to blame, but the system was. It made it inevitable that there would be unfairness. The argument at the international level was that developing states were caught in a system of trade which was bound to be to their disadvantage, as the price of commodities inevitably fell behind that of manufactured goods, and, as trade became more free, the strength of the exploiters increased.

A third explanation was that the unfairness was a consequence of the behaviour of the disadvantaged group. Peter Bauer argued that aid was a way of taking money from the poor of rich countries and giving it to the rich of poor countries.²³ In this kind of view underdevelopment was always the result of the failure of the poor country or those who advised it and was often due to corruption in the developing state. Samuel Huntington argued something similar.²⁴ There was ample capital available from the ordinary commercial markets to finance well-formulated schemes for new businesses in developing countries. The lack of such schemes was the result of the lack of insight or technical know-how, or the corruption of governments, and had nothing to do with the failures of the capital market. This was an explanation which was favoured by the right of the political spectrum. Even in 2007 it was common to hear from neoliberal think-tanks that aid was part of the problem, not the solution.

There were other theories from the right which purported to explain economic differences within the state. These included

- That there had been a depletion of the gene-stock. This view held that failure now was the result of past success, since the more able individuals had escaped from their deprived background. Only the less intelligent, less competent and less energetic were left behind. These individuals inevitably remained poor and carried out less intellectually demanding menial jobs. It was therefore inevitable that there would be a degenerate poor: nothing could be done about it. In modern times the ways of expressing these views were limited by the dictates of political correctness. They moved quite close to eugenic or racist explanations.
- That there had been a transmission of expectations between members of less successful groups, and between generations, which meant that they were likely to fail economically. The children of the poor preferred passive and unsophisticated pleasures, such as watching television, or playing computer games, because these were what their parents and friends did. They did not believe in education and had no wish to escape to a more rewarding but more demanding place in society. A version of this view had obvious and tragic implications: that the poor example set by parents led children to link up together in gangs which acted beyond the law and were often violent and deadly.
- That the labouring class was convinced that the natural order required that they should be workers and the upper class the managers. This was an inheritance from an earlier more settled era when the Lord was in his manor – or the church – and the ploughman in his field. Accordingly in Britain the role of trade unions was to obtain higher wages for the workers, not to get too close to management or become involved in any of its functions. Such attitudes were frequently found in British trade unions up to Mrs Thatcher's time. They reinforced the exclusion of individuals from less-privileged backgrounds from top jobs, and explained the reluctance of British labour to be involved in co-management arrangements promoted by the European Union known by the German word *Mitbestimmung*.²⁵
- That in modern early twenty-first-century states there was a failure of key elements in the units of the social system, especially the family as reflected in one parent families, or of the community, so that there were no systems for mutual self-help. The right tended to stress the damage to the development of children by the absent father or the out-at-work mother.

Their own tradition of farming their children out to boarding schools at the age of five did not seem to be comparable. More liberal democratic commentators tended to stress the absence of a strong civil society which could bring out individuals and help them to succeed. This argument was developed in a successful book about the increasing isolation of individuals in the United States caused by the weakening of civil society.²⁶

The state could be unfair even when the rhetoric of government suggested that it tried to be fair. Often that was only one of its priorities. A government was interested in being as fair as it needed to be to win the next election. It would satisfy as many special interests as were encompassed in its ideology. Reactions to that unfairness ranged from the view that it was an inevitable consequence of human fallibility, a healthy manifestation of economic development or a situation which had been deliberately engineered by malign interests.

Conclusions

Unfairness was both a consequence of uncontrolled developments, in particular, the appearance of a globalized economy, and the product of deliberate acts by new actors in this economy. In 2007–8 a new set of dangerous economic animals appeared. The multinational companies had become well known in the 1960s, but they had grown bigger and more dangerous than before. There were also now international venture companies which commanded massive amounts of private capital intent on snapping up any likely looking victims and taking them away from the stock exchange where they had been safely corralled. New and dangerous games were also being played with the public money. Casino capitalism had acquired several new layers of meaning.²⁷ We had perhaps gone beyond Casino capitalism to Sorcerers Apprentice capitalism. This captures its dominance by inventive but out-of-control mad geniuses, uncontrollable by governments, and causing increasing mayhem. These arguments are further developed in the rest of this book.

Several linked conclusions can be drawn from this chapter. They all centre around the central theme that there has been no trickle-down of wealth from the top to the middle and the lower echelons of society. The lot of the last two layers might be improved, but it is not because there is more money at the top. Indeed there are grounds for supposing that the modern British government is now so close to a new class of international super-rich, linked with a group of local disciples, that it has lost sight of the need to promote the general welfare.

There is, however, a new element to this failure. Traditionally the broad picture was of a loose coalition of the rich and the middle class in more or less manageable conflict with the working class. Reluctantly the coalition accepted compromises with labour that improved wages and the conditions of employment. In recent years, however, the lines of conflict have been redrawn. Now the gap between the middle class, the somewhat well off and the rich has become a major cleavage in society. For the first time the economic circumstances and conditions of work of the working middle class are being eroded, and the perception is that this is because of the appearance of increasing differentiation of income and the excessive rewards to a relatively small group of super-rich. These arguments are developed in the following chapters.