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CHAPTER EIGHT

A modern Walden: having sufficient means and being comfortably off

In this chapter an attempt is made to formulate a set of proposals to correct the anti-civilizing tendencies of modern capitalism. This is not to suggest that capitalism is in itself an evil system. It is necessary, and it is the system we have. The problem is how to strengthen the good side of capitalism so that it supports the best possible kind of life in the circumstances of a developed state, such as Britain, in the globalized world.

The norms of the business world have led to carelessness about the problems of individuals. The response to cruel failures, in institutions such as hospitals and care homes, and for groups of people in the community, was too often that overall things were much better in the sense that targets had been met or financial performance had improved. Hardly any attention was given to sharing the wealth and too much was given to creating it.¹ The implication was that exceptions were less important than the overall achievement. The events at Stafford Hospital, and the failure of twenty-one National Health Hospital trusts to meet minimum hygiene standards, which came to light in early 2009, showed how damaging for individuals this approach could be (see Chapter 6).

It seemed clear that the new US president, President Obama, not only faced the obvious problems of war in the Middle East and the global economic crisis. If he wanted to make America a better place, a fairer and more civilized country, he also had to deal with a massive inheritance of legislation which discriminated in favour of the rich and against everyone else, the middle class and the poor. He had to steer the ship of state away from the course that it had followed since the time of President Reagan. For about 30 years the United States had been a more comfortable and civilized state with relatively few super-rich and a vast number of comfortably off, with the majority gaining the benefits of economic success.² Slowly, however, what Krugman called *movement conservatism* changed the rules of the game. George W. Bush did his best to entrench this vision, even in his final days as president, signing off legislation which favoured the very rich. Obama, and the British, needed to deal with specific problems, but there was a more fundamental problem: it was necessary for them to deal with the whole fabric of the state as it had been shaped by the greedy right.

Change had to start with a vision of what the individual should expect by way of economic success. Many thoughtful people have discussed this question. There cannot be complete equality, but how much inequality should be accepted? Christians subscribe to the view that the poor have the best chance of salvation, but somehow this thought has shaped the actual behaviour of very few. Mostly it was something recommended rather than practiced. Others advocated simply taking as much as one could get, the behaviour referred to below, after Thomas Hobbes, as *glorying*. Very few sought to find a virtuous life at some point between these two extremes. Some might come to a renunciation of wealth late in life as some kind of conversion on the road to Damascus, like Hindu Indian businessmen, who turned to begging outside temples, or multi-billionaires, who took to charity. But that middle position was precisely what gave society most contentment, as was shown by the middle-class societies of the United States from 1945 to the early 1980s, and by the Scandinavian model.³

The proposals have to be relevant to the good life. But what could be the nature of a good life? It is a concept which must be related to a particular time and place, but perhaps the core principles of the good life in liberal societies are constant.

A Thoreau good life

One of the great books about how to live well was David Henry Thoreau's *Walden*, first published in 1854, which was an account of his life between 1847 and 1849 on the edge of Walden Pond in the US state of Massachusetts, just south of the city of Concord.⁴ This book has also been seen as one of the great books on environmentalism, since it explains that it is possible to live an enjoyable and rewarding life with little money and little dependence on others, without exploiting nature. The book was often seen as being solely concerned about the defence of the environment: it was also concerned to argue that there was no need to adopt hair shirts in order to achieve this. The good life could be comfortable and pleasurable. The details of what Thoreau recommended were directly relevant to the nineteenth century, not the twenty-first, but the underlying principles, which he explained with such brilliance, are still relevant.

He built his own simple house at the edge of Walden Pond. It was strong enough and warm enough to survive several very cold winters. He grew his own food from seed and used the resources around him to add to his diet. He

enjoyed company, and liked to be hospitable. He enjoyed the wildlife around him in the woods and pond. Though he disapproved of modernizations like the coming of the railway to Concord, and the invention of the telegraph, he could find in them some positive aspects. He wondered why it was good to travel faster than a man could walk, because travelling with one's eyes closed was no better than staying at home, and a telegraph was more likely to be used to report trivial nonsense than good ideas.

But he was delighted to find that the railway embankments quickly became a rich environment for plants and animals. Modernizations could bring incidental benefits. He found advantage in the exchange of goods, especially the crops he grew himself with those of his fellows. This was not a man who shunned enterprise. He wanted comfort, not austerity, and company, though he wanted time and freedom to write, read and contemplate his environment. The lesson for modern man was that technical progress was irrelevant to human happiness: that had to depend on inner spiritual and mental resources. The argument was not unlike that developed by John Gray in his *Straw Dogs*,⁵ except that Thoreau was optimistic and Gray was not.

His was a way of living which showed a joy in simple things. He argued that people often deceived themselves in thinking that they had to have a particular comfort or pleasure. He referred to the effort expended by a farmer to earn enough for tea and coffee rather as a modern observer might report the case of someone short of food who had nevertheless purchased a large-screen television. It was important not to be conditioned by conventions into wanting things that were not necessary for a good life. For Thoreau, life on the edge of Walden Pond was indeed like that of the modern rich on the edge of Central Park or Hyde Park, in one important sense: he thought he had what he thought he needed. But it was unlike theirs in that he looked beyond the reputation of what seemed to be necessities. He insisted that people should not work excessively in order to buy things that were irrelevant to comfort or pleasure. In good places like Walden there was plenty of time to enjoy what really mattered without grinding labour.

His lifestyle meant that he damaged nobody, and no part of the environment. Indeed he left what he found better than when he found it. So he was one of the super-rich of his time, but found he could achieve this condition with surprisingly few resources. The goal was one which every realistic but ambitious person would choose, but the rules for living were almost the

opposite of those held up for emulation today. The rules for living which may be deduced from Walden are:

- Have high expectations and demands, but for things of real value.
- Do not accrue beyond what you need. This is like Thomas Hobbes's injunction against 'glorying' in *Leviathan*, meaning being consumed by a drive to acquire more and more, both goods and the symbols of status, in order to feel superior.⁶ It was important not to let one's life be dominated by the search for the conventional symbols of superiority, since the acquisitive impulse could never be assuaged. The problem with glorying was that it inevitably led to disappointment.
- Be as self-sufficient as possible, without imposing any excessive burden or discomfort on yourself. In modern terms this would translate as 'use resources economically', but be comfortable.
- Try to create a sufficient surplus to exchange for things you lacked, but really need, or money. The surplus could of course be in terms of social gifts, like the gift of time or attention. For Thoreau this meant in part having enough money to purchase seeds and other necessities, as well as a surplus of what he had grown to barter for stuff he did not have. But also the time to converse with neighbours – including in his case the Native Americans.
- Do not use natural resources to excess and not so that they were depleted. Protect natural resources. (Thoreau would certainly have condemned buying intensively farmed chickens, especially if this was the result of not knowing how to make the most of an expensive one, or saving to buy some expensive toy.) Have the eyes to see what made for contentment and do not be deceived by fashion – in modern terms resist the blandishments of the advertisers to spend hard-earned money on disappointing knick-knacks.
- Know your social and physical environment: do not isolate yourself from people, climate or territory. Work out your relationships with these, know them and have the protections you need against the dangers they present.
- Be social and generous as a host but not beyond your means. Know your means! Thoreau told a story about an Indian who offered nothing to his guest on the first night but gave no explanation. On the second night he provided generously for his guests because now he could. The moral is that there should be no expectation of lavish hospitality, but always the assumption that a host will provide what is possible.

- Avoid becoming dependent on a pattern of consumption that puts you in thrall to a system, an individual or a company. Limit your borrowing and avoid it altogether if you can. Thoreau's house required no mortgage!
- See that development is in tune with what exists, does not spoil nature but allows it to blossom in new ways. Thoreau was opposed to the coming of the railway to Concord. But he found it useful in that he could walk along the tracks, and the embankments were places where plants and animal life prospered. It created a new environment which nature could use. He opposed the railway because he believed it was irrelevant to human happiness and was costly in terms of the lives of those who built and the destruction of forests it required. But there was a positive side.

There were some modern needs that Thoreau does not mention. These would include good medical treatment, welfare support and pensions. At the time when *Walden* was being written, medicine was relatively simple and inexpensive, and pensions were not something that were much thought about.

The ideal of sufficient means

The Thoreau agenda needs some translation for civilized life in a modern developed state. The concepts which in the twenty-first century in Britain are most suggestive of what Thoreau set out for the nineteenth are those of *being of sufficient means* and, at the maximum, being *comfortably off*. Wealth which exceeded that of the comfortably off would be excessive in that it would lead to glorying and excessive environmental costs. With Thoreau's world in mind, what would be the reasonable expectations of a person of sufficient means in the early twenty-first century?

- Possession of a shelter – a house – with enough sheltered space to cover the occupants' normal non-commercial activities, for example a place for withdrawal, sleep and hospitality, a kitchen and a bathroom.
- Connection with drainage systems, energy supplies, and communication facilities.
- Location in a clean and safe environment, with good access to open country or parkland.
- Access to good medical treatment and, on retirement, an adequate pension, payable out of either general taxation or private funding.

- A means to earn an income which is sufficient for normal expenses, such as food, reasonable holiday travel, shelter and to pay for private health and pension, if these are not provided from general taxation.
- Access for the young to a good liberal education, and training facilities, in schools, universities, libraries and museums.
- Access to higher cultural expressions, such as music, theatre and literature, as the individual chooses.
- Affordable, honest and effective insurance against catastrophic events.

The reader should notice that having these resources reliably assumes a particular kind of society, an open liberal one. It would make no sense to talk about the life of a person of sufficient means in, say, a Communist state or in a military dictatorship. Having sufficient means implies the right of the individual to choose what to buy. The reader might also be allowed the quibble that these conditions are those of the ‘comfortably off’ – not rich or super-rich – rather than of adequacy. It is indeed hard to draw a clear line between the two: the lower end of ‘comfortably off’ overlaps with the upper end of ‘sufficient means’. Below them are poverty, defined by some authorities as receiving less than 20 per cent of the median income, and absolute poverty, being in destitution. Above the standards of the *comfortably off* are those of the rich, the very rich and the super-rich. These imply a set of exclusions from the Thoreau ideal, as discussed in the following sections.

What is not part of being comfortably off

- Possessing several houses.
- Acquiring levels of exclusive accommodation, which exceed the requirements of a reasonable person, such as the ownership of large estates, islands, castles and palaces.
- Purchasing privileged access to health facilities, educational institutions or any other limited access provision, so that others with equal needs or abilities are excluded.
- Earning an income which is an excessive multiple of that needed to sustain genteel poverty.
- Acquiring goods which could be categorized as super-luxuries, which is further discussed below.
- Carrying out any act which deliberately or incidentally reduces the capacity of any other person to acquire the status of genteel poverty.

- Exercising any function, or the creation of any instrument, which could be reasonably expected to disturb the balance of an economy, a society or an environment to the extent that the resulting damage could be judged as catastrophic.
- Avoiding making a proportionate contribution to the funding of public services through gifts or taxation, at either the local government or the national level, by the use of offshore funds, tax havens, non-domiciliary status or other devices to avoid taxation. No resident should pay less than the amount payable by other residents of comparable wealth. Those with greater wealth should always pay a greater proportion of their income in taxation than those who are less well off.

The life of those with middle income, between having adequate means and being comfortably off, in the twenty-first century could be reminiscent of the life recommended by Thoreau, but the life of the super-rich would be light years away. Thoreau provided a relevant model for them even in his aspiration to be thoughtful about his relationship with the environment, physical and human, and find delight in the rewards of the mind. But the life of the super-rich would be a deviant and damaging one – it does not satisfy many of the conditions derived for the good life from Thoreau.

The proposals for change set out below are intended to be illustrations of possibilities. The reader is invited to think about how they might be improved, whether they could be applied and how or whether they are impracticable for the present or could become practicable in the future. This writing is not just a tract for the immediate future, like the electoral statement of a political party! It follows from a set of complaints about the current situation and a range of principles on which a new order could be based. It assumes that total wealth is not the key to a successful state. It is better to have civilized standards for all than colossal wealth for the few.

A modern Thoreau agenda

The principles on which Thoreau based his norms of behaviour are as relevant today as they were in the mid-nineteenth century. But governments now ignore them. The reform packages which follow are intended to head off some of the more pernicious anti-Thoreau tendencies in modern developed states. Various themes recur: the need to tackle the grosser inequalities in income and opportunities, the need to limit the damage done by unrestrained greed,

the need to oppose the ever greater concentration of wealth and power, the need to protect the environment and to ensure that it remains a common good and the need to have instruments which can detect activities which threaten orderly capitalism. What is proposed below may be wide of the mark, but the goals stated here are undeniable.

It should be remembered that the present arrangements were the product of a deliberate political agenda, created by chosen instruments. The present writer is with Krugman on this. They were not the result of some natural evolution which could be checked only if people changed their ways, by, for instance, becoming more moral, as Mrs Thatcher suggested, or having a greater deference towards authority. It is simply mistaken to rely on a kind of counter-evolution of society, back to a better place. The society we now have was deliberately engineered by movement conservatism in the United States and by a kind of emulative right wing drift, affecting New Labour and the Conservatives, in the United Kingdom. And it therefore needs to be deliberately unengineered! Specific and positive measures are needed to achieve this.

Two propositions, that there is little evidence to support the idea of the trickle-down effect, as argued in the first chapter, and that a high level of income differentiation is damaging to the economy as well as society, are closely connected. Trickle down is intended to justify high levels of income difference as it holds that wealth is concentrated at the top at early stages of economic development but that over time it will spread to the wider community. It is related to the argument about the development cycle proposed by Simon Kuznets.⁷ The failure of trickle down is itself an argument against the idea that the appearance of greater numbers of super-rich is a positive development. But there are others.

This is an area where pure economic arguments fail. They have to be placed in a social and political setting. The rich are able to purchase a greater share of available resources and deny them to others. Their character leads them to think in the short term and to acquire as much wealth as possible as quickly as possible. They tend to encourage a grab-and-run culture in which economic enterprises are grown and stripped, regardless of their long-term viability or the interests of workers and shareholders. They seek policies which deny a greater share of national wealth to others by influencing and, where possible, controlling politicians. They seek advantage even at the cost of damage to national assets or long-term prosperity. Hence the right wing

administration of George W. Bush complied with big business interests in licensing oil exploration in national parks, giving the rich tax concessions, preventing the tighter regulation of banking and investment and reducing welfare spending.

The ideology of the rich is normally neoliberal – there are very few exceptions to this – and this requires the freeing of markets and the elimination of welfare spending. To achieve this, political influence is sought by creating a plethora of advocacy agencies and lobbies and, if necessary, through bribery or other forms of influence. In the United States this was the content of *movement conservatism*. As argued in Chapter 6 these arrangements are embedded by the encouragement of a culture of greed. The super-rich develop a sense of the priority of their entitlement, which is illustrated by the difficulty bankers found in 2008–9 in accepting the idea that super-bonuses were unacceptable. They believed they were entitled to a giant share of the cake. The rest were encouraged to borrow to live beyond their means and to strive to obtain the same tokens which the rich advertised.

The effect of the presence of the super-rich is not trickle down in the local community but rather a creaming-off to export elsewhere. The point is missed by the economists who argue for trickle down that the super-rich are themselves part of a larger international community – their interest in the local community extends only to the point that it gives them what they want and poses no threat to their interests. Hence the money of the super-rich goes to offshore funds, or is spent on goods that bring little benefit to locals. They collude in the compression of the group of taxpayers. At the top are those who avoid tax; at the bottom are those who do not earn enough to pay tax.

The standard justifications proposed by economists for trickle down and wide income differentials are that money accumulated by the rich is the source of new investment and opportunities for growth and the creation of new jobs. It was often argued by economists that the wealth of the city was a source of general benefit and investment opportunities. The Mayor of London, Boris Johnson, said in a television interview in March 2009 that the city brought about £9 billion to the United Kingdom every year. To oppose this view before the crisis of 2007–8 was to risk ridicule. But the economics argument was always a flabby one relying on carefully selected statistics and ideological assumptions. In practice the money made by the super-rich went mainly into financial instruments, of the kind discussed in Chapter 5, and not into new business. Their money was used to breed

money and ultimately to finance a life of luxury and privilege. Or it went into private equity and was used to generate opportunities for asset stripping, destroying rather than building enterprise. And the enormous cost of putting right the mess caused by the city has to be set against the £9 billion. The view that the super-rich of the City of London brought general benefit became unfashionable quite suddenly in 2008 when the sins of the greedy became all too apparent.

And the benefits were certainly not brought to the local communities. These experienced rising costs for housing, restaurants and the whole range of goods and services required locally by the super-rich. Mostly the goods and services they needed, as well as the company, were brought in from further afield. The economic impact of the super-rich on the localities where they chose to live was largely negative.

There is no natural benefit of acquiring a significant population of super-rich. Indeed there is much to be said against it. In the following paragraphs a set of positive instruments for reducing their number, and using their wealth more effectively, is suggested. It consists of five packages of proposals.

A package on excessive income differentiation

Excessive income differentiation is one of the root causes of poor performance as regards environmental protection and support for human rights. The best performers in these areas are Scandinavian countries, which have relatively low levels of income differentiation. The worst performers are the countries containing significant numbers of super-rich. One thinks particularly of the United Kingdom and the United States, but there are of course other examples, such as the oil-rich autocracies or rapidly developing states like India and China.

Accordingly the minimum wage should be fixed at a level which ensures a reasonable basic standard of living – towards the lower end of the spectrum required for genteel poverty. It should not be at a level where no income tax is payable and tax credits are necessary. These are merely a subsidy provided by the state for the private sector, paid for mainly by the average wealthy. They surely reduce the total available level of government revenue.

A number of steps need to be taken to reduce the range of wealth-generating mechanisms available to the super-rich and to draw down more of it for the general good. One of these should be a range of measures to reduce the ability of the super-rich to draw their wealth from capital rather than income, which

might include an increase in the level of corporate taxation. The appearance of the super-rich in the United States and the United Kingdom after the 1980s was closely linked with this facility.

Top rates of income tax should be deliberately increased to a point at which there is real evidence to suggest an outflow of personal wealth. This point would be reached at a level well above the current norm of 40 per cent. Probably a 50 per cent marginal rate on incomes above £150,000 would have very little effect on residence. The important point here is that the threat of exit should be tested. The idea that a disincentive to effort sets in at 40 per cent is entirely untested. It is a fiction invented by neoliberals in their own interest. That rich individuals can exploit various regulatory failures to avoid paying necessary taxes in their state of residence is unacceptable. It is a cause of damage to the civilized state. Offshore operators and tax concessions for so-called non-domiciled individuals should be abolished. Obviously this has to be done by international agreement and regulation, and it is encouraging that in 2009 these steps were widely advocated.

In Britain there used to be a form of tax called super-tax, which was levied on what were classed as luxury goods. There is a strong case for reintroducing such a tax. As already reported, Thomas Hobbes claimed that wealth is sought in order to demonstrate superiority over others – he used the word ‘glorying’. Glorying is a form of boasting: it is intended to display success, an indication of life effectiveness or personal power. The reaction of others is naturally envy or jealousy and an intense competitiveness about who is top dog. Ambition, in contrast, conveys a wish to join a meritocracy, to equalize upwards rather than usurp the current monarch. There are, however, a range of other ways of associating with wealth, some of which might be regarded as more praiseworthy.

A particular acquisition might be a cause of pride rather than a boast. It might be exceptionally good in how it works or looks, rather than because it is expensive. It has not been bought as a means of glorying. Lower down the scale would be a neutral reaction: a particular artefact is acquired because it does, as they say, exactly what it says on the tin. It is chosen because it is thought to meet the reasonable expectations of its owner. Lower still is the attitude of someone who might be described as careful. A good is bought because it is cheap, and although it does not function well, it works well enough. In this way we can see that the wish to acquire possessions is not just about the wish to acquire something beautiful or a perfect tool. It is also

a claim about how the owner wishes to be seen. It is about glorying but also about pride or satisfaction or parsimony. It is obvious that the genteel poor could well see what they owned as a source of pride or satisfaction, but overall, they would shy away from buying to demonstrate wealth and be embarrassed by an extreme caution about money. The imposition of a super-tax on those whose main object in acquiring is to boast to others is justifiable for reasons of good taste, and social harmony – since it generates envy, jealousy and greed in others – as well as a way of increasing the public purse.

Many artefacts are interchangeable in that they do the same thing and do it equally effectively. But some of these are instruments for glorying. For example the Mazda MX5 sports car – roadster – and the Ferrari are both excellent cars, except that the latter costs about 80 times more than the former. The former might be regarded as a forgivable luxury for someone who was comfortably off. The latter, however, is a demonstration of wealth, a tool for glorying, while the Mazda is pretty and performs a function effectively, and could be a source of pride because of that. Most goods have the capacity for augmentation so that they demonstrate something other than their fitness for purpose. The purchase of artworks is perhaps more difficult. But a number of art critics have argued that art may sometimes have little objective merit but be nevertheless extremely expensive because it has for some extraneous reason attracted the interest of the super-rich. It is then bought simply in order to demonstrate wealth, to glory, by signalling a victory over competitors. In this case the artworks perform the same social functions as the bark blankets of the Kootenai and Kwakiutl tribes of western North America. The bark blankets were a measure of wealth but would be deliberately destroyed at parties to demonstrate the wealth of their owner. The list of goods which might be suitable candidates for a super-tax is therefore not cast in stone. But it is reasonable that it should apply to goods discussed in the following paragraphs.

There should be a luxury super-tax on: cars with engines higher than what might be considered necessary for an average performance; all cars which are sold new for more than the median price; all houses that have a significantly greater value than the median price in the country as a whole (in some countries all house purchases involve a tax, usually payable by the buyer; in Belgium that is set at 15 per cent of the house value); second homes; artworks sold for a sum greater than 50 per cent in excess of their last sale value; ditto

jewelry and ditto rare wines. The obscene sums paid by Russian oligarchs for baubles such as Fabergé eggs is an indication of the gross inequity in incomes. On 29 November 2007 a record amount of £8.9 million was paid for a single such egg in a London auction. Some glorying!

The purchase of second and more homes increases the price of houses in an area so that locals can no longer afford to buy a home in their native region. It was unacceptable that government had given tax benefits to those who bought second homes. Thoreau would find no place for his simple dwelling near the modern Walden Pond. Parts of Cornwall and the Cotswolds in England are like this: the best houses have been bought up by city types and are occupied for short periods, while locals are priced out of the market. Cotswolds and West Country villages are now often denuded of local shops, pubs or post offices, which have been converted into country cottages for the rich. Traditional village life and inhabitants have gone, driven out by individuals who bring what they want with them, whose social life is entirely concerned with other outsiders. What is needed is a way of harnessing the wealth of the outsiders for the development of an area for the good of everyone, the incomers as well as the locals. The following could be a way forward.

- In every region there would be a calculation of the median price of houses. Regions would also have to be identified, based on character and average incomes. Locals would be people who had lived in an area for an agreed minimum period or who had a strong local family connection.
- In areas where houses were owned mainly by locals, outsiders who bought a property below the median price would be subject to no further charge, so that the development of property by new outside owners would not be discouraged.
- If a second home was sold, the excess of its price over that of the median property at the time of sale would be related to a charge on the purchaser. This could be a percentage of the gain or a lesser amount, depending on the area.
- These sums would make up a local development fund which could be drawn on solely by those who had lived in the area for an agreed minimum period, or who had strong family connections with the area – the locals.
- Sums could be drawn down from this fund by locals, on payment of interest, to supplement mortgages on property or to support local services such as public transport or post offices.

- In areas where houses were mainly second homes, owners of those homes should pay a higher level of council tax, which could be called a super-council tax. Such a tax would be used to support local services such as public transport, and would also be available to locals to help with mortgages on houses in the region.
- In no case should second homes be liable for a lower rate of council tax, as at present.

The details of these proposals could be debated but their purpose is not in question. It is unacceptable that regions should be largely occupied by second- and third-home owners, who drive out families who have lived in the areas for generations and bring no discernible economic benefit to surviving locals. These proposals would be likely to benefit locals in regions which were not yet dominated by second-home owners, whilst not discouraging investment in rundown property. One condition of this is that charges on second-home owners should not be simply taken into general taxation but should be reserved for local use. In areas which were already given over to second-home owners there could be a charge on their houses which would be both a disincentive to complete takeover of a region by outsiders and a means of supporting the remaining locals. The latter would get better services and help with buying costly homes.

Many of these suggestions are blindingly obvious. That they have not occurred to the government is a strong indication of how their mindset inclines them to favour the interests of the rich.

A package to contain pressures to monopoly

Striving for wealth is an inherent and necessary part of capitalism, but the accumulation of massive wealth by private individuals in the short term is always suspicious. The commentariat in Britain was too accepting of excessive reward, and too readily critical of those who complained, until the crisis hit in 2008–9. The assumption appeared to be that a dislike of excessive wealth was somehow a reflection of unworthy sentiments such as jealousy and envy and, in the view of one commentator, was hypocritical. Not surprisingly, New Labour politician Peter Mandelson expressed himself entirely content with the appearance of the super-rich. But are not jealousy and envy among the drivers of capitalism? As explained earlier jealousy and envy are characteristic reactions to excessive wealth, and not to worldly success in general. Society

would be much better if more people were intensely hostile to extreme wealth. They were certainly adopting this position in 2009 as the gross wealth of failed bankers was made public.

Income differences may be so great as to be obscene, and it is perfectly reasonable to object. They point to the mismanagement of the economy, the lack of necessary oversight, or the lack of financial prudence by the authorities, or a set of false social values. There was in the early twenty-first century a group of easily identifiable malpractices which included over-leveraged options trading, the sale of pigs in pokes – such as derivatives that included sub-prime debt – the sale of public assets at knock-down prices, carelessness about the level of reward given to failing executives or the toleration of oligopoly or monopoly. A broad strategy to counter such fiddles is conceivable and necessary. These points became very obvious after the crash which hit the global economy in 2008, but would have seemed naive and contentious before.

The drive to accumulate excessive wealth needs to start by challenging a key assumption. Businessmen naturally prefer to increase their share of the market, and this naturally tended to monopoly, since at that point they could begin to make much increased profits. This drive was not unreasonable – again it was one of the dynamics of capitalism. Indeed most capitalist governments had regulations which governed the growth of monopoly. In Europe the EU developed sophisticated procedures under the Rome Treaty for preventing unreasonable market domination, and separate member states had their own supplementary arrangements. Any takeover proposal had to be approved at both levels. But it was necessary to go beyond the existing formal arrangements. Businessmen naturally sought to promote attitudes towards economic organization, which supported the tendency to monopoly. To make the point in rather general terms, they liked to pour cold water on the point made by E.F. Schumacher that *small is beautiful*.⁸

Modern capitalism tended to support the emergence of larger and larger companies, and indeed invented new ways of making this possible. If market dominance was judged to be unavoidable, the exploitative tendencies of monopolists were regulated by officials appointed by government. In Britain utilities and broadcasters, railways and phone companies, had their own dedicated regulators, who might determine acceptable pricing in their sectors and impose fines on companies that failed to provide a reasonable service. The utility companies in Britain had been reluctantly persuaded to work with

small-scale producers, particularly in electricity generation. But those who tried found themselves burdened with excessive regulation and complexity. The default position was still that it was better to be bigger than smaller.

The local generation of electricity, especially by using generation capacity in river flows, wind power, renewable woodchip burners and solar energy production, should be encouraged more than at present. A civilized government would actively encourage the development of these forms of generation through subsidy and easing planning restrictions. The point of doing this was not only to protect the environment but also to resist the tendency to monopoly. Such a policy would necessarily be gradualist, slowly building up national capacity for small-scale energy generation. The privatized power companies in Britain, which were now regularly treated as milch cows by foreign investors from Spain, Australia and France, should be responsible for ensuring stable overall supply and the maintenance of the grid, rather than near monopoly generators under government regulation. This was the ideal which government policies should be directed towards. But of course the large-scale generators did not like this approach, and lobbied against it.

The British government backed off its promise to increase state support for microgenerators of electricity (*The Independent*, Wednesday, 2 April 2008). In the 2006 budget the British Chancellor, then Gordon Brown, announced a 50 per cent increase in the money available for homeowners to install renewable energy systems. The maximum grant was to be £15,000 per installation. By 2008 the grant had been reduced by 83 per cent to £2,500, well below the economic minimum of support, and was to be phased out completely. As a result Britain had managed only about 10,000 home renewable energy systems by 2008, and there were unlikely to be many more. In Germany, in contrast, 300,000 such systems had been installed with many more to come. In the meantime Britain had clearly decided to favour big business energy. There was to be a new set of nuclear and even coal-fired power stations.

Sometimes some combination of small scale and large scale, local and national provision, was necessary. There could be much greater use of facilities for local water collection. French motorways, built by private companies, were used sensibly as collectors of water which was stored in roadside reservoirs and available for the irrigation of adjacent farmland. In Mediterranean areas, houses commonly contained large water storage facilities for domestic use in their cellars, rather like the ancient Roman

facilities in Istanbul and Rome. Modern householders in Britain could have such reservoirs. They could also install domestic rainfall collectors to irrigate lawns as well as serve sewerage systems. Unfortunately these arrangements were not what the major water companies wanted. They wanted large-scale water treatment plants, as with the new, and very expensive, desalination plants in the Thames Estuary, or a massive new reservoir near Abingdon, Oxfordshire, and were greatly opposed to a national water grid to bring water from the wetter north to the drier south. The public was told that this was impossible for technical reasons. This was deliberate misinformation. The real reason was that a national water grid would destroy the local monopolies of the water companies and reduce the massive profits made by the owners of those companies (see Chapter 5).

The most resource efficient supply of food, which was often, but not always, local, should be encouraged. The preferred framework of food supply would necessarily involve some kind of market management, but, unlike the EU's Common Agricultural Policy, it would focus on an adequate provision for consumers, rather than the wasteful subsidy of production, which often produced surpluses which required expensive storage and when sold outside Europe damaged the world market. In 2007 there was evidence to suggest that the supply of food was decreasing in relation to demand. The FAO reported that the reserves of cereal were severely depleted, and the agency's food price index had risen by 40 per cent in the past year, compared with 9 per cent the year before (*International Herald Tribune*, 18 December 2007). The main reason for this was a shift to greater consumption of meat and the conversion of large areas of arable land to the production of luxury cash crops and biofuels. The folly of the latter way of easing the carbon footprint was becoming apparent. This made it even more important to follow good environmental practice in food production and supply.

The bottom line was much more complicated than was often thought. For instance it needed to include the cost of getting food to the table, to include costs of production, the cost of diversion away from local consumption elsewhere as well as the real cost of transport – comparing the cost of short distance trucking with long distance freighting by boat, or both. For the developing world it was crucial to encourage farmers to focus first on feeding local people. It was a mistake to encourage Kenyan farmers to grow cash crops for the world market when locals in Kenya and in other nearby African countries did not have enough to eat.

The dominant trend in developed countries was towards a greater concentration of food outlets in the form of a small number of massive supermarket retailers. In Britain there were three large supermarket chains and two smaller ones. Every effort was made to prevent price fixing among these suppliers, but over and over again, new examples of unfair collusion against the interests of the public were revealed. The selling of food in Britain, and most other developed countries, in the early twenty-first century was in the hands of an oligopoly, and in normal times this was a way of generating ever-increasing profits for owners and shareholders. Government efforts to prevent abuse by these companies of their dominant market position succeeded in the short term. But some new way of generating super-profits always emerged, demanding never-ending efforts to squeeze the genie back into the bottle.

The oligopolists in food retail exploited the local producers of food by forcing down prices and exploiting their monopoly purchaser position as much as they did producers in the developing world. The public's reaction against this certainly had a beneficial result in the appearance of the Fair Trade movement. But the overall merits of this concentration of supply outlets were difficult to calculate. The dangers were obvious.

A trend towards global oligopoly in food production was already detectable. The consequences of placing the food supply of the world's population in the hands of a small number of multinational agri-companies would be truly horrendous. They would immediately rush to buy up available land in Africa, Asia and Latin America. It would certainly line the pockets of the owners and shareholders.

A package to restrain the excessive aggrandizement of private capital

This package invites consideration of the new devices of capitalism. The previous chapters claimed that many of the new inventions of capitalism, ingenious though they are, were making it difficult for regulators to manage the system. They made it more likely that there would be crisis. They made it possible for numbers of super-rich to emerge, who were careless of the standards of the civilized state. In the interest of orderly capitalism it was necessary to slow down the introduction of new devices of wealth creation, so that they could be understood, their risks measured and the appropriate methods of regulation introduced.

Betting on horses and in casinos was tightly controlled in most civilized states. So should betting on movements in the money markets and equities and the value of commodities. New forms of betting, using complex options and derivatives, should not be regarded as a beneficial contribution to vigorous capitalism. It should be seen as what it is: not an expression of what Smith called the hidden hand, which benefited everyone, but rather an artefact of narrow greed. One possible measure would be to beef up methods that already existed. There was already a regulated market for some forms of futures trading. That should be extended to cover all forms of futures trading, and such betting should be allowed only through licensed markets. The US authorities closed down betting through the Internet. They should do the same for all betting in capital markets outside licensed markets, by all investment funds, and any transgressions should be treated severely.

There have been a number of proposals to give the IMF a stronger role in the monitoring of the international financial system in order to anticipate future crises. Prime Minister Gordon Brown has argued for this. The proposal was very much alive at the time of writing in early 2009 and was to be discussed at the summit meeting in Washington between Brown and Obama, and at the forthcoming meeting of the group of 20 richest states. But there were difficulties with the proposal, which were not widely discussed.

It was hard to see how the IMF's role as overseer of the world's financial system could be strengthened without improving the regulatory regimes of the major developed states, which the debt crisis suggested were entirely deficient. How could IMF officials possibly see what national officials either declined or failed to see? The IMF improvement, as recommended several times by Gordon Brown and others, must be linked with improved national regulatory operations and institutions, and indeed a comprehensive strengthening of international regulatory arrangements on such matters as tax havens and offshore funds.

There were occasions when moral objections must be seen as even more important than objections on the grounds of economic risk. This was the case with the selling of debt. It was unacceptable that debt agreed by a borrower with a bank of choice, probably selected for a mix of criteria, including the lender's reputation for probity, should be sold on to an unknown agent. The borrower must have the right to decide whether he or she was prepared to put themselves in hoc to a new lender who might be objectionable for various

reasons, such as investing in unethical stocks, supporting the exploitation of child labour or being involved in criminal activities. The only option was to outlaw the sale of debt without consent.

This might involve secondary legislation to clarify the law on who owned the debt. This applied to mortgage debt as well as consumer debt. The legal framework on lending was short of ideal in a number of ways. It was astonishing in 2008–9 that this point had to be made: that it should be positively forbidden that money be deliberately lent to those who could not repay it or who were agreeing to a loan under pressure. The credit crisis resulting from the sub-prime scandal would not have arisen had there been such rules. But then this also went along with another older axiom which had been too often ignored: that banks should always maintain a sound ratio of fungible assets to operations, under the supervision of the central bank. The traditional deposit/lending ratio should be regulated and not left to jolly chaps who went to one's old school.

A package to strengthen regulation and reinforce appropriate responsibilities

In this section a number of proposals are made, which impose charges on companies for what is judged here to be unacceptable behaviour in that it imposes unreasonable costs on individuals. A criticism of these proposals is that they would be likely to lead to the flight of capital, such as that which afflicted the French in the early days of President Mitterrand's period in office in the early 1980s. The propensity to exit was often exaggerated particularly by those who were being made more subject to control. The actual tightening of regulation was the only way of testing when capital would flee. There might well be benefits in staying, which were not fully visible to the regulator. New forms of regulation needed to be supported by international or regional action. They were more likely to be effective if applied, say, throughout the EU or throughout the member states of the OECD, than if they were applied only in one country.

The injunctions under this heading would be as follows: It hardly needs saying in 2009 that steps should be taken to strengthen the regulation of banks and all investment institutions. Thanks to Mrs Thatcher, President Ronald Reagan and the free market doctrines of the neoliberals, this had become pitifully weak, as admitted by the regulators themselves, in Britain and the United States – but only after the crisis was up and running. The ways

of doing this have already been indicated in general terms in Chapter 5. As the British FSA admitted, their officials should now begin to look more closely at the numbers. They should also be authorized, and trained up, to take a view about the kinds of activities which posed systemic risks. It was ridiculous that Alan Greenspan could argue in effect that the US Federal Reserve thought that new derivatives were fishy but that nothing could be done because they were not illegal. He even ventured the argument that looking at them and doing nothing would be interpreted as granting a seal of approval. It is astonishing that a senior regulator should have adopted such a supine view of practices which were suspected of being dangerous. The new principles are obvious: there has to be clarity and disclosure about what is going on. There should be sufficient regulatory power to close down any mechanism that carried a systemic risk.

There should be no further procrastination about establishing a system of criminal responsibility applicable to all institutions, public and private, so that blame could be placed in law on those responsible for negligent actions causing fatalities. This should include hospitals in the cases of hospital-induced infections like MRSA. New Labour had supported such a change but then declined to act when they came into office.

The principle that capital should be free to move to where it could be used most efficiently is a good one. But it should not apply when the gains from moving were to do with a cheaper tax system, or the existence of financial incentives provided by the host governments. Other forms of incentive, such as an exploited labour force, could be categorized as unreasonable. In this case a charge should be levied by the state losing the capital to provide substantial compensation for those who were losing their job, having to retrain and possibly relocate. Such a charge should be enforceable under international law by the state losing the investment and backed by a right to confiscate assets of the leaving company. The rules of the proposed MAI, discussed in Chapter 4, provide ideas on this – one merely needs to think of the opposite of what was proposed then. The present redundancy system in the United Kingdom provided only a modest living allowance and little support for retraining, particularly for those of middle income.

Business should also be subject to a principle of reasonable profit from monetary operations and capital gains. There was a precedent for this in the levying of tax on what were called wind-fall gains. City workers should be subject to the payment of super-tax on their annual bonuses, which

frequently greatly exceeded their annual salaries, and were also frequently paid to the executives of financial institutions for average, or even poor, performance. This became a hot topic in Britain in 2009. In this context a parallel regulation at the international level should be agreed to prevent the shielding of excessive profits from tax in so-called tax havens. States should take the power to find other ways of imposing on companies that pursue tax evasion strategies, such as seizing the assets of local branch companies.

There is danger in the activities of the so-called sovereign funds, as was pointed out in Chapter 4. This is not to say that there should be no investment by the government of one state in the economy of another. But there has to be some notion of the strategic importance of the sectors of the economy which are being taken over by the sovereign funds. If a national government does not take a view on this it is not acting responsibly in that it is running risks with the security of its people. Thomas Hobbes assured us that this was the principal duty of the sovereign of a state. In the first decade of the twenty-first century we find that at least one national government, that of New Labour in Britain, seemed to be ignorant of this requirement. It was unreasonable that the government of Dubai should have been allowed to buy into British seaports, that US companies should have control of parts of Britain's defence industry – as with the company QuineteQ and the running of the Aldermaston facility for nuclear research – and that British utility companies and airports should be owned by investment companies in Australia or Spain.

Behind the problems of regulation was the problem of understanding, even among the so-called specialists. The teaching of economics in schools and universities should include more study of the emerging mechanisms for wealth creation and the risks they involve, and their social impact. John Lanchester pointed out that more was known about capitalist markets by school children in the Soviet Union in the 1980s than in the present Western world. There was an astonishing ignorance of what went on in the City of London.⁹ The Über-capitalists therefore got away too easily with such devices as black boxes of derivatives which were impenetrable to outsiders, and puzzling to most insiders. Stress should be placed in the classroom on the organization and operations of capital and on economics in the real world rather than on the fantasy world of mathematical economics, which too often was used to facilitate excessive profit making. This subject was as much part of the problem as of the solution, and many of its more successful students went into the financial institutions which

caused the problem. There should also be a much greater concern with the teaching of political economy so that the extent to which economics was political became more transparent.

It should be made perfectly clear that the recommendations of Milton Friedman as much as those of Friedrich Hayek, and Mrs Thatcher's advisors, were based on a set of political prejudices as much as axioms. Part of the reason for the present crisis was the success of economists in selling the idea that their science was objective and nonpolitical. The fallacy that economics was an objective science was revealed in the failure of Long-Term Capital Management, discussed in Chapter 5. The same argument applied to those who taught the art of management. The goal of this change in the syllabus of economics was to increase the transparency of the evolving system and to make the failures of regulation, and the lacunae in regulatory cover, more obvious to more people. A theme of this book is that economic crisis is as much about incompetence and a failure to understand new economic instruments as it is about accident or the unforeseeable.

A package on pension reform

This package is necessary to deal with the extraordinary incompetence of successive British governments with regard to their administration of pensions. There have been excellent reports on what should be done, but the habitual response of governments has been to ignore them. The major reason for such incompetence was the tendency for those who controlled the reins of pension reform to bridle at the prospect of applying the principle of equity or justice to pension provision rather than the principle of financial caution.

This was an area where Parliament should impose a civilizing principle against its principal opponents, the well-paid upper class mandarins of the Treasury. That principle should be the unavoidable priority of pension provision as agreed in the contracts of employment in the public and private sectors. There should be no evasion on the grounds of an insufficient tax take. In a civilized society the response must be: if there is not enough to pay, money must be found by cutting back another project, such as, in today's terms, expenditure on the war in Iraq. Since these issues have been discussed at some length in Chapter 3, only the principal proposals are repeated here. It should however be stressed again that in a civilized state all pensions should

be at a level which is sufficient to sustain at least genteel poverty and that it is entirely unacceptable that the level in fact provided should be barely sufficient for physical survival.

Hence in Britain:

- Companies should never be allowed to take contribution 'holidays' in their payments for occupational pensions.
- The National Insurance Contributions should be fixed at a level sufficient to pay for the state pension and the NHS. The amounts in the resulting notional fund should not be diverted to fund other activities, even in the welfare system. Other taxes should be adjusted accordingly.
- The legal right of workers to their occupational pensions as agreed in the contract of employment should be clarified and strengthened. Neither the company nor the state should be allowed to change the terms of a pension, or sell on a pension fund, without the explicit consent of the pensioner.
- Pensions should be related to average earnings and not inflation. This is more important than it might appear, since relating pensions to the inflation index guarantees that pensioners find it more and more difficult to maintain a reasonable standard of living as they get older. They are condemned to live in semi-detached communities of the impoverished.
- Pensions should be sufficient to pay for a lifestyle which could be described as being at least one of genteel poverty. The system should not be one of a subsistence pension with additional credits for the hard up. This is against the principle of the right to a reasonable pension, is demeaning for those who claim and is inefficient – probably deliberately so – in that retirees often do not understand how to make a claim.

Conclusions

This chapter has pitched at a vision of the good life, which is a modern version of that described by David Henry Thoreau. It is adjusted to reflect modern assumptions about what is possible and to take note of a developed system of capitalism. The take on capitalism is shaped by intimations of cataclysm brought on by the capitalists themselves.

They became addicted to poisonous inventions in the form, primarily, of derivative financial instruments which could not be controlled. The world was freed up for excessive profit taking and for Über-capitalist predators whose actions were damaging to the civilized state. We all thought that in

the late twentieth century most people in the developed world had achieved satisfactory levels of income and welfare, so that they could enjoy more and for longer than ever before. This was not to be.

In Britain the wealth of most people, but not the super-rich, has begun to decline in relative terms – despite a continuing increase in national wealth. This process began under Mrs Thatcher, and in the United States under Reagan. Pensions in Britain are lower than in any other country in the EU though there are more multi-billionaires. In a number of areas of health care, performance is not among the best performers in Europe – for instance with regard to life expectancy after treatment for cancer. The list of less-than-top performance could be much extended.

This does not of course affect the super-rich. Their lot, in their relatively isolated communities in London, gets better and better. This is one of the main reasons why the lot of the rest gets worse. They do not contribute what they should. Their values infect even a government that claimed to have the interests of the poor close to their heart. This is far removed from the kind of world envisaged by David Henry Thoreau.

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