

# Inequality and the 1%

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To Carl Lee – who knows what matters most

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# Contents

1. Can We Afford the Superrich?	1
2. Childhood	26
3. Work	55
4. Wealth	89
5. Health	130
Conclusion: Towards a Fairer Society	159
<i>Acknowledgements</i>	182
<i>Notes</i>	185
<i>Index</i>	224

## Can We Afford the Superrich?

The most important problem we are facing now, today ... is rising inequality.

Robert Shiller, recipient of the 2013  
Nobel Prize in Economics<sup>1</sup>

Growing income and wealth inequality is recognised as the greatest social threat of our times. Robert Shiller suggests that the renewed greed of the top 1 per cent has had worse effects than even the financial crash of 2008. The top 1 per cent contribute to rising inequality, not just by taking more and more, but by suggesting that such greed is justifiable and using their enormous wealth to promote that concept. As Warren Buffett, the second richest American in 2011, put it: ‘there’s been class warfare going on for the last twenty years, and my class has won. We’re the ones that have gotten our tax rates reduced.’<sup>2</sup>

For the first time in generations, there is now serious debate over the cost of the superrich. The debate rages in the US, where 66 per cent of the population in 2012 believed rich and poor were in conflict, compared to just 47 per cent in 2009. Only 43 per cent of Americans still thought that people became rich ‘mainly because of their own hard work, ambition or education’.<sup>3</sup> Some 46 per cent of Americans believed

that to be untrue, leaving 11 per cent unsure. More and more people are learning how the rich reduced their tax rates, weakened trade unions and – for a time – made the idea of avoiding tax acceptable.

To qualify to be a member of the top 1 per cent in the UK, you need a total household income, before tax, of about £160,000 a year. This estimate is for a childless couple. Should you be single, you can enter the 1 per cent with a little less; should you have children, you'll need a somewhat higher household income. These statistics and evidence of a recent contraction of inequality within the 99 per cent all come courtesy of the Institute for Fiscal Studies (IFS).<sup>4</sup> According to that respected body, as the very richest become richer, the rest of us are becoming more equal. However, growing equality within the 99 per cent does us little good when those at the very top keep on taking more and more.

In the UK members of the general public are now surer that the gap between rich and poor is unwarranted than ever before recorded, and they are becoming more sure of this with every year that passes. In 2010, 75 per cent of people who responded to the annual British Social Attitudes survey said that the income gap was too large. By 2012 this figure had risen to 82 per cent. Most importantly, only 14 per cent per cent agreed that the gap was 'about right'.<sup>5</sup> Only one in seven people thought the rich deserved to be so rich, and most of that minority appeared to have little appreciation of just how much better off the 1 per cent were, even when compared to those just below them.<sup>6</sup>

In the UK, dwindling numbers believe the rich generate wealth which all the rest of us get to share, but among them are some prominent people who use their position to promote this belief. There are many multimillionaires who financially support right-wing think tanks to argue on their behalf. An even smaller, richer group with great influence are the mega-rich owners of newspapers and television channels, but they all now face growing opposition.



Occupy London, 2011

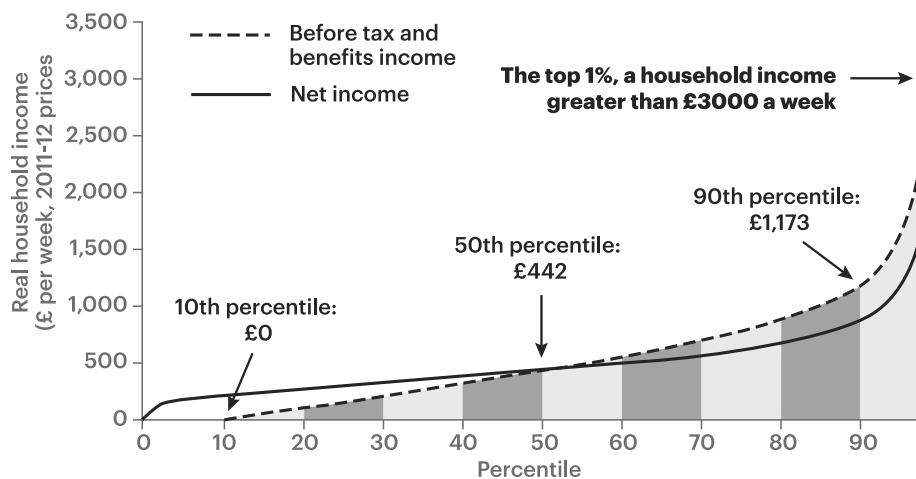
Around the world, a majority of the global protests that have occurred since January 2006 have centred on issues of economic justice. In 2006 there were just 59 large protests recorded worldwide. In just the first half of 2013 there were 112 protests of a similar size. The rate of large-scale global protest has increased almost fourfold in six years. And these protests are ‘more prevalent in higher income countries’<sup>7</sup> – countries where most of the 1 per cent live. Why is this?

There is growing social cohesion among protestors worldwide because the vast majority of people in a majority of rich countries are now suffering as a result of growing inequalities. Since 2008, after the initial shock of the drop in the value of their stock holdings, the rich in both the US and the UK manoeuvred to become much richer. In contrast, in the UK, even before 2008, inequalities were already falling *within* the 99 per cent. But it only became clear after 2008 that there was an increasing gap between the 1 per cent and all of the

rest.<sup>8</sup> Now even some of the most well-connected lackeys of the very rich are working for less and less reward.

The vast majority of us are becoming both more equal and often poorer than we were in 2008. In the UK the bottom 99 per cent now have more in common than has been the case for a generation. Some 99 per cent of us are increasingly ‘all in it together’. It is the top 1 per cent who increasingly are not part of this new austerity norm. As the economists at the IFS explained in 2013, ‘Over the past two decades ... inequality among the bottom 99 per cent has fallen: the Gini coefficient for the bottom 99 per cent was 5 per cent lower in 2011/12, at 0.30, than in 1991.’<sup>9</sup> By 2014 they were reporting that, once differential rates of inflation had been taken into account, the fall in real incomes between 2007/08 and 2013/14 for those near the top and bottom of the income distribution had been nearly identical.<sup>10</sup>

In 2011/12, the average couple without children in the UK took home £442 a week from earnings, just under £23,000 a year (see Figure 1.1). In the middle of the income distribution, people pay as much in tax as they tend to receive in benefits. The poorest tenth of households in the UK have almost no



Note: All incomes are expressed in terms of equivalent amounts for a childless couple.

Source: IFS calculations using the Family Resources Survey 2011-12

Figure 1.1 Look up your weekly household earnings to find your rank

income from earnings or from a private pension (these figures include households with only pensioners). They rely entirely on the state to survive. Taking into account benefits, a couple who both qualify for state pensions will receive about £222 a week if the £1.75 pension credit they are entitled to is also claimed.<sup>11</sup> These are the best-off childless couples among the poorest 10 per cent of households in Britain, living on £11,500 a year. As Figure 1.1 shows, they survive on about a fifth of the weekly earnings of an average childless couple in the best-off 10 per cent.

Inequality can be measured in many ways, and this can cause confusion. Many different figures can be used. The ratio of five just quoted can be easily lowered if the private education or pension contributions paid by the richer couple are deducted, or it can be made to appear much higher if the average income of all of the top 10 per cent is used, rather than the income of the median (midpoint) couple among the top 10 per cent. Taking children into account complicates the picture further. Finally, calculating entire distribution measures of inequality, such as the Gini coefficient, tends to cause many more readers' eyes to glaze over.

Fortunately there is a strong correlation between the complex Gini coefficient of income inequality (measured after tax and benefits and adjusting for household size) and the simple measure of how much of total income the best-off 1 per cent receives each year. When the 1 per cent receives a low proportion of national income, inequality for the rest of the population is forced to be lower, because no other group can receive more than the best-off 1 per cent. Simply concentrating on the share taken by the 1 per cent is enough. It may even be one of the best measures of inequality to consider in terms of how simple a target it may be for effective social policy.<sup>12</sup>

Economists have measured the fortunes of the best-off 1 per cent for decades. Only recently have political activists, campaigners, and even those anarchists who most distrust economists become as interested in these statistics. In 2011



David Graeber was credited with coining the phrase ‘We are the 99 per cent’, and so made the best-off 1 per cent the object of opposition. And with that phrase came what appeared to be new home truths. For example, for the 99 per cent, as Graeber explains, for most people ‘the fear of losing your job is far greater than the hope of finding a truly fulfilling one’.<sup>13</sup> However, not all of the 99 per cent are unfulfilled, and many of the 1 per cent undertake work they find dull just to remain in that income bracket – though their income often means that in the rest of life they have choices that others can only dream of, other than the choice to be normal.

Before discussing what it is to be normal, we need a better grasp of just how unusual the 1 per cent have become, and especially of how much inequality there is within the 1 per cent: far more than within the 99 per cent. A pre-tax household income for a childless couple of £160,000 a year puts you among the very poorest of the 1 per cent. By August 2013 there were 29.97 million people in employment in the UK. Average weekly pay was £473 in both the private and public sectors.<sup>14</sup> The average annual UK salary in 2013 was £24,596; but for the top 1 per cent their mean average was fifteen times as much: an average take-home income of £368,940.<sup>15</sup> That is more than twice as much as the least well-off of the 1 per cent received.

Become a member of the more well-heeled middle of the 1 per cent, and school fees are not an issue, save for the most expensive of public schools, and only then if you have several children. You are extremely unlikely to use the state sector for many services, and you may be annoyed that, as far as you are concerned, your council tax only pays for your bins to be collected. However, should you be among the least well-off of the 1 per cent, then your disposable income after paying for housing is many times less than that of the median member of the 1 per cent. The 1 per cent is not a unified group, but it is one for which a series of generalisations can be made.

The National Health Service is only needed by those in the middle of the 1 per cent should they require emergency surgery of the kind the private sector does not provide. Be in the 1 per cent, and you may use the first class carriages in trains when that is faster than hailing a taxi or using your chauffeur – but you may also want to drive one of your new cars yourself. Tell-tale signs such as multiple new car purchases, taking several overseas holidays a year, and other purchases generally seen as extravagances by most people – but as normal among the 1 per cent – have been used to estimate where they are most concentrated.<sup>16</sup>

In contrast to the 1 per cent, everyone else really does look very, and increasingly, ordinary. Take a couple without children who have a joint income before tax of £50,000. One small pay rise and they'd be members of the top 10 per cent; but they receive £110,000 less each year than the poorest of the top 1 per cent. Because it is now just the top 1 per cent who are still becoming much richer in the UK, it is within the top 10 per cent of society that growing inequality is now most clear to see – but only when the top 1 per cent are included in that top tenth.

Average household income in Britain is now just under £23,000 a year. It is a little lower than average skilled earnings. Many well-paid people tend to live with other well-paid people in the same household. The average household has one person bringing in a wage and another adding some part-time income, or a pension, but not much. The poorest tenth of households in Britain have no earnings or any other private income, and no extra income such as a non-state pension. That bottom tenth is entirely reliant on welfare payments to survive.

For the average UK family with two children, the amount needed just to survive with any decency is rising by 5 per cent a year as the costs of providing for children rise more quickly than the growth in average living costs. These costs include food, rent, heating, clothing, travel costs and all our other everyday expenses, plus the occasional treat such as the school

trip that all children should be entitled to. The average family in Britain has been becoming poorer, often worrying about sums of money that are essentially spare change as far as the wealthy are concerned. We know all this because research teams now count every penny of these costs, and ask for our opinions on others' spending.

For many years, the Joseph Rowntree Foundation-sponsored Minimum Income Standards research team has charted the costs of these essentials needed to live the most basic of lives in the UK. They uncovered a 20 per cent rise in the share of all households in Britain living below the generally accepted minimal standard of living between 2008/9 and 2011/12, as living standards deteriorated.<sup>17</sup> These standards are derived by asking a wide range of people what they think everyone in the UK should be able to afford. Unsurprisingly, the team found that a small amount of money given to the families of poorer children has a far greater beneficial effect than when it disappears behind the cushions of the voluptuous sofas of the rich. The 1 per cent appear to have an ever-growing appetite for more money for themselves, but a large blind-spot when it comes to others' needs.

Compared to the top 1 per cent, the rest of the top 20 per cent in Britain are taking home less and less. Between 2007 and 2012, the real disposable income of the top fifth of households in Britain dropped by £4,200 a year – a 6.8 per cent fall for that group. The average fall for all households was £1,200 a year. This has reduced differences within the 99 per cent. From 2011 to 2012 median household income in the UK fell by 2.8 per cent (when taking inflation into account), but mean incomes fell by only 1.6 per cent, simply because the very rich – the top 1 per cent – did not see a fall.<sup>18</sup>

People in the UK are beginning to understand that the 1 per cent really are now extraordinarily rich, and very different to themselves. Most people are entirely excluded from the top 1 per cent, no matter how well they do in a career. The most expensive head teachers in Britain are paid around £112,181

per year – about 70 per cent of the annual income of the lowest-paid of the top 1 per cent.<sup>19</sup> The top pay of General Medical Practitioners (GPs) in the UK receives a great deal of attention. But in 2011/12 the average GP received £103,000 a year; only 2 per cent of GPs earned over £200,000, and just 160 of those earned over £250,000.<sup>20</sup> The remaining 520 members of this tiny group of top-earning GPs earned below a quarter of a million pounds a year. That might be far too much for someone who is essentially a public servant, but it is very low by the standards of the top 1 per cent whose ranks they have joined.

In short, almost all people who now have jobs that would traditionally place them within the best-off 1 per cent of society – head teachers of large schools, the local doctor – are now among the best-rewarded of the 99 per cent, rather than being members of a group apart. Although some mix enough with those above them to be aware of what they are missing out on, in recent years they have become increasingly more like the majority they serve than the minority who are now much richer than them. However, a tiny minority of former public servants have now joined the 1 per cent, and they often include people whose actions are not universally much admired – because they are on the take.

The figures used above that show how few doctors are members of the 1 per cent are based on GPs' income tax returns, and include all their taxable earnings. An investigation by the general practice magazine *Pulse* found that one in five of the GPs who sit on the boards of England's 211 Clinical Commissioning Groups (CCGs) – the boards that decide how NHS budgets are spent locally – also had a stake in a private healthcare firm that was providing services to their own CCG.<sup>21</sup> It is extremely unlikely that the GP you get an appointment with is in the top 1 per cent,<sup>22</sup> but we need to be aware that a few people who are paid to be GPs are also profiting greatly from the privatisation of the NHS and becoming rich enough to join the 1 per cent.

The reason we need to be acutely aware of current trends is where they might take us. In the US the top 1 per cent now receives almost 20 per cent of all income – a figure they last ascended to in 1928, the year before that most infamous stock market crash. Today, making it into the top 1 per cent in the US requires an annual income of at least \$394,000. This is higher than the £160,000 in the UK because inequality in the US is greater. Getting into the top 10 per cent in the US requires an annual salary of at least \$114,000 – more similar to that required to enter the UK top 10 per cent, but a little higher in real terms.<sup>23</sup>

The US is very unusual. In most affluent countries in the world, the best-off 1 per cent get by with far less, the top 10 per cent are much more like everyone else, and everyone else tends to be much better-off. In Japan, which is one of the most economically equitable countries in the world, the best-off receive roughly half as much as in the US – just under 10 per cent of all national income, a share very similar to what the Japanese richest 1 per cent secured in 1944; in 1945 the income share of the richest 1 per cent in Japan dropped to 6.4 per cent, and has remained within those bounds ever since – less than half the equivalent figure in the US. Losing a war, or having to pay for a war, is one of the fastest ways for a society to become more equal.<sup>24</sup>

Today the UK sits halfway between Japan and the US. The British top 1 per cent last secured a share of UK national income as large as they do today back in 1937. Between 1976 and 1979, less than forty years ago, their share had fallen to below 6 per cent, to what had been the Japanese post-war minimum; but these were the four years when Britain was most equal.<sup>25</sup> In the late 1970s the very best-off people in Britain only received a mean average income of six times the national mean – only four times after they had paid tax.

The 1970s in the UK were not just a time when income equalities were greatest for the 99 per cent – within the top 1 per cent, there was greater equality than ever before. By

1978 the very richest, the 0.01 per cent, were receiving four times what the average member of the top 1 per cent received. Today it is the richest 0.1 per cent who get four times more than the average member of the top 1 per cent, while the 0.01 per cent get even more again. As you go forward in time and up the monetary scale, the income gradient becomes steeper and steeper. As the 1 per cent have pulled away, inequalities within the 1 per cent have grown enormously.

To understand why so few of the 1 per cent feel they are taking too much, it is worth reiterating that those just tipping into the 1 per cent league today, with incomes of at least £160,000 for a couple with no children, are not likely to feel that they are particularly well-off given that they earn, between the two of them. Those who just qualify as being within the 1 per cent, at the bottom of the 1 per cent, receive only half of what the mean average household in the UK top 1 per cent earns. Those at the bottom of the top 1 per cent often feel relatively poor – but they need not, if only they were to look down a little more to the 99 per cent, to see how much they have compared to everyone else.

It is because of the growing divide between the 1 per cent and the 99 per cent that those at the bottom of the 1 per cent don't often look down. A financial chasm is opening up between them and the best-off of the rest – the best-off of the 99 per cent. It is because this chasm is now so large that those at the bottom of the 1 per cent more often look up to see how small they are in comparison to the giants above them. Above them they see what Thomas Piketty has termed 'meritocratic extremism', people who try to justify huge incomes in terms of what is required to match the wealth of those who inherit the most<sup>26</sup>. They are out of touch with the dwarfs of the 99 per cent. But they need to look down, because if they don't they too will soon be in trouble. And some are beginning to look to their feet and then down over the edge.

Even the worst-off couple in the top 1 per cent has eight times more than the amount a couple with two children

requires if they are to live at the UK minimum living standard – the minimal amount of income that allows any decency. That minimum was estimated to be £19,400 a year in 2013.<sup>27</sup> At an even greater extreme, the mean average single member of the top 1 per cent has twenty-one times the minimum necessary subsistence income for a single person in Britain, according to the minimum income standards described above.

It is through their actions, the influence of their corporations and the politicians they support that the top 1 per cent in the UK fuel growing income inequality between themselves and everyone else, leaving so many with so little because a few think they must have so much. We know that it is because of the huge cost of the top 1 per cent that there is more poverty in the UK than in any more equitable rich nation.<sup>28</sup> Reducing inequality will not necessarily be sufficient to reduce poverty greatly; but poverty cannot be reduced while high levels of inequality remain, because a large part of what it is to be poor is being valued as near worthless.<sup>29</sup>

The total annual cost of the top 1 per cent is £110 billion; this is their average of earned plus unearned income of £368,840, shared between around 300,000 people – 1 per cent of the UK's workforce of 30 million. That figure is much higher than the mean of what the top 1 per cent of employees earn a year in basic pay, which is £135,666, and it has more than doubled in real terms since 1986.<sup>30</sup> This is because so many of the 1 per cent also secure annual bonuses on top of salary, or have other sources of income.<sup>31</sup> And when their bonuses are threatened by European law they find ways of circumventing the legislation, even with the connivance of the UK government and tax authorities.<sup>32</sup>

Of those within the top 1 per cent who are receiving the bulk of their income from earnings, we know that more than 80 per cent are men, and that, as the income share of the 1 per cent has grown, so too has the share taken by those men within the 1 per cent. The 1 per cent are also getting older, now mostly being between fifty and sixty-four; and the

largest, fastest-growing, and best-paid group within the 1 per cent work in finance.<sup>33</sup> The few that regularly appear on our TV screens are typical of the group as a whole: old, male, white and – very often – bankers.

To get a grasp of just how much money the top 1 per cent use up, a simple illustration may help. This might be how much better the money could be spent on immunising every child or ending world hunger – but the millions and billions of people who could benefit from a little sharing out of the wealth of the super-rich soon render such comparisons meaningless. In a world with a population of under 8 billion, £110 billion could go a long way. But instead of thinking of the possible uses for all these monies that would most relieve suffering, let us restrict ourselves to the UK, and to a flippant but I hope helpful example.

Try to guess how many royal families you could get for the same cost as the 1 per cent. The sovereign grant in the year to 2013 was £33.3 million.<sup>34</sup> This is the amount of money provided by the government to the royal household in support of the queen's duties, including the maintenance of the occupied royal palaces: Buckingham Palace, St James's Palace, Clarence House, Marlborough House Mews, the residential and office areas of Kensington Palace, Windsor Castle, the buildings in the Home and Great Parks at Windsor, and Hampton Court Mews and Paddocks.

Republicans put the real cost of having an extended royal family at £202.4 million a year.<sup>35</sup> They include the security costs and the revenue of the Duchies of Lancaster and Cornwall. Suppose we roughly split the difference and suggest that the royals cost us less than half what the republicans claim, but three times what royalists like to report. The royal family then costs around £100 million a year to run. For the price of the richest 1 per cent in Britain, we could instead support 1,100 royal families.<sup>36</sup>

Of course, 1,100 royal families is a ridiculous idea, but it gives you an idea of just how much money that tiny 1 per cent

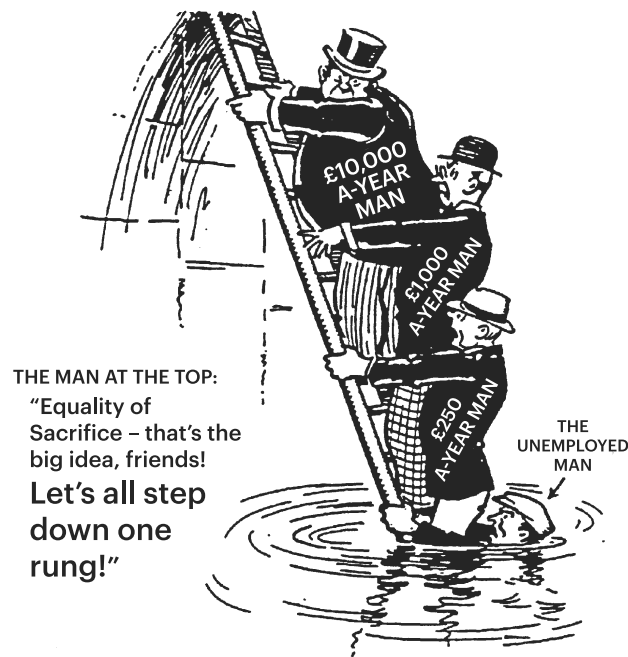


of the population is receiving every year – and the super-rich don't even smile and wave, rarely open buildings, never permit the public to view their palaces, and don't invite commoners to garden parties. Many people are opposed to having a royal family, partly on cost grounds. However, on those grounds they should be looking at the 1 per cent, which is well over a thousand times more expensive in aggregate than all the royals combined.

To believe that it makes sense that just a tiny proportion of people deserve such a huge slice of the cake, you have to believe that there is something very special about the 1 per cent group that justifies their income and wealth. Unfortunately many people do, even though an increasing number see the extent of their riches as unjustified. The effects of those beliefs in the worthiness of the rich are corroding the fabric of society. A majority has begun to believe that the poor have no right to live near the centres of our most expensive cities, and it becomes possible for prime ministers to claim that cutting benefits to the poorest in society is part of some moral mission.<sup>37</sup>

Inequality and the top 1 per cent are not the same phenomena; they are not even the same thing measured in different ways. There will always be a top 1 per cent, but there can be more or less inequality. When some of the 1 per cent use their resources to suggest that increasing inequality is good, a toxic feedback loop can result. They suggest that you only have to earn more to go up the ladder. That is not true. You can only go up the ladder if someone else comes down it (see Figure 1.2). The number in the top 1 per cent is fixed. Few people are prepared to accept a fall in income except on retirement, and in the UK and the US the top 1 per cent have recently shown themselves to be the most able group at ensuring their incomes continue to rise in defiance of the economic crisis.

We have seen this before. There was rising poverty in an era of escalating inequality that preceded the First World War, and before the Wall Street Crash in 1929, which caused shock waves to reverberate across all the rich countries of the world.



Source: Plebs Journal, 1931

Figure 1.2 'Sacrifice' by James Francis Horrabin

Today, similar levels of excess to those seen in the 1930s among the rich are only found in a few very unequal countries – places that have forgotten their past. The US, Canada and the UK lead the rich world's inequality league table. The countries of the rest of Europe and Japan show that the opposite is possible. In places like Switzerland, the best-off 1 per cent receive only half the proportion of income they receive in the UK. It is possible to have many bankers but not to pay them so much; and Swiss bankers don't appear as accident-prone as their US and UK counterparts, despite their much lower average remuneration.

Although the rich can fuel a particular kind of wealth-creation – one of ever more wealth for themselves – there is no perpetual-motion machine causing the top 1 per cent to become richer and richer and take an even greater share year on year, with their salary reviews and property value escalators.<sup>38</sup> There is no iron law dictating that everyone else must step down in times of austerity, with those at the bottom drowning.