Inequality and the 1%

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To Carl Lee – who knows what matters most

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Preface

> It used to worry me, and I thought it wrong to have so many beautiful things when others had nothing. Now I realise that it is possible for the rich to sin by coveting the privileges of the poor. The poor have always been the favourites of God and his saints, but I believe that it is one of the special achievements of Grace to sanctify the whole of life, riches included. Wealth in pagan Rome was necessarily something cruel. It's not any more.
>
> Lady Marchmain in Brideshead Revisited[1]

The wealthy attempt to console themselves in many different ways. One route is religious, suggesting God's favourites are the poor and that makes up for the injustices they experience. Some claim that their riches are merited by their immense imagined talents. Another tactic is to suggest that it has always been like this; although it is lamentable that many have so little while a few have so much, it is inevitable. Charity will have to suffice. None of these excuses is true.

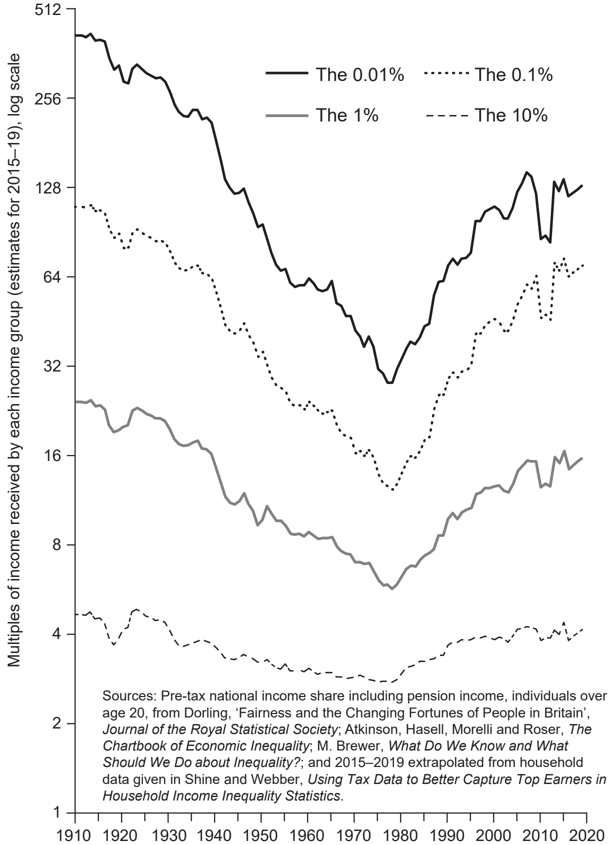
The fictional Lady Marchmain was musing in the early 1920s, at the start of an era of immense social change and during the last period when economic inequalities in British society began to fall. It was that fall in inequality that brought drastic change to her life and to her family's. That fall was more important to her than anything else; more important than the First World War or the loss of the colonies. Try to imagine the shock of the rich in the 1920s and 1930s as they watched their wealth melt away before their eyes.

At the time when Lady Marchmain was reflecting on her divinely sanctioned wealth, the best-off tenth in society were taking almost 50 per cent of all the income in the country, leaving only half for the other 90 per cent of people in Britain; but that was beginning to be corrected, and in the late 1920s the level of inequality would fall more rapidly than it had ever done before or since. In the early 1920s, within that top tenth of the population, the top 1 per cent were taking almost a quarter of the national income every year – half of what the entire top tenth took. Within that top 1 per cent, the best-off tenth of a percent, in 1923, were taking 9.29 per cent of the national income, almost one hundred times the average income. And within that tiny portion was the group in which Lady Marchmain belonged, the highest 'earning' fraction; the 0.01 (just 1 in 10,000 people) were taking 3.34 per cent, or 334 times as much as the average person.

'Lady Marchmain' may have been fictional, but she was based on the very real and extremely wealthy families of her day. She and they had never worked, or even imagined ever working. Her income was derived from 'investments', most of which would have been held overseas in the British Empire. She spent her days worrying about not saying the wrong thing in front of the servants, about her errant son Sebastian for whom all the riches of the world were no salvation, and about whether she would fit through the eye of the needle when her time came.

In 2015, when the second edition of this book was published, we knew not only that we were back to the late 1920s, but also that income inequalities were still rising. Average income on the graph below equates with the value of one on the vertical axis. Any group taking above the average income results in many others getting less than one. By 2014, the

Income inequality 1910–2019, UK



Sources: Pre-tax national income share including pension income, individuals over age 20, from Dorling, 'Fairness and the Changing Fortunes of People in Britain', *Journal of the Royal Statistical Society*; Atkinson, Hasell, Morelli and Roser, *The Chartbook of Economic Inequality*; M. Brewer, *What Do We Know and What Should We Do about Inequality?*; and 2015–2019 extrapolated from household data given in Shine and Webber, *Using Tax Data to Better Capture Top Earners in Household Income Inequality Statistics*.

best-off tenth of adults aged twenty and over in the UK were taking four times the average income. As a result, the remaining 90 per cent of people were getting by on only 0.67 times the average income.[2]

In 2014 the best-off 1 per cent took fifteen times the average income, a share almost identical to what they took before the Second World War. The best-off 0.1 per cent scored a multiple of sixty-seven, a share so high that they had last achieved such excesses only in 1936 – other than in 2013, when their take was 7.2 per cent of the national total, or seventy-two times average earnings – and that year the best-off 0.01 per cent took 130 times average earnings. It is sobering to realise that 130 times is three times less than in Lady Marchmain's day, although 130 times the average was what the share of families like hers had been 'reduced to' by 1943. The fictional Lady died (appropriately) in 1926, the year of the general strike.

It is all too easy to forget the past, and we have to look a long way back to see a situation as bad as the one we are facing today. If we are very optimistic, then it is possible to believe that income inequality recently peaked in the UK. By several measures our quality of life in Britain peaked much earlier, in 1976, which far from coincidently was when income *equality* peaked.[3] In contrast, by 2019, university research had found that almost a third 'of UK adults with children under the age of sixteen was food insecure. The risk was greatest among the unemployed, those with long-term conditions or disabilities, and those on the lowest household income'.[4] This compares to one in five of all adults being so insecure, 3 per cent of whom often go without food. Between 2004 and 2016 food insecurity among the least well-off almost doubled.

As more and more people go hungry in Britain, as homelessness rises and overall life expectancy begins to fall, we see wealth inequality still rising. Wealth inequality tends to lag behind the trend of income inequality. On 12 April 2019 Mike Brewer of the University of Essex revealed the most recent income inequality data. All eyes quickly turned to the very last data point, and the up-tick from 2015 to then. Income inequality briefly fell during and immediately after the financial crash of 2008. Now it appears to be rising again. However, there are many reasons to believe that we may be at a peak.

As Mike Brewer explained in April 2019, 'There is a big difference in what tax data says about the very rich and what household surveys say. Tax data reveals that the very rich continued to drift upwards until 2008. The financial crisis took a chunk out of top incomes, but by 2015–16 they were clearly on a rising trend.[5] Household survey data is of little use in monitoring just how large a take the top 1 per cent extract as those in the top 1 per cent are loathe to fill in voluntary surveys, and if they do, then they often tend to be somewhat modest about their actual total income. Taxation data, of course, due to tax avoidance (legal) and evasion (illegal) also underestimates top incomes as those at the top have the greatest incentive to avoid declaring all their sources of income and have the resources to pay accountants to help them do that.[6]

To understand what has occurred in the UK since the second edition of this book was published in 2015 requires understanding the gravity of the economic crash of 2008 and its incredibly long legacy. No one explains the situation better than economist Danny Blanchflower:

> The UK's recovery was the third-slowest peacetime recovery in six hundred years. The South Sea Bubble, which was a speculation mania that ruined many British investors in 1720 when the South Sea Company collapsed, was the next slowest. The Black Death, from 1347 to 1351, which resulted in the deaths of more than 75 million, was the slowest. It was good for productivity, though. Recovery from the Great Recession was even slower than it was from the year without a summer, which occurred in 1816. Severe climate abnormalities caused global temperatures to drop, resulting in major food shortages. These weather conditions appear to have been caused by a huge volcanic eruption in 1815 by Mount Tambora, in the Dutch East Indies, which was the largest eruption in 1,300 years. Policymakers didn't learn the lessons of history and down we all went. It was as bad as that.[7]

The 2008 economic crash was especially bad for the UK, and in particular for England, because successive governments, most recently New Labour, had been happy to accept inequality, hoping that the trickle-down they expected from it would appease the poor. It did not, and New Labour lost the 2010 general election. The Conservative–Liberal coalition that followed was a union between a Tory Party that had moved far to the right and a Liberal Party that might have fitted quite well within the old Conservative Party.

To try to hold his rapidly splitting and rightward moving swivel-eyed troops together, David Cameron took his party out of the centre-right EPP block in the European Parliament in 2014. In the European elections of that year, parties to the right of mainstream conservative national parties secured over 52 per cent of the popular vote in the UK. These were principally the Conservatives and the extreme-right UKIP. From 2014 through to 2016, the British Conservatives were allied in the European parliament with many extreme parties, including the German AfD neo-Nazis, who they ditched in that year as the British public could recognise them for who they were.[8] The British public tend to be less aware of the true nature of other minor far-right European parties now all allied with the UK Conservatives.

The rise in far-right voting in Britain has been far greater than in any other country in the EU when far-right is defined as voting for a political party allied to a political group to the right of the mainstream EPP European Conservatives. In the European elections of 1979, 1984 and 1989 almost no far-right or extreme-right candidates stood. In 1994 those that stood won 1 per cent of the vote; in 1999 they secured 7.5 per cent; in 2004 a fifth; in 2009 around a third; and in 2014 over half; dropping to 44% in 2019.[9]

The European elections of 2014 were, in hindsight, a pretty good guide to what the outcome of the 2016 Brexit referendum might be. Brexit was a project led by a very small number of people in the 1 per cent who simply won a majority too early. They did succeed for a time in successfully selling the story that it was the voice of the downtrodden northern working class, by cherry picking a few places and ignoring the low turnout there. In general, in areas where people did not usually vote, such as poorer parts of London and much of the North of England, those who might have voted Remain in greater numbers were very unlikely to vote (given that Remain were assumed to be winning and that there was a general lack of interest). Turnout was lowest among young working-class men living in the North of England. But that was not for lack of effort by the Labour Party.

Over the course of the referendum campaign, the Labour Party spent £4,852,423 pledging to Remain. This was the large majority of all the Remain spending during the entire referendum campaign. The Conservative "In" campaign only spent £595,475 – despite having access to many more wealthy potential donors.[10] The Labour Party was ghosted in TV debates and much of the media to the extent that most people had no idea that it was campaigning so hard to Remain and spending so much money to do so. Commentators on the BBC still regularly say that both the Labour and the Conservative parties were and are 'equally split' and that Jeremy Corbyn 'really supported Leave'. If he did, why did he spend £4.85 million doing the opposite?

In the run-up to the referendum, Corbyn made 123 public appearances, including sixty in just twenty-two days, travelling the length and breadth of the country. Angela Eagle, a Labour shadow minister, who later left the front bench, praised him at the time for 'pursuing an itinerary that would make a twenty-five-year-old tired'.[11]

The June 2016 Brexit referendum result was a shock when it came. We might now say that it should not have been a shock, but we must not forget that it was. It was especially a shock to those who campaigned for Leave, many of whom clearly had not expected to win, weren't prepared for winning, and had much to lose by winning. That could be seen not just from the faces of Boris Johnson and Michael Gove on the day of the 2016 result, but from the fact that the victors did not cover their tracks in activity that was later deemed to have been illegal. And, as a consequence, there has been political chaos from the date of the vote, 23 June 2016, right through to the day Britain did not leave, 29 March 2019, and beyond.

I will say little more on this, a subject covered in depth in the book I co-authored with Sally Tomlinson, *Rule Britannia*. However, one thing that was not highlighted strongly enough in that book was that that Leave vote was a majority middle-class vote; 59 per cent of Leave voters were middle class. The exit-poll sample from which this vital statistic was estimated was so large that it has a margin of error of only 1 per cent. Unsurprisingly, given their class and age profile, a majority of UK Leave voters lived in areas of the South of England that were also home to a minority of the UK electorate.

Although the Liberal Party and the Greens may have been most vocal in expressing their love of all things European, they raised far fewer funds to support the Remain campaign and carried out almost no campaigning in what turned out to be Leave areas. The 2016 Remain campaign was almost entirely supported financially by the contributions of millions of trade unionists, Labour party members, and small donors, most of which was then funnelled through the Labour Party's own coffers. In contrast, the Leave campaigns were almost entirely funded by members of the 1 per cent. Almost all the key advocates of Leave are in the 1 per cent, from European Research Group chairman Jacob Rees Mogg to Weatherspoon's owner and vocal Brexiteer Tim Martin. The Leave supporters among the 1 per cent own newspapers, they write columns in the *Daily Telegraph*, and they have been largely successful in their attempts to portray themselves as champions of the common man, occasionally also acknowledging the existence of women. They have been as successful as Donald Trump has been in controlling the narrative, and in concealing that in their heart of hearts they don't have much time for those below them, other than as an additional source of income and labour. However, in the May 2019 local elections the Conservatives lost 1,330 seats in contrast to Labour's 84 loses. Later that month ten fewer Conservative/UKIP/Brexit Party Members of the European Parliament (MEPs) were returned compared to 2014. Ten fewer Labour MEPs were returned.

Liberal, Green and other minor parties gained twenty MEPs. Pro-Remain parties did remarkably better than the pro-Brexit bloc, and better than Labour when it was painted as ambiguous. In Northern Ireland a pro-Brexit MEP was replaced by a pro-Remain MEP. The UK saw the greatest fall in far-right representation in its history and the greatest recorded anywhere across the continent. This was not how the story was told at the time.

In February 2019, the *Telegraph* had reported that income inequality in the UK was still growing, ten years after the crash, because 'the richest grew their earnings but the poorest were faced with falling benefits'. [12] The newspaper went on to explain to its (on average) more well-heeled readers that median average household income after tax was now stagnant and still standing at just £28,400 according to the latest data (the financial year ending in 2018). That is just £77.80 a day to live on – to cover the rent, food, clothing, bus tickets, gas and electricity bills, an Internet access charge, a mobile phone, children's clothes, maybe a book or a birthday present occasionally. Fifty percent of the population had to manage on £77.80 a day, or less.

To calculate the national median average household income, the Office for National Statistics (ONS) had tallied up all income from wages, pensions, investments, and benefits. Between April 2012 and April 2017, median household incomes had been rising by 2.2 per cent a year, slowly regaining some of the ground lost with the huge falls that followed the 2008 crash. However, in the latest financial year the poorest fifth of households – those families surviving (or not) on £36.50 on average a day – have seen their incomes fall. In contrast, the richest fifth of households more recently saw their incomes rise as their earnings rose and they benefited from very low rates of taxation. The ONS report explained that this was the second year in a row that income inequality as measured by household surveys had risen. And we know that household surveys substantially underestimate the income of the top 1 per cent.

In March 2019 the Institute for Fiscal Studies (IFS) explained that there were 31,000 people in the UK with incomes of a million pounds a year or more (£3,000, £5,000 or even £10,000 a day to live on). The IFS explained that this group accounted for 8 per cent of all PAYE (Pay As You Earn) income tax and national insurance receipts of all those that the government had received in the financial year 2017–18. The average tax paid by each member of this 0.1 per cent of the population was £730,000 that year – which demonstrates just how much higher than a million pounds a year most of them were earning.

Echoing the analysis of Danny Blanchflower (quoted above), the director of the IFS, Paul Johnson, explained that 'the Bank of England had looked back through history to find a worse period for relative workers' pay. It's reached the early 1800s. I think it might be heading to the black death soon.'[13]

In that same month (March 2019), the European Banking Authority released shocking statistics showing that the pay of bankers in the UK had begun to rise again so that now a record 3,567 were receiving more than €1 million a year, with the average yearly salary of UK bankers in this group being £1,700,000 (£4,660 a day). This was nine times as many high-paid bankers than could be found in the next most 'banker-heavy' country in the EU (Germany). A decade after the 2008 crash, three-quarters of all Europe's highest-paid bankers were still working and living in London, but the writing was on the wall. At the very same time as these figures were revealed, it was announced that 7,000 finance jobs could be lost from London in the very near future due to the Brexit mess.[14] The bankers were simply taking the money while they could, and once they did, many ran for it. They knew the good times were likely to end.

For significant names at the very top, the good times were already over. Martin Sorrel, the former boss of WPP, resigned in April 2018 having been until that moment the highest-paid of any FTSE 100 chief executive. His pay was already falling before he left WPP, and he departed in unusual circumstances.[15] He was reported to have been paid £70m million in 2015, £48 million in 2016, and £14 million in 2017. A few months later, Jeff Fairburn, chief executive of housebuilder Persimmon, had to resign after his £85 million pay for two years' 'executive work' was labelled by one shareholder as 'grossly excessive'. It would have reached £110 million for those two years' 'work' had he stayed and carried on being rewarded under the arrangements he had initially negotiated.[16]

The mean income of the very highest paid may now be falling as the tallest poppies are cut down, but FTSE 100 CEO median pay still rose by 11 per cent between 2016 and 2017, and now stands at £3.93 million per year, an increase on £3.53 million in 2016. The mean 2017 pay ratio between FTSE 100 CEOs and the mean pay package of their employees is 145:1, which was higher than the year before (it was 128:1 in 2016), but lower than its peak in 2015 (146:1).[17] However in 2018, just as the bankers were enjoying what might be their last 'hurrah', median CEO pay rocketed up to £3.9 million.

When reporting on this, the *Financial Times* was reproached on the letters page by Mary Acland-Hood of London, who suggested that 'a news headline is not the place for value judgments'.[18] This was despite the headline being factual: 'Top UK CEOs Earn Annual Wage of Average Worker in 2½ Days'.

Recently, lower-ranking bankers and CEOs started taking more when they saw that those above them were being made to take less and that they had only a little time left to cash in. In the summer of 2018, the archbishop of Canterbury, Justin Welby, a former banker, mentioned that he had been in a meeting in which a group of senior bankers were reflecting upon their diminished 'compensation'. One was reported to have said that 'back in 2007 many of us were on eight-figure salaries [i.e over £10m] … If you look around this room, there's not one of us who's getting paid more than £5 million a year'.[19]

By late spring 2019 there was no sympathy for the top CEOs and top bankers who had seen their take drop, and there was rising anger over any at the top who were angling for bigger rewards. In the February of 2019, taking into account inflation in the financial year to April 2018, ONS had reported that the average income of the poorest fifth of households had fallen by 1.6 per cent, while the average income of the best-off fifth had risen by 4.7 per cent.[20]

In April 2019 the news was released that 2 million of the country's poorest families were to lose £1,000 a year due to further benefit cuts.[21] This was on top of earlier reports that had revealed that, after eight years of welfare reforms,

> 'households with lone parents and children are set to lose an average of £5,250 – almost one-fifth of their total net income, compared to a loss of £3,000 for couples with children. This will see the child poverty rate for those in lone-parent households increase from 37 per cent to over 62 per cent.[22]

The reports kept flooding in: 'The Social Mobility Commission says Government policies have harmed efforts to improve social mobility by axing children's centres, cutting school budgets and limiting access to free childcare'; academic research has recently revealed that UK 'newspapers deploy deeply embedded Malthusian explanations for poverty'.[23] There are now many signs of a rise in disgust at the conspicuous excessive behaviour of a few very rich people in the world. Two years ago a party planner based in Monte Carlo explained, 'We probably go through 200 bottles of £300 a bottle Perrier-Jouët Champagne. We'll go through Whispering Angel, and Garrus – their finest ros*é*. We'll go through three kilos of French organic caviar. We also have a live cooking station with caviar and truffles.'[24] Would such a report be written today?

In the United States, lavish tax cuts under Trump will probably cause income inequalities to rise. However, 2019 changes to the tax rules that prevent the very rich from deducting much of their state taxes from their federal tax liabilities have resulted in the suggestion that the rich of New York (which has higher local taxes) will now move to Florida (or even Puerto Rico) as the changes mean they can now only deduct a maximum of $10,000 of state tax a year from their federal tax bill. But an exodus does not appear to be happening. The price of luxury property in tax 'haven' Puerto Rico is falling. Instead, the New York rich are gritting their teeth and paying their new taxes. In reporting on all this, the *Financial Times* asked, 'After all, if the wealthy leave New York, who is going to live in all those glass skyscrapers in Hudson Yards?'[25] It is worth thinking about who could sleep in all those luxury apartments now; often many stand empty. Many luxury apartments were also recently built in London, and also still stand empty.

There is anger now. To see whether this is justified, we should turn the clock back just over a century to 1917. That year saw income inequality peak at a point comparable to the present state of affairs. It was the year in which Richard Tawney wrote an essay published in the educational supplement of *The Times*. He concluded,

> The educational system of today was created in the image of our plutocratic, class-conscious selves, and still faithfully reflects them. Worshipping money and social positions, we have established for the children of the well-to-do an education lavish even to excess, and have provided for those of the four-fifths of the nation the beggarly rudiments thought suitable for helots who would be unserviceable without a minimum of instruction, and undocile helots if spoilt by more. The result has been a system of public education neither venerable, like a college, nor popular, like a public house, but merely indispensable, like a pillar-box.[26]

In our Internet age the pillar boxes are no longer indispensable. Public Houses are far less popular. Oxford and Cambridge colleges are no longer seen as venerable, but as snobbish and anachronistic. However, even they are changing, becoming a little more doubtful of the legitimacy of their pomp and circumstance, slightly more self-aware. The English educational system has not yet fully returned to its plutocratic past, although England's private schools have never been so highly funded as they are today. Their money comes through escalating fees that rose as the take of the 1 per cent rose and as those schools began to take in more and more of the children of the global 'privileged'.

Until the crash of 2008, worshipping money and social position had again begun to be seen as normal. We had sleepwalked into believing it was acceptable to provide beggarly rudiments for the seven-eighths of the nations of the UK able neither to pay for private education nor to afford a home within the catchment area of an 'excelling' state school.[27] We watched as our housing became unaffordable and our streets again became places for many to sleep. We complained as our health service worsened but did too little to save it. We lamented the growth of inequality but refused to outlaw it.

We can choose now to be at the peak of income inequality. We can choose now to demand it falls each and every year for many years to come. But it will take luck as well as determination if this is to be the time the turn comes. Before this book begins in earnest, here is a prayer penned by the Reverend Paul Nicolson – not a prayer for good fortune, but for those whose luck has already run out:[28]

A PRAYER IN A TIME OF AUSTERITY

We remember all who have died while their income was sanctioned,
who were overcome by any feelings of humiliation or shame,
by fear or distrust, insecurity or loneliness;
or by a sense of being trapped and powerless
under the abuses of power by the State
in a time of austerity.

In a time of austerity we pray,
in solidarity with the 1000s of UK citizens currently suffering sanctions,
which are imposed with the maximum use of the media
to blame decent people for their own unemployment and poverty;
for the millions of UK citizens who are suffering under unmanageable debts due to high rents, the council tax, the caps and cuts in social security
imposed by Parliament, made worse by sanctions.

We pray too for those in power, and seeking power, that they may find;
The courage to work for and implement social and economic justice,
The will to build a well-being state on the ashes of the welfare state
in which rich and poor and Parliament are in solidarity with each other.
The policies to ensure that no one will have to choose between
heating or eating,
the rent or the streets,
life or death
due to the unjust enforcement of debts
against inadequate incomes,
or no incomes at all,
due to a sanction.
In the name of Jesus Christ,
Amen