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The richest 1 percent of the UK

VANGUARD DOSSIER # 55 (The future of the UK)

This monograph discusses the future VANGUARD DOSSIER UK and its four nations: England, Scotland, Wales and Northern Ireland

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The richest 1 percent of the UK by Danny Dorling

1 percent of the richest people in the UK has 15 percent of the total wealth. If this percentage is reduced to 5 and the excess would be shared equitably, the poorest couples could double your annual income and average homes could improve their economic situation.

El 1 por ciento más rico del Reino Unido por Danny Dorling

El 1 por ciento de las personas más ricas del Reino Unido dispone del 15 por ciento del total de la riqueza del país. Si este porcentaje se redujera al 5 y el exceso se repartiera de forma equitativa, las parejas más pobres podrían doblar su renta anual y los hogares de tipo medio podrían mejorar su situación económica.

To get a grasp of just how much money the top 1 per cent in the UK use up, a simple illustration may help. 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.³⁴ 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.³⁵ 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.³⁶

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.³⁷

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. 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 wealthcreation – 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.³⁸ There is no iron law dictating that everyone else must step down in times of austerity, with those at the bottom drowning.

The superrich bubble has burst many times in many places over the course of world history. The bubble bursts when a country loses a war, as the invading forces have no interest in maintaining the wealth of the leaders of those they were fighting; but it can also be deflated slowly, by public consent, as occurred in the UK between 1918 and 1978,³⁹ and as is still taking place in countries as diverse as the Netherlands,

Switzerland and Japan. Sometimes a chain of events means that the bubble bursts in many places at the same time. This happened a century ago, during the First World War. The rich had been allowed to become too rich. They were the only people with the money to finance a fight that went on far longer and was far costlier than the warring governments had expected. Governments were forced to super-tax the wealthy. A surtax, or super-tax, was introduced in 1909, and its level was raised rapidly during the First World War.

By 1918 super-tax was bringing in 12 per cent of all income tax.⁴⁰ Then, during the Second World War, when monies were needed quickly again, the UK top rate of income tax rose rapidly, reaching 99.25 per cent by 1945, and did not fall below 90 per cent until the late 1970s.⁴¹ Perhaps surprisingly, the main effect of a super-tax was not to raise revenue. What it did was to curtail the greed of most of those near the top of the income hierarchy, deterring them from seeking large pay increases and bonuses. Pay at the top rose far more slowly than pay at the bottom for the whole period from 1918 to 1978. Britain became more equal. In 1966 the Beatles famously complained about the taxman taking such a high proportion of their earnings, and spreading those monies – which had initially come from the thousands of record-buying teenagers – back into society. High taxes did not appear to curtail the Beatles' success, but the pop stars' public anger at not being able to make even more money than they were doing was just the tip of the iceberg of private angst among some of the very richest people in British society, who were coming to believe that they were hard done by.

The superrich bubble began to grow again from the 1970s onwards, as the 1 per cent slowly regained the upper hand over the 99 per cent below them. It happened partly by accident and partly by design.⁴² As inflation slowed, debts of all kinds did not shrink as fast as they had before; the richest of the 1 per cent grew richer, and the power of the international bond markets it controlled subsumed that of democratically elected politicians.⁴³ From the Beatles' lyrical complaints (in Taxman) through to a newspaper magnate's influence on his journalists' reporting, the wealthy getting wealthier again was increasingly portrayed as 'only fair'. When portrayed as equitable, the bubble of their wealth only grows and grows, but it cannot keep growing forever.

What is it that eventually breaks the bubble? What causes the wealth of the superrich to implode? The simple answer is that the price of the rich becomes too high, the bubble grows too large, and eventually there are too few people left with enough assets to service it. What appeared to be a perpetual motion machine is revealed as a chimera. International bond markets fail, share prices crash, the value of gold falls towards its industrial worth (as a good conductor of electricity), property prices crash towards what people can realistically pay. Beliefs in the scientific wisdom of orthodox economics are shattered, and revealed as a stupid hoax.⁴⁴ The bubble bursts in many ways.

The price of the richest 1 per cent is easy to calculate: it is how much extra they cost above what would be an equal

share. If the top 1 per cent take 20 per cent, then their additional price is 19 per cent of the entire economy. It is normally a huge amount. The price rarely falls below 5 per cent of the entire national income, so let us call that the necessary cost of the top 1 per cent under capitalism. When the top 1 per cent take 15 per cent, as they do now in the UK, then an extra 10p in every pound earned in Britain unnecessarily goes to the people who already earn the most.

It is hard to assess precisely when that price of the superrich becomes too burdensome to be sustained any longer. There will always be a price. There will always be a small group who receive substantially more; but, after taxes have been taken, that price has ranged from 3 per cent of the economy of the UK in 1978 to almost 24 per cent in 1913.⁴⁵ Today their take is around 15 per cent, and most people know it is too high. But how might a fall in the price of the 1 per cent be achieved? In a few affluent countries, such as the Netherlands and Switzerland, the best-off 1 per cent have never been cheaper, have never had a smaller share of national income than they have today. After taxes, their additional income may cost as little as 2 or 3 per cent of national GDP. In contrast, the same group of people in the US are each costing the nation more than ten times as much. In 1916, in countries like Sweden and the Netherlands, the richest 1 per cent were taking more than a quarter of the total national income. By 2011 in Sweden they were taking 7 per cent, and in the Netherlands less than 6 per cent. The take of the richest 1 per cent in Sweden fell to as low as 4 per cent in 1981. So, for Swedes, the top 1 per cent taking 7 per cent is high – it is, after all, still seven times the

average income. But it is less than half the 15 per cent which the best-off 1 per cent were taking in the UK around 2007, and just a third of what the richest 1 per cent in the US are now taking.⁴⁶

In countries like the Netherlands and Switzerland, the relative incomes of the rich have never been lower than they are today. In Sweden and France, they are not far off their lowest shares. Only in a few rich countries, like the UK and the US, have the richest succeeded in taking more and more, year on year.

What matters most is that the wealth of the richest 1 per cent has a great impact on the rest of us. In the UK today, the poorest couple could double their annual income and the median households could be 10 per cent better off if the richest 1 per cent took just five times the average income rather than fifteen times, and the excess was shared out more equally. Some might argue that the 1 per cent pay their way in tax. In a highly unequal country where the richest 1 per cent take a huge amount of the income, they will often inevitably end up paying a greater share of the income tax. In the UK it is widely reported that the top 1 per cent pay between 25 per cent and 33 per cent of all income tax received by government. Before the 2008 crash it was nearer a quarter; now it is nearer a third.

A spokesperson for the Treasury recently insisted: ‘The government has taken action to protect those on low incomes from the challenging economic circumstances we face: 2.7 million people have been taken out of income tax altogether

as a result of increases to the personal allowance.⁴⁷ The truth is that most people have so little money that their income is insufficient to pay much direct tax. Despite this, the poor often end up paying the most tax relative to their measly incomes, due to indirect consumption taxes; but still their taxes are only a small proportion of what the government needs.

Often the reporting suggests that the rich do us a favour by paying tax. Rarely is it pointed out that they take too much income, or that the government currently collects only 26 per cent of its revenue through direct income tax. Value Added Tax and National Insurance account for 35 per cent of government revenue. Today one of the most closely comparable countries to the UK in terms of income and taxation inequalities is Russia, where the best-off tenth of the population now take sixteen times the annual income of the worst-off tenth, compared to around fifteen times in the UK.⁴⁸ But rich Russians still flee to the UK because they are even better off here, benefiting from lower UK taxes on the rich and especially on their residential property⁴⁹.

In the UK a similar degree of inequality to that now seen in Russia has been attained but it was attained at a slower rate, so it is easier to present current high inequality as natural. Nevertheless, in 2013 it was revealed that the richest person in the UK was the Russian billionaire Alisher Usmanov, whose fortune was estimated at £13.3 billion.⁵⁰ Twenty-five years ago the list had been topped by Queen Elizabeth, whose wealth was then estimated at £5.2 billion.⁵¹ Although we could afford to run 1,100 royal families for the annual income cost of the best-off 1 per cent, we could not afford to have 1,100

royal families as rich in wealth. That would require almost £6 trillion. UK total net worth in 2012 was estimated to only be £6.8 trillion.⁵² However, this figure jumped by half a trillion pounds in just one year – the twelve months to August 2013.⁵³ The rise in UK national wealth was put down to the increased property values – but we know which property rose most in value, both in absolute and percentage terms: the wealth of the superrich and the value of their land and property in London. If inequalities in the value of property continue to rise at current rates, the wealth of the 1 per cent would approach 1,100 times the wealth of the royal family. But is this really possible? Where will they get that huge amount of extra money from?

When the divide between the 1 per cent and the 99 per cent has widened while countries have become poorer overall, the consequences have been dire. As the richest become richer and richer, everyone else suffers as a result. During the last four years, the divisions in the economic and social interests of the 99 per cent of people, in both the US and UK, have started to narrow rapidly.

Without the support of the upper middle class, it becomes harder for the elite to rule, to secure the election of their favoured politicians, to control public opinion, to remain elite. This happens when members of the upper middle class realise that they have more in common with those beneath them than with the top 1 per cent. A new solidarity develops. Dissent rises and is not subdued. The top 1 per cent have 53 per cent of the total personal tradable wealth in the UK, the next 4 per

cent have 10 per cent of the wealth, and the next 45 per cent have 31 per cent. The remaining 50 per cent of the population have only 6 per cent of the total wealth between them all

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The top 1 per cent today have an enormous amount of money. They own newspapers and TV channels, and they spread myths to offset the growing consensus among the 99 per cent; stories about benefit scroungers are designed to rally people to their side.⁵⁵ They spread myths of generating jobs through their 'wealth creation'. They are treated with deference in newspapers and on TV and radio news programmes, just as clerics used to be treated a century ago. Business 'dragons' are presented as benevolent creatures, not destructive, scaly reptiles. The BBC Radio 4 Today programme has a business slot fronted by a former city executive, in which CEOs are rarely criticised.

If the National Minimum Wage had kept pace with FTSE 100 CEO salaries since 1999, it would now stand at £18.89 per hour, instead of £6.19 per hour.⁵⁶ For some reason, however, BBC reporters rarely ask CEOs why the gap between their pay and the pay of the poorest staff in their organisations has grown into such a gulf in so short a time. The unstated implication is that the lowest-paid staff are lucky to have any job at all, and only have what they have thanks to the benevolence and fine leadership skills of the 1 per cent.

If the top 1 per cent actually created more jobs as they became wealthier, then ordinary people would be surrounded by employment opportunities in both the US and the UK.

Instead it is in Germany, where the wealthiest 1 per cent receives half as much, in pay and bonuses, as their counterparts in the US, that unemployment is at a twenty-year low.

Even in Germany, there is no minimum wage and many of the new jobs are insecure; but in countries that control their top 1 per cent, that group works more effectively for the good of all, or at least creates less trouble and a little less misery.

The fact that both the UK and US are far less equal than almost all other affluent nations, and that inequality in both has in the past been significantly less, is not as widely recognised as it needs to be. We also need to begin to recognise how the top 1 per cent get away with taking so much, what effect a very rich 1 per cent has on society in general, and how 99 per cent of people are persuaded into accepting so much less.

The top 1 per cent differentiates itself from the rest in many ways. Inequality is more than just economics – it is the culture that divides and makes social mobility so painful, both for those dropping down the income and wealth scales and for those going up. Therefore the rest of this book is structured not in terms of economic outcomes, but according how the top 1 per cent school their children and what happens to the rest of our children; how they are rewarded for work, and the effect on everyone else's employment; how their amassing of more and more wealth affects the cost of all our homes; and how so many aspects of our health are related to the extent of inequality.

The book this extract is drawn from concentrates especially on how the top 1 per cent impact upon the lives of the remaining 99 per cent. It has

already been widely demonstrated that growing inequality and poverty have terrible effects on the health and well-being of the rest of society. What is not so well understood is how, as the inequalities grow, politicians who are members of the 1 per cent are forced to break promises such as that of not introducing university tuition fees – as Mr Clegg had promised – because they do not wish to acknowledge the alternative of stopping the 1 per cent taking so much.

A much greater promise than ‘no tuition fees’ has been broken by the leader of the Conservative Party. That promise was made in 2006. Some political leaders within the 1 per cent have become very good at promising to reduce inequality just before they gain power, but then increase it. Foremost in the race to the heights of hypocrisy is the prime minister: ‘We need to think of poverty in relative terms – the fact that some people lack those things which others in society take for granted ... In the next twenty-five years, I want my party to be in the vanguard of the fight against poverty’.⁵⁷

In the United States, after one-and-a-half terms in office, President Obama admitted that, even under his tenure, 95 per cent of income gains between 2009 and 2012 had been won by the 1 per cent.⁵⁸ He has now left himself only two years in which to reverse that trend, in which to try at least to keep a small part of the promise he made to those who voted for him so enthusiastically. But even if he fails he may tell himself, and others, that he did not.

In May 1988 the then prime minister, Margaret Thatcher,

told the House of Commons: ‘Everyone in the nation has benefited from increased prosperity – everyone.’⁵⁹ That, of course, was untrue. But some were more grateful than others. Twenty-five years later, when she died, it became clear that the very wealthy twins, Sir David Barclay and Sir Frederick Barclay, owners of the Daily Telegraph and Sunday Telegraph, had allowed her to stay in London’s Ritz hotel for nothing – presumably out of gratitude.

To this day, it remains unclear who had been paying for Mrs Thatcher’s £6 million home in Chester Square, Belgravia – although it appears not to have been her or her family.⁶⁰ Among the top 0.01 per cent are people who fervently believe that inequality is good, that the poor deserve nothing more than to be poor because they do not have it in them to be any better, and that the rich are worth their riches. Most of the top 1 per cent appear not quite as deranged and driven, but they are a hard group to survey, let alone tax, so it is time we took a closer look at life at the top and its effects on us all.

For Endnotes – see the book this extract was drawn from, Dorling, D. “Inequality and the 1%”, London: Verso (2014).