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It's growing: the gap between rich and poor, fat cats and workers, in the UK and USA

Plenty of high powered executives will remind us that their own hard work and talent needs to be suitably generously rewarded. Fewer step up to the podium to brag that their profit-making talent is actually dependent on less privileged workers being paid as little as 11 cents per hour.

So, let's look at whether relative hard work and talent is really being suitably rewarded.

The Chief Executive of Tesco was paid £5m in 2005. In 2006 the average employee will be paid £11,594, down from £12,713 a year ago. Bearing in mind the usual rationale for higher earnings, is it credible to argue that the Chief Exec is 430 times more industrious and qualified than the average Tesco employee?

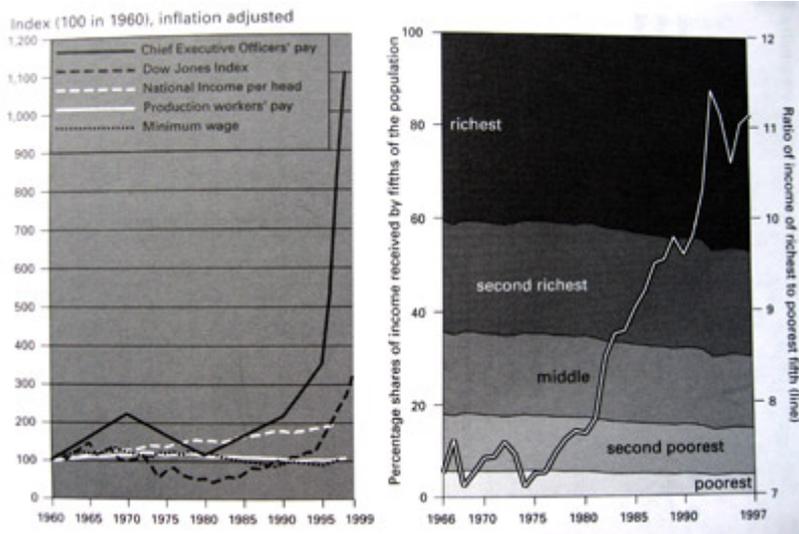
Of course, Tesco executives are not alone in creating the wealth that makes for soaring incomes. But, the real threat to a company's competitiveness, they say, is not the fact that one super-exec can produce the same outputs as 430 mere mortals - it is the fact that the least well paid workers are forever demanding more pay than they ought to, forcing companies to seek harder workers willing to work for less.

Let's assume for a moment that super-execs can really do the work of 430 average folk. What a wonderful opportunity this represents. By my calculations, the UK population need only nationalise all businesses and put 85,000 super-execs to work on average wages to produce enough savings to free the rest of us from the need to ever work again.

Alas, I fear the Chief Execs will resist being put to work purely in the interest of others. Supermen they may be, but self-less they are not.

In the US, whilst the national average income per head has doubled in real terms since the 60s, Chief Executive incomes have grown by a multiple of 11. Meanwhile, those who depend on wages have gained little or nothing. The graph below (right) helpfully shows the rising ratio of the income of the richest fifth in society vs the poorest fifth in the US since 1975.



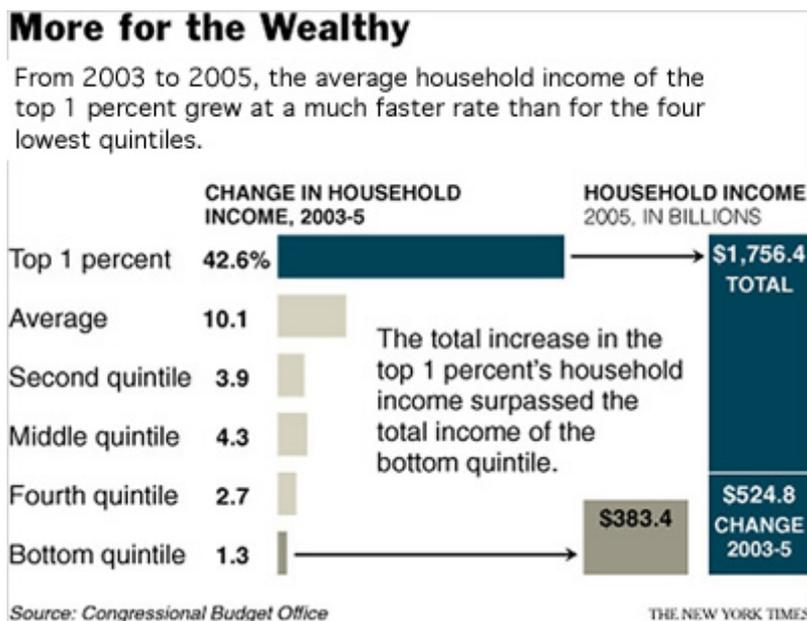


Note that the rising ratio on the right almost exactly mirrors the steep rise in Chief Executive incomes on the left.

Few economists would dispute that US society is becoming increasingly unequal. National income is being redistributed away from the majority earning the least to the privileged owners and controllers of capital. Legislative policies authored by and for the super-rich have, over the last 25 years, led to the systematic transfer of tax burden off the richest 5% onto working people.

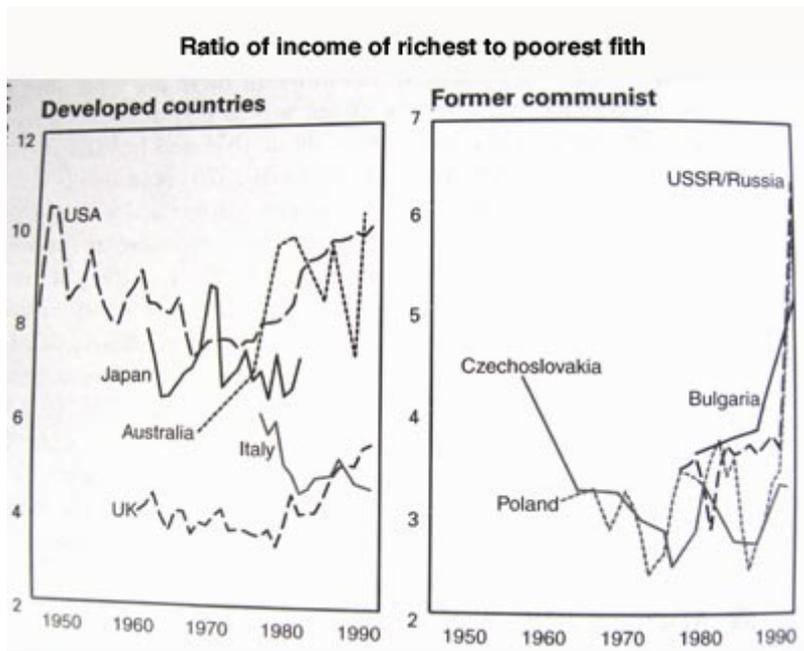
President Bush makes no bones about whose interests he represents, hence his statement at a dinner fundraiser of the rich and wealthy... **"This is an impressive crowd - the haves and the have-mores. Some people call you the elites; I call you my base."**

George Bush's tax cuts for the wealthiest 1% in society is just one example of this cosy alliance between our leaders and those who frankly, already avoid paying more tax than a patriot ought to.



Of course, this could only happen in the USA, right? Erhh, no. Actually the size of the gap between the richest and poorest 20% of society has been growing in the UK since the late 1970s almost mirroring the USA (graph below). If you wonder how much

privatisation and financial deregulation have to do with this, look to Russia (right) where, since the population were 'liberated' from the shackles of communism in 1990, the rise in inequality has been acute.



Russia offers a timely warning of how the majority suffer when income loses all relation to hard work and talent and simply becomes proportionate to an already powerful person's access to capital and preparedness to steal value from others.

If our power elite can't set an example, we must make an example of them. One UN report warns that, at the current rate, one third of the world's population will be slum dwellers by 2030 living on \$1 a day.

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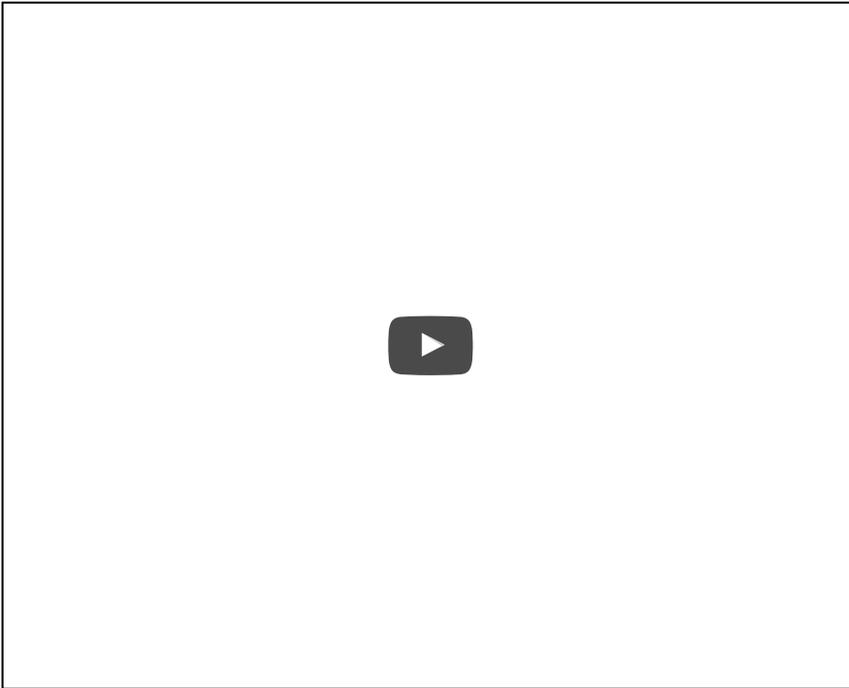
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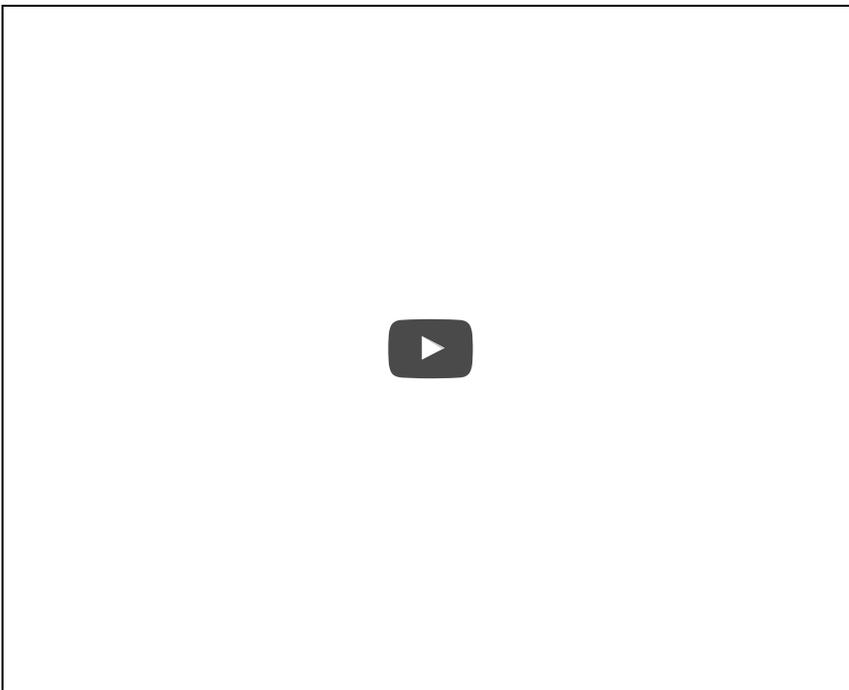
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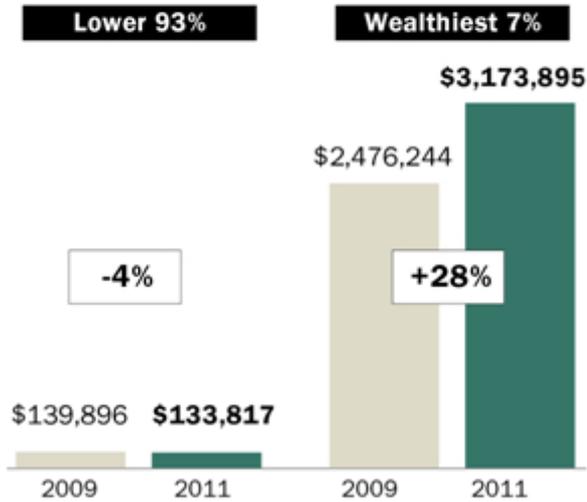


Video: BBC TV, Jan 2010 - Responses to the 2010 Government Report - An Anatomy of Economic Inequality in the UK

Related Graphs:

An Uneven Recovery

Change in net worth per household, 2009-2011



Note: In 2011 lower 93% refers to households with a net worth at or below \$836,033. In 2009 lower 93% refers to households with a net worth at or below \$889,275. Dollar figures in 2011 dollars.

Source: Pew Research Center tabulations of Survey of Income and Program Participation wealth data

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Graph: Change in net worth in USA per household from 2009 -11. A minority did very well out of the financial crash.

Figure 2a: Wealth distribution by type of asset, 2007: investment assets

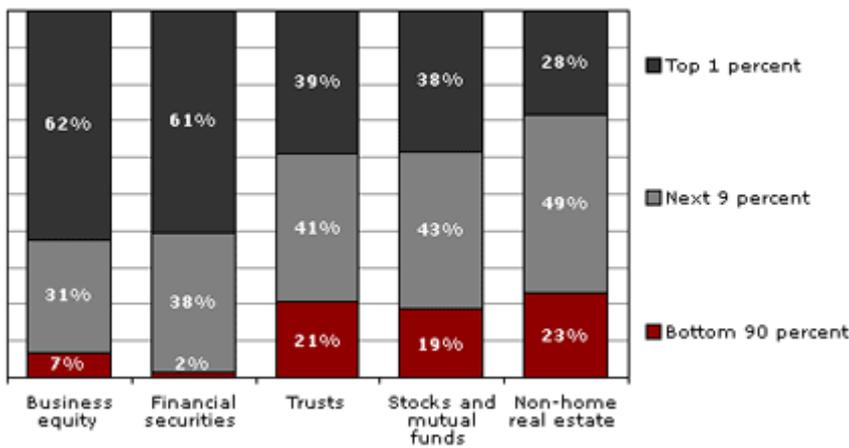
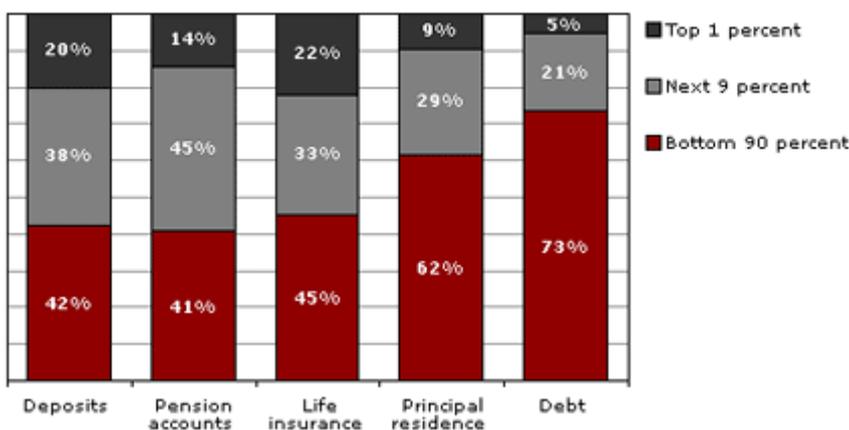


Figure 2b: Wealth distribution by type of asset, 2007: other assets



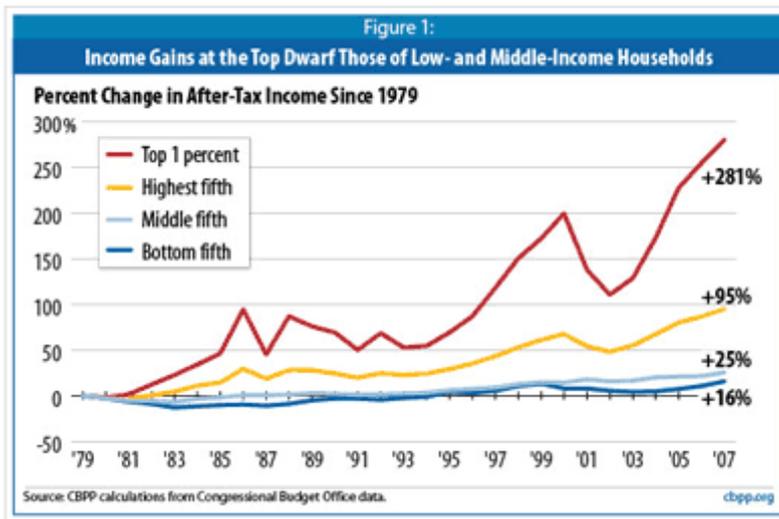
Graph: Look what percentage of business/financial assets are in the hands of the wealthiest 1% in the US. And note that the bottom 90% are the one's saddled with all the debt and with all their wealth tied up in the roof over their heads. For this and other revelations read the recently updated 'Wealth, Income, and Power' by William Domhoff.



Graph: Given the option, 92% of 'regular' Americans say they'd prefer to live with the division of societal wealth labelled 'Ideal' above rather than the one labelled 'Actual'. The 'Actual' is the current status quo in the US (note the share of the lowest 40% doesn't even register). The 'Ideal' is Sweden's current split. The 'Estimated' split above shows what respondents guessed to be the actual division of wealth in the US. It greatly underestimates actual wealth inequality. Over 5500 respondents were involved. For more, see Building A Better America.



Video: The video graphically explains the real vs the imagined and 'ideal' distribution of US wealth discussed above.



Graph: A US Congressional Budget Office report of June 2010 finds that between 1979 and 2007 the after-tax income of the richest 1% of Americans rose by 281%, whilst that of the poorest fifth rose by 16%.

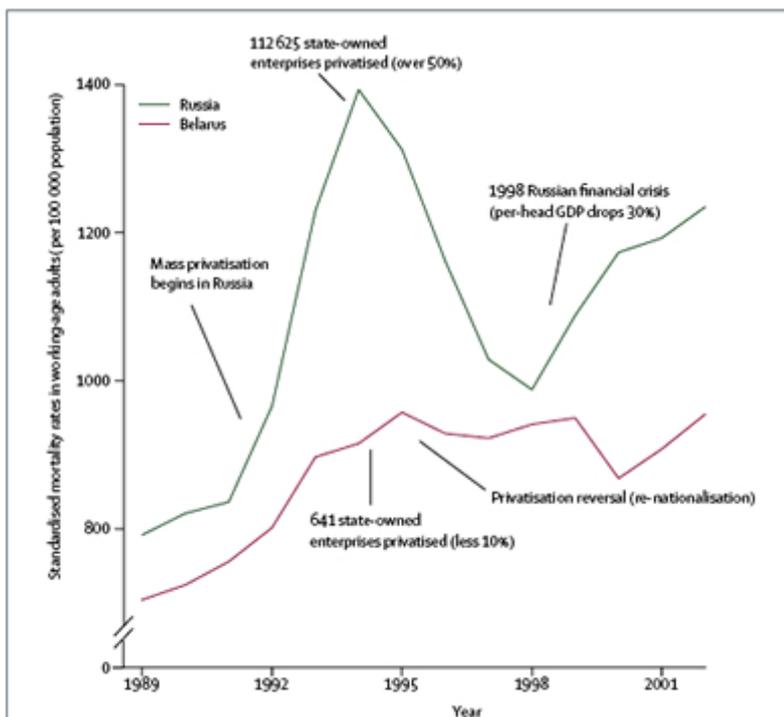
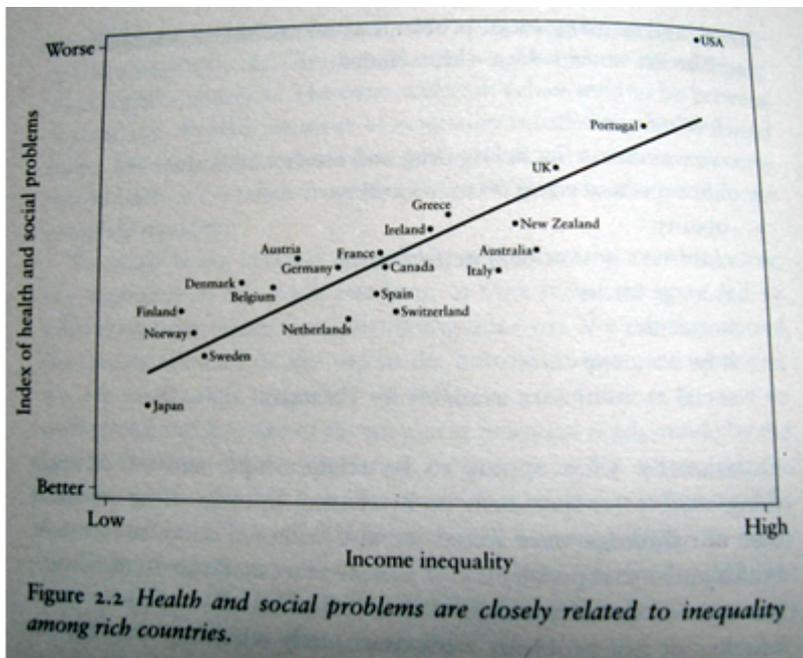


Figure 1: Mass privatisation and adult male mortality rates in Belarus and Russia

Graph: Male mortality rates in Russia (green) compared to Belarus (red). Life expectancy for Russian men fell from 64 to 58 years between 1991 & 1994! Contributing factors? Sudden rapid privatisation producing unacceptably high levels of unemployment, wealth inequality, insecurity and related drink and drug abuse. Belarus wasn't in such a hurry to privatise. See Stuckler, King and McKee's analysis.



Graph: In affluent Western market democracies, no one is in danger of dying of starvation. However, there remain significant problems. Where the income gap between the richest and poorest 20% in a country or US state is larger, the problems are exacerbated. The result is detrimental not just to the poor, but to the vast majority of society.

The graphs published by Wilkinson and Pickett in *The Spirit Level*, suggest that many problems - low social mobility, high numbers in prison, low public trust, higher mental illness, drug use and obesity - tend to be worse in less equal societies.

Question: **Do these problems hinge on perceived relative human worth as implied by relative rewards/income?**

If so, 5 might just be the required magic number. Only when the top fifth of earners decide they can make do with earning 5 times more than the lowest paid 5th of earners (as in Finland, Sweden and Denmark) do these problems diminish. Without pay restraint at the top end, the problems persist.

Enter the 26 year old city trader of Liar's Poker. On the day his salary (before bonus) rises to \$60,000 he starts to feel cheated. Why? Because he looks round and sees other traders being paid much more. Then a colleague explains:

"You don't get rich in this business...you only attain new levels of relative poverty."

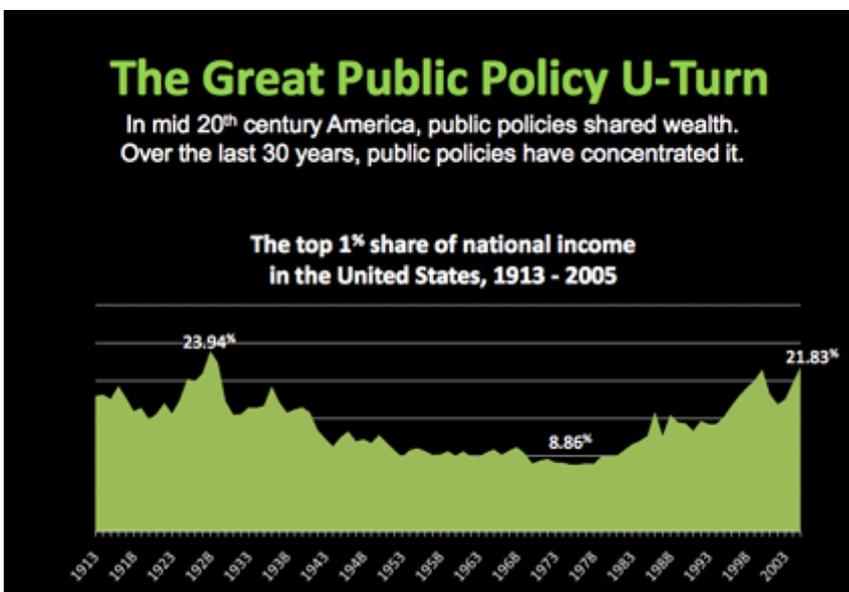
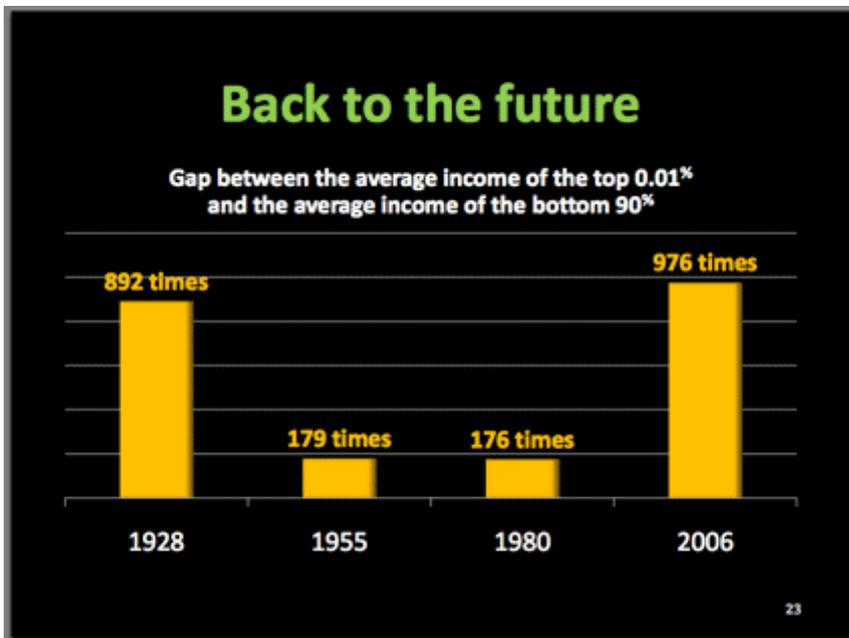
Clearly, even the highest earners 'suffer' where top executive pay shows no restraint.

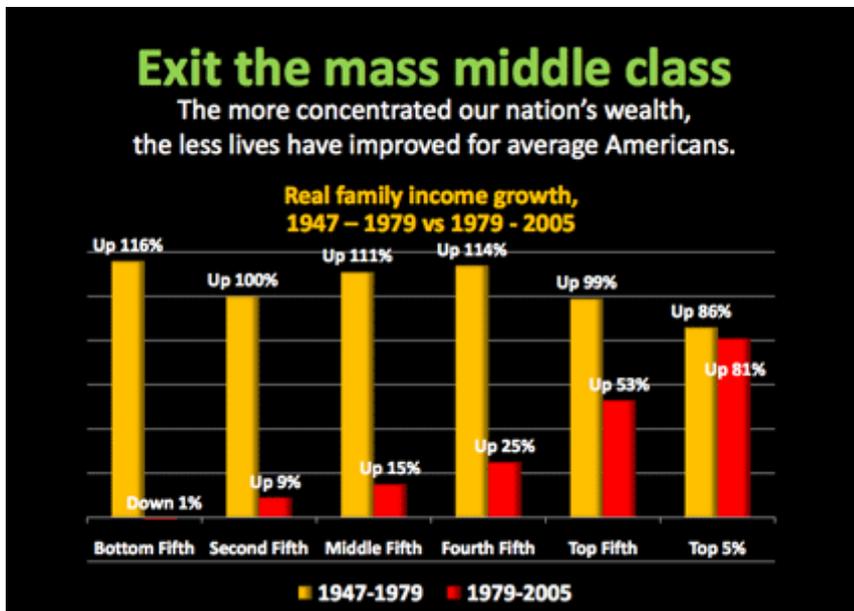
Figure 11: Historical Excess Wage in the Financial Sector



Notes: The difference between the relative wage in finance and the Benchmark wage from Figure 11.

Graph: Excessive banker salaries a predictor of depression? An EU report into bank bonuses found one bank paying maximum bonuses averaging 940% of actual pay!





Graphs Above: From an AFL-CIO presentation called Extreme Inequality.

Note that in post WWII America incomes rose for all five broad income groups by similar percentages. Over the last 30 years the real income gains have been made only by the top earners.

Federal Reserve Board figures for 2004 put the net worth of the Top 1% in the States (\$16.8 tn) - in excess of the total net worth of the bottom 90% (\$15.3 tn).

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Table 1. Real Income Growth by Groups

	Average Income Real Growth (1)	Top 1% Incomes Real Growth (2)	Bottom 99% Incomes Real Growth (3)	Fraction of total growth (or loss) captured by top 1% (4)
Full period 1993-2011	13.1%	57.5%	5.8%	62%
Clinton Expansion 1993-2000	31.5%	98.7%	20.3%	45%
2001 Recession 2000-2002	-11.7%	-30.8%	-6.5%	57%
Bush Expansion 2002-2007	16.1%	61.8%	6.8%	65%
Great Recession 2007-2009	-17.4%	-36.3%	-11.6%	49%
Recovery 2009-2011	1.7%	11.2%	-0.4%	121%

Graph: Income distribution post crisis. Monetary policy appears to repeatedly come to the rescue of the richest 1%.

Table 1. Regional Gross Value Added (GVA) per capita, 1989–2009

	1989	1999	2009
North East	-18.2	-22.7	-23.5
North West	-10.5	-11.7	-15.6
Yorkshire and the Humber	-12.3	-12.1	-17.4
East Midlands	-7	-9.2	-12.4
West Midlands	-10	-10	-17.0
East of England	-6.6	-3.9	-7.3
London	53.8	60.1	73.9
South East	-1.8	6.1	6.3
South West	-9.9	-8.2	-9.1
Wales	-17.2	-23.3	-26.7
Scotland	-5.9	-5.7	-1.2

Source: ONS. Shown as %age distance from UK for each year.

Graph: The UK's wealth gap is regional too, with all investment happening in London (where house prices attract a massive premium). In the regions the loss of high value manufacturing and mining jobs has not helped.

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 UK - richest raced away from rest of population over last decade
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2009:

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 US: 80% of adults share just 7% of US wealth, 1% controls 42%
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2008:

Gap between rich and poor in UK 'doubled in past 30 years'
 Tesco sells clothes made by factory workers paid £7 a week
 How Labour shifted taxation from rich to poor in the UK
 Only 7% from lowest 1/5 of earners rise into the top 1/5 in US
 Since 1913, only 1928 saw such unequal wealth distribution
 PM seeks to abolish tax concession for workers on low wages
 Cleaner in Tesco store in Malaysia paid 8p an hour
 Stark contrast between CEO bonuses and company performance
 Rich have estimated £3.5 - £6trn parked in offshore tax havens
 Only 15% of UK voters think the wealth gap is about right
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 10 hedge fund managers earned \$500m+ each in 2006
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2007:

UK bankers & financiers taking record bonuses in 2008 Q1
 Migrant fruit-pickers held prisoners on Florida farm
 FTSE 100 bosses' pay doubled over the 5 years to 2007
 Rising basic commodity prices disproportionately hit the poor
 MD pay at 8x a check out girl's would be fair says UK survey
 Unwaged 10 year olds found making Gap Kids clothes in India
 Private equity partners pocket £50m each
 Minimum wage for 16-17 years olds to rise to £3.40 an hour
 Typical FTSE 100 boss now earns 100 times more than workers
 Below inflation pay award for public sector, 37% for directors
 Ten key UK inequality facts
 Super-rich exploit the non-domiciliary and other tax breaks
 Some CEOs pensions 42 times more generous than employees'
 The sweatshop high street - more brands under fire
 For the first time, Britons' personal debt exceed Britain's GDP
 75% of UK retail workers receive the minimum wage
 Globalisation provokes backlash in rich nations
 Inequality at 40 year high in the UK, and the public don't like it
 High price paid for cheap UK clothes
 Asda, Primark and Tesco accused over clothing factories
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 UK's richest work hardest to avoid paying income tax
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 Highest top to bottom income gap since the 1930s in the UK
 Private Equity Chief Exec's personal income was \$398m in 2006
 US top 1% earning largest share of national income since 1928
 5 million more Americans in poverty since Bush elected
 UK: 50% of all adults share just 7% of UK's wealth
 UN puts UK bottom of 21 advanced nations
 Britain's rich just keep getting richer
 World's 50 richest individuals have combined wealth of £360bn

2006:

By 18 or 20 your life is largely mapped out for you in the UK
 "Goldman Sucks" claim protesting cleaners
 Fashion victims work an 80hr week at 5p an hour
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 Social mobility in UK in decline

Typical FTSE 100 boss earns 86 times more than workers
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 Growing inequality produces poor health and unhappiness

Interesting:

'Though rich countries have preserved their overall tax revenues, corporations and rich folk have paid much less as a share of these...The rich have not only seen their wealth and income soar, but they have shifted their income out of personal income tax categories... For example, the richest 400 Americans booked 26 per cent of their income as salaries and wages in 1992, and 36 per cent as capital gains. By 2007 they recorded only 6 per cent as income and 66 per cent as capital gains... In contrast, the working population has seen its personal income taxes and social security contributions rise over the last thirty years, as their wages have stagnated' p199

'In the golden age of 1947-73 the US economy grew at nearly 4 per cent a year, while the top marginal tax rate was between 75 and over 90 percent. p204

'In 2005, the Tax Justice Network estimated that wealthy individuals hold perhaps \$11.5 trillion worth of wealth offshore.' p26

[During the 80s US corporation tax receipts made up on average 9% of total US government receipts - down from, on average, 27% in the 50s. See Historical Table p32 -33, Budget for Fiscal Year 2011.]

'Corporations hold their profits offshore... only when they bring it back home to pay out as dividends to shareholders does it get taxed... this sharply reduces multinationals' cost of capital... and this in turn gives them a huge competitive advantage against smaller, locally based firms.'

'The construction of secret monopolies via offshore secrecy is pervasive in certain sectors ... such as constructing a local market monopoly by disguising the fact that a seemingly diverse and unrelated array of competitors in a market is in fact controlled by the same interests... [this] helps explain why, for example, mobile telephony charges are so high in some developing countries.' p165
 [See Carlos Slim]

'Eurodad's aim is to underscore a vital point: the offshore world is the biggest force for shifting wealth and power from poor to rich in history.' p28

'Tax, not aid, is the most sustainable source of finance for development. Tax makes governments accountable to their citizens, while aid makes governments accountable to foreign donors. Many Africans know this very well.' p200

'Britain and the US, the two leaders of modern global finance, are now among the most unequal societies in the developed world. In Britain 0.3 per cent of the population owns two-thirds of the land... In a UNICEF league of twenty-one industrialised nations measuring child well-being, the UK came last, marginally behind the USA... Meanwhile, the 1,000 richest Britons had wealth of £335 billion by the

end of Labour's term in 2010, up from £99 billion when Labour came to power in 1997. And that's just what we know about.' p277

'The culture of tax avoidance seems to have permeated British society... The consensus is now so widespread that Britain's tax authorities sold off nearly 600 of their own buildings in 2001 to a company, Mapeley, registered in Bermuda to avoid tax... In 2009 it emerged that the government minister in charge of cracking down on corporate tax avoidance had set up a business in Bermuda to avoid tax.' p275

From Treasure Islands: Tax Havens and The Men who Stole the World
by Nicholas Shaxson

Tax Evasion Extra:

Worlds main grain traders use havens to avoid taxes in Argentina