

Unjust rewards

After months of persuasion and with great difficulty, Polly Toynbee and David Walker managed to assemble focus groups of some of the country's highest earners. Most of these City merchant bankers and lawyers were in the top 0.1 per cent, earning around £500,000, some up to £10 million, a year. Ipsos Mori had never before managed to assemble such high earners. Here, Polly Toynbee describes the key findings from these focus groups, now published in *Unjust Rewards*. What did they know and think about Britain's growing inequality, and the widening gap between themselves and everyone else? Were they uneasy? Did they worry about their children being brought up so isolated from the rest?



Jess Hurd/Reportdigital

WHAT WE DISCOVERED was that those who control and manage the country's money turned out to be extraordinarily ignorant about it. They had no idea what other people earn, what it is to be ordinary, let alone what it is to be poor. Yet they are deferred to by government and their advice on taxation is sought as they chair official task forces and committees that set the direction for the nation's financial institutions. How can it be they have no knowledge, and just as little curiosity, about the society in which they are the masters of so much they survey?

They hugely over-estimated what other people earn. They thought the threshold for entering the top tax band, paid by the top 10 per cent, was earnings over £162,000: the actual figure is only around £40,000. They found it impossible to believe that 90 per cent of people earn under £40,000. Asked where they thought the poverty threshold was, they guessed £22,000 – which is more than twice as high as the actual sum for a couple. In fact, £22,000 is around the median salary – the mid-way point. Half the population earns less. Were they chastened by finding how

little most earn, compared with what they had imagined? Yes, they were embarrassed to be so out of touch. But no, it did not change their attitudes.

The purpose of this exercise, financed by Rowntree and Barrow Cadbury, was to see if there might be any way politicians could approach the super-earners and suggest they should contribute more than the modest taxes they currently pay. If they realised how many light years they had travelled away from ordinary society, might they realise that they could, and should, pay a little more tax, and certainly no longer go to great lengths to avoid the modest tax they are required to pay?

The answer, we concluded, is probably not. Our focus groups remained adamant that any interference with their taxes would cause flight of capital and an exodus of leading City players from Britain, damaging the economy and causing everyone in Britain to suffer far more than the extra tax brought in. Despite the fact that Britain has nearly the lowest top tax rate in the European Union, there was no budging them.

Are our politicians right to be so afraid of these masters of the universe that they dare not risk even suggesting to them that they too have responsibilities to the wider society? Research suggests there is no need to be so afraid of them. The Work Foundation finds that not only are most top company chief executive officers (CEOs) born and bred in Britain, with no global demand for their talents, but most come from careers within their own companies. Very few CEOs are hired from abroad either. These people are much less footloose than they pretend, with families here and children in schools, not many willing to be uprooted to hyper-expensive Monaco, even if tax rates were to rise. After all, just consider how well they have done right here: twenty years ago, a CEO earned 17 times his average employee, and now he earns 75 times.

Our mega-rich were also adamant that government always wastes tax money on schemes that do not work, and redistribution is a waste of effort as the poor spend it all on booze and fags – never mind the wealth of evidence to the contrary on both these counts. In other words, this very small slice of the population is, always was and always will be profoundly conservative, myopic and ignorant about everyone else. They will never be persuaded, and any progressive party must simply ignore them. Unfortunately, however, they own and control most of the

press, so they can send out scares that the economy would fail if anyone tried to tax them more, couching it in terms of ‘threats to middle England’, when they really mean the top 1.5 per cent. That is how they created the panic that inheritance tax would swallow up ordinary people’s savings and homes – when in fact it never had and never would affect more than the top 6 per cent of the richest estates.

It is no longer just the people at the bottom feeling the pinch. Long before this recession, people in the middle felt in their bones that they were not benefiting from all the growth Gordon Brown boasted about – and it turns out they were right. Latest Office for National Statistics figures show that for the last three years those in the middle have hardly seen any growth at all, while the bottom third of the population have fallen back in real terms, getting absolutely poorer. How can this be when we were told GDP was up some 2.5 per cent? All that growth was happening among the top 20 per cent – and most of it in the top 5 per cent or even the top 1 per cent. In a country as unequal as Britain, the very idea of an averaged-out GDP per capita is a useless statistic: it all depends who you are.

It may be comical, but it is politically significant that the upper-middle classes are now also complaining bitterly about the new mega-wealth. We talked to the editor of upper-crust *Tatler* magazine, who bemoans the fate of Britain’s old inheritors who find themselves priced out of the smarter areas of London where they grew up, and their children squeezed out of the grander schools by richer children hot-housed from infancy by high-presure parents.

Meanwhile, those in the middle, many of the 70 per cent home-owners, while they were thrilled to see their own homes soar in value insanely, find their children frozen out of the housing market altogether. Everyone now realises – because the Governor of the Bank of England himself says so – that the vast bonuses paid to bankers and financiers for dangerous risk-taking were the motors that brought the financial system to its knees, leaving many who did buy now in negative equity. Greed at the top was not just distasteful, but dangerously dysfunctional.

We suggest pretty modest action to reign in excess at the top – but even that is rapidly rejected by Labour. It is hardly revolutionary to ask the top 1.5 per cent to pay 50 per cent on all their earnings over £100,000: that would

bring in £8 billion. Nor is it wild to suggest a High Pay Commission should set advisory salary limits for boards and CEOs, so shareholders can be advised to vote down boards that exceed recommended rises each year. Naming and shaming can change the cultural climate and the way people behave, before having to resort to statutory limits.

At the other end of the scale, the minimum wage needs to become a living wage, aiming for another £2 an hour, so people can support their families without tax-payer subsidies – and benefits need to keep up too.

That means, one way or another, everyone should pay more for their goods and services. If the person washing the dishes cannot afford to keep their family on the wages, then the price of that meal is too cheap. If the care assistant caring for your granny cannot get over the poverty threshold on her wages, then we are paying too little for that care. Redistribution is not just about taxes, it is about pay and it is certainly about making sure low-paid public workers are not pegged at 2.4 per cent, while board rooms pay themselves some 30 per cent extra, year after year.

This is not the politics of envy, but basic fairness. Yet modest proposals such as these are nowadays treated as if they were dangerously radical. Remember, it is not that long ago that Mrs Thatcher kept the top tax rate at 60 per cent for her first six years.

Politicians are happy talking about equality of opportunity and fairness, but they barely dare use the word ‘inequality’. They still cannot admit that no country has ever abolished child poverty without creating a society that is far more equal than ours. If the ladder from bottom to top is too high and too steep, very few can climb it. A working-class child is now 15 times less likely to end up middle class, than a middle class child is likely to stay in the class of their birth.

The worst legacy of Thatcherism was economic fatalism: the market is immutable. ‘TINA’ – there is no alternative – is her mantra that lives on. Yet across the Western democracies, countries make very different political choices about how to tax and spend and how to distribute their wealth. We are closest to the USA, low tax and spend, high inequality. France and Germany are in the middle, fairer and higher taxed. The Nordics, such as Sweden and Finland, are the highest taxed and the fairest,

with least poverty – and they also have the most successful economies. European countries with greater equality have all had greater economic success than Britain. Yet here, the winning political rhetoric denies this obvious truth.

Ahead, we are set on a trajectory where we shall become ever more unequal and that is despite a Labour government that has done a great deal of redistribution. Without generous tax credits and benefit rises, sticking to the previous upratings, we would now be in a far worse state of social injustice. Labour has been running up a down escalator. This showed when for two years they took their foot off the accelerator of increasing tax credits and more children fell back into poverty. It happens very quickly if a future government chooses other priorities. All this takes very heavy lifting, year after year, non-stop, and it can feel thankless to politicians who get scant thanks for anything, least of all for poverty alleviation.

The other great task is to persuade people that government really does do good, programmes like Sure Start can transform young lives, education and health spending is beginning to make a real strides forwards and putting money directly into the pockets of poor families makes more difference than money spent anywhere else. But trust in government is out of fashion. Labour has been hopeless at selling the value of what good government can do. Can we recapture public enthusiasm for the virtue of taxation as the most important part of citizenship?

In our book we visit a brilliant Sure Start, an inspiring pilot scheme helping people train for better jobs, a reading programme with every chance of catching the youngest before they fail, and other programmes that show the difference state intervention can make, backed by well-directed taxes.

Although this is mainly a book about the growing rips in the fabric of society caused by galloping inequality, it is important to show that people can be helped, lives can be changed, even the most helpless can be given hope. The ‘nothing works’ nihilism of the media picks on any government failing without reporting a hundred successes, deliberately spreading cynicism. Only optimism about what governments can do will move the mountains necessary.

Can we find the political will and self-belief to decide to march in a Nordic direction from now on? Can a strong political tide pulling in the other direction be resisted? It is time to spell out

to voters what the choices are. Seventy-five per cent say we are already too unequal, the rich too rich and the poor too poor. Even people who are instinctively conservative worry at the thought we are set to become more unequal still. Our book is a contribution to presenting the facts as they are, warning of a worse future but pointing out that other countries make better choices: it is up to us. ■

Unjust Rewards, by Polly Toynbee and David Walker, is published by Granta and costs £12.99

Polly Toynbee is a journalist, author and social commentator

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