

ESPAnet, Budapest, September 2010

Stream 7.3: Regulatory social policy after the financial crisis

CREDIT CRUNCH, INEQUALITY AND SOCIAL POLICY

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Paper still very much in progress – please do not quote!

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Half a century ago Richard Titmuss showed how ‘the changing concentrations of economic and financial power’ in *The Irresponsible Society* were impeding the creation of a fairer, more equal society (Titmuss, 1959, in Alcock et al., 2001, p. 141). The credit crunch and its repercussions make his reflections particularly relevant today.

In its more ambitious moments social policy engages with broader issues about the nature of society and the quantity and quality of life for all its members, even exploring this on a comparative and global scale. But often we fail to avoid ‘the professional ideology of social pathologists’ that C. Wright Mills criticised (Mills, 1943, developed in 1959b). This paper identifies some key social policy issues we need to address in the ‘irresponsible’ societies of today. The change to plural, societies, is needed because the credit crunch crossed national frontiers with ease. With its immediate causes linked to problems of housing poverty in the United States, its longer-term manufacture can be found in growing concentrations of power and inequality that promoted and enabled deregulation in and across many societies with continuing repercussions. In pursuing ‘the devil that lies in the detail’ to attempt to understand one country’s experience, I have given too little attention to contributions to the crunch from other national and global institutions and to the inadequacy of the responses at many levels.

Social costs

The UK ‘output loss’ of recent ‘banking pollution’, to use the words of the Bank of England’s Executive Director of Financial Stability in March this year, is likely to be ‘between one and five times annual GDP’, that is ‘between £1.8 trillion and £7.4 trillion’ (Haldane, 2010, p. 4). Even this substantial amount probably omits knock-on social costs in increased unemployment, poverty, illness and their indirect costs, as well as the lost opportunities and long-term reduced standards of living that will result.

In his classic study of social costs, William Kapp defined them as ‘all direct and indirect losses sustained by third persons or the general public as a result of unrestrained economic activities’ – a particularly apt phrase for the credit crunch. These losses or costs result in ‘a redistribution of income’ (Kapp, 1963, pp. 13 and 15). The challenge, as Titmuss frequently pointed out, is to ensure that these redistributed external costs are not left to lie where they fall (see especially 1968, chapter 11, also in Alcock et al., 2001, part 3:2).

Charting these costs and compensating those who bear them is only one part of creating a fairer society. The costs are ‘part of the price we pay to some people for bearing part of the costs of other people’s progress’ (Titmuss, 1968, p. 133). Because of his concern to challenge the conventional wisdom on economic growth as the solution, Titmuss focussed on ‘the losses involved in aggregate welfare gains’ resulting from that growth (ibid.). The credit crunch

demonstrates that ‘other people’s progress’ can also result in aggregate welfare *losses*, and that very loss of resources makes it harder to compensate social costs. This is not to oppose some making progress, but a full account of the redistributive effects of change should consider not only the losers but who gained, how and at whose cost (compare Walby, 2010, p. 26). This is all the more important as the corrosive effects of greater inequality become better known (eg, Wilkinson and Pickett, 2009).

In the past the direct social and economic costs of high unemployment have fallen particularly heavily on those on low incomes and already most vulnerable in the labour market as well as having a wider indirect – and unequal - impact across the whole of society (Berthoud, 2009; Sinfield, 2009 and on the wider impact, 1984). Meanwhile the redistribution of resources and power upwards from increased unemployment is rarely discussed (Kalecki, 1943; Reynolds, 1951, p. 73), although workers are well aware of this: ‘if capitalism caused the crisis, why should workers pay the costs?’

In the UK not only have social costs not been picked up, but Labour’s labour market policy changes penalising non-employment were continued through the crises. While unemployment climbed sharply, welfare reforms designed for a tight labour market at best were pushed through with further restrictions and penalties stigmatising ‘the workless’ at a time when protection against the recession was needed. The damaging effects of further shifts from ‘rights’ to ‘responsibilities’ with increased conditionalities and privatisation of employment agencies are likely to increase as governments have ‘undermined the notion of citizenship and citizen's rights that should lie at the heart of the welfare state’ (Green, 2006), leaving the social costs to fall on the most vulnerable in society.

The need to prevent this and to avoid a ‘double-dip’ recession has not been given priority. The demand to balance the budget quickly is ‘harmful nonsense, however often it is repeated and however bipartisan is the consensus’ (Brittan, 2009a and see also b). The obsession with cutting the public deficit at the expense of maintaining demand will increase job losses (Chartered Institute for Personnel Development, Press Release 10.6.10). Media focus on where cuts in public expenditure should be made deserves research – for example, BBC journalists repeatedly calling for the ‘grown-up language of what to cut’ or giving bodies such as the British Banking Association generous unopposed opportunities to make their case.

A secure return to higher employment requires a more active state with more vigorous and thoroughgoing Keynesian policies, not the smaller state praised in a revival of Thatcherist discourse, ‘Public expenditure is at the heart of Britain's economic difficulties’ (*White Paper on Public Expenditure 1979*, UK 1979). Maintaining demand needs also to avoid traditional growth strategies that exacerbate global warming and waste energy (Jackson, 2009; *Green New Deal*, 2009). This requires public investment in sustainable energy, and ‘green’ jobs; reducing public spending cuts will jeopardise this essential strategy.

Differential compensation

Compensation for social costs through National Insurance (NI) has been intentionally weakened by UK governments over the last generation. For example, in 1961 75% of those classed as unemployed received NI benefits, but only 20% in 2010. The level of benefit has also fallen sharply. A generation ago NI Unemployment Benefit was 20% of the average wage for 12 months, well below the European average. With cross-party opposition to uprating Jobseeker’s Allowance, it is now even lower, only 10% and only for six months. Even restoring the 1979 value would require an increase of some four-fifths (Kenway, 2009; Sinfield, 2009).

While the basic social insurance now has an even more limited counter-cyclical effect, many believe believe incentives to work are too weak, failing to recognise that low benefit levels contribute to continuing unemployment. A large European cross-country study of labour market experience using the European Household Panel Survey revealed:

a vicious cycle of disadvantage.... Unemployment heightens the risk of people falling into poverty, and poverty in turn makes it more difficult for people to return to work' (Gallie et al., 2002, p. 18).

Raising benefits to reduce poverty would also discourage the trend towards low paid and poor-quality jobs that is a greater problem in the UK than in most of its European neighbours (EC 2001-3). This is why the better forms of 'flexicurity' require a decent level of support to enable workers to move more easily between jobs.

Recent Living Wage and Fair Pay campaigns have opened up debates on low wages and what is a 'fair' minimum. But differentials have been widening across the labour force, with those at the very top not only drawing further away from the average but 'racing away' from the higher-paid (Brewer et al., 2008). Judgements on fairness cannot be confined to one end of a distribution. Half a century ago Barbara Wootton raised searching questions in *The Social Foundations of Wage Policy* (1955 and 1962) about desert and equity across the whole employment structure. The 1970s incomes and prices policies included restrictions on pay increases at levels that today are astonishing, even when suitably adjusted. Indexed to earnings, the £5,000 ceiling which stopped increases in pay under the 1976 income policies would now be around £45,000. Adjusted instead for RPI, and so increasing in line with unemployment benefit/JSA, the ceiling would be well under £30,000, not far above average earnings today. The sharp rise in inequality means many more paid more than they earn and many more earning more than they are paid, but there is still little debate.

Poorly-planned compensation incentives at the top have led to little change despite evidence on the need for better 'conditionality'. In his analysis of 'The Banking Crisis and Inequality' Tim Lankester included 'remuneration structures and a "bonus culture" that encourages excessive risk-taking' among the causes of the crisis (2009, p. 151). Lords Myners and Turner, both with experience of working in the City, condemned the scale of bonuses and challenged the case for their disproportionate growth in recent years. Commenting on 'inappropriate remuneration structures', Turner argued that 'illusory profits were ... used as the basis for bonus decisions, and created incentives for traders and management to take further risk. This carries implications for remuneration policies' (Turner, 2009, p. 47). Sir David Walker, ex-chairman of Morgan Stanley bank, appointed to lead the review on banks' corporate governance, included 'unsafe remuneration policies' among the factors leading to 'this calamitous state' and set forward specific proposals on bonuses in his first report (Walker, 2009, p. 90).

However, the FSA's new code of practice on bonuses became watered down significantly under pressure from the City – eventually 'little more than a gentle entreaty to Britain's financial services industry to behave better' (Kampfner, 2009). By September 2009 journalists reported that 'BAB' was already being used as a City shorthand for 'bonuses are back' – if, that is, they ever really went away (City columnist in *Evening Standard*, ?. 9.09). Will Hutton recently quoted management consultants saying that 'any changes to remuneration are cosmetic' (*Observer*, 13.6.10): a fall in visible bonuses is offset by significant increases in base pay. "'Fellas that might have been on £80,000 are getting more like £120,000" said a [City] trader' (Guardian, 24.7.10), a practice reinforcing inequality even more.

Although bonuses are not the only element of high remuneration, they are most significant, comprising almost 90% of the £1 million or more paid to each of over 2,800 City bankers in 2009

(Guardian, 30.7.09). One investment banker remarked to a colleague as they decided on team bonuses in the mid-1990s, 'If the rest of the country knew what we were being paid, there would be tumbrels in the street and heads carried round on pikes' (Freud, 2008, p. 307). He added that the pay for a junior banker increased almost fourfold from 1997 to 2000. The writer, David Freud, was ennobled as the last government's adviser on welfare reform (2007) and is now the coalition Minister for Welfare Reform (the role of bankers – Seebohm, Wanless, Taylor, Turner - in shaping social policy deserves closer examination).

The importance of bonuses is brought out in Bell and Van Reenen's study, 'Bankers' Pay and Extreme Wage Inequality in the UK' (2010), 'the first time it has been possible to measure the extent to which the financial services sector has contributed to rising inequality' (quoted in FT 18.4.10). By 2008 the highest paid tenth of employees received 30 per cent of total annual pay, compared with 27 per cent a decade earlier. Sixty per cent of that increase - some £12 billion - went to finance workers, and virtually all in bonuses (Bell and Van Reenen, 2010). Among the very top percentile, that proportion almost reached three-quarters (ibid).

The chance of getting a bonus varies greatly - under one per cent of workers in the health services, public administration and education but 25 per cent in finance with an overall average of eight per cent (ibid, table 4). To most workers it must seem strange that the Chief Executive of the Royal Bank of Scotland should be paid £1.2 million a year - a salary 100 times more than the national minimum wage - and should then be given many millions more in various incentives and bonuses so, presumably, that he really does his best (and it is almost invariably 'his')ⁱⁱ. This sceptical view has received strong support from a group much closer to that world. Fourteen Business School professors across UK universities firmly rejected many standard arguments defending current bonuses in calling for a bonus windfall tax (*Guardian Letters*, 12.8.09).

The bonus also varies greatly, from 5% or less of pay to large multiples of salary in finance, and increasingly outside it.^{iii iv} In contrast to tough conditionalities at the lower end of the labour market, targets for entitlement to top bonuses can often be easily met or wriggled round. Guaranteed bonuses stray far from the Oxford English Dictionary meaning; 'a boon or gift over and above what is normally due' (OED). Discussing what constituted 'legitimate inequality', Raymond Plant identified an incentive as 'that sum of money which will get a job done without which society would be poorer' (Plant, 1986, p. 89 – see also p. 105). The application of that criterion would demolish many of the peaks of the City's remuneration architecture. Recently conditions are claimed to have been tightened, but many business journalists clearly regard this as temporary.

But bonuses are only one part of the 'remuneration architecture', as business consultants call it, as the towering monuments they construct contain many more incentives, long and short term – share options, final year pension boosts, expense accounts and so on. 'Current levels of executive pay in the UK are strikingly high: a 2008 survey showed the highest earner as being paid £23m annually, with 34 receiving packages valued at more than £5m'. The average FTSE 100 Chief Executive Officer (CEO) package was £2.9m, over 100 times higher than the average salary of a FTSE 100 employee (£26,000). 'In 1970 this differential was approximately 10:1. The UK is reckoned to be second only to the US in executive pay' (Higginson and Clough, 2010, p. 4). Compared with the fall of unemployment benefit against average pay by 50% reported earlier, this 1000% increase is even more remarkable – and yet it is the unemployed who, we are constantly being told, lack incentives to do better. Discussions of fairness that took regular account of the full range of compensation might help to open up wider considerations of need and desert instead of being more limited to narrow ranges – 'clearing oases in the jungle', as Barbara Wootton put it (1962).

Even the Director-General of the Confederation of British Industry, generally defensive of the City, has condemned ‘corporate folly’, making much of an Income Data Services report that ‘the chief executives of the UK’s 100 largest companies will have earned 81 times the average pay of all full-time workers in 2009, up from 47 times the average wage back in the year 2000. For the first time in history, it has become possible for a manager – as opposed to an owner – of a large public company to become seriously rich’. He partly attributes this ‘big change in corporate culture’ to ‘strictly short-term interests’ of ‘global shareholder value ... , executives have another powerful incentive to maximize short term profits’. If ‘a small cohort at the top reaping such large rewards ... seem to occupy a different galaxy from the rest of the community, they risk being treated as aliens’ (Lambert, 2010).

By contrast, Lambert recalls that, in the past, businessmen spoke of the need to generate ‘an adequate profit’. Similarly the fourteen professors of business studies mentioned above declared: ‘we reject the notion of superiority fostered by some firms, and some business schools, that providing financial services to society is worth hundreds of times more than providing services in nursing or transportation or childcare’ (*Guardian Letters*, 12.8.09). Research by CRESC, Manchester University, on the failure of banking to provide more than ‘3% of cumulative net lending in the decade up to’ 2009 to manufacturing while most of the rest went to commercial real estate and residential lending strengthens that argument (Hutton, *Observer*, 13.6.10)^v.

‘Obscene inequalities’ in pay tend to be quoted with a ‘Never Again’ air of revelation as if their very exposure ensures change, but earlier exposes challenge such optimism. Stewart Lansley’s *Rich Britain: The rise and rise of the new super-wealthy* provided similar ‘shock and horror’ examples before the credit crunch in 2006. In 1997 *A Class Act: The Myth of Britain’s Classless Society* by Andrew Adonis and Stephen Pollard revealed ‘The Super Class: Britain’s Winner-take-all elite’ (1997, ch. 3). ‘The Super Class is a recognizably new phenomenon. Its size and character are shaped by extraordinarily rapid growth in one industry, financial services: an industry concentrated in the City, truly international, largely foreign-owned and heavily US-influenced in ethos, regime and remuneration’ (p. 67).

The widening of differentials in income and wealth has probably been developing for a generation. ‘The Thatcher years legitimised a grasping philosophy, ruthlessly applied. The proliferation of adventurous pay packages, festooned with massive bonuses and pain-free escape clauses, was one of the wonders of the age, not least in the inventiveness applied to disconnecting performance from reward’ (Hugo Young, *Guardian*, 23.6.92). Such attacks were dismissed as ‘the politics of envy’, a countercharge successfully suppressing sustained debate of rising inequality. New Labour’s attitude - ‘extremely relaxed about inequality’ – continued the Thatcher-Reagan project of deregulation, underlining the need to analyse these societal changes in their global context (Ferge, 1979).

As Gillian Tett shows in ‘Dancing round the Regulators’, (Tett, 2009, ch. 2), the skilled lobbying by and through international bodies in the early 1990s to keep regulators away from financial innovations that contributed greatly to the final credit crunch was ‘an ideological fight of the highest order’ (ibid., p. 45). ‘One of the most startling triumphs for a Wall Street lobbying campaign in the twentieth century...informed the thinking of policymakers outside the US too’ (ibid., pp. 46-7). Similar powerful influences may explain why the Bank for International Settlements has now ‘diluted earlier proposals’ so that ‘all the regulatory resolve’ in ‘the 2008 consensus on the need...to tame the financial leviathans’ has been reduced to ‘pious aspirations’ (FT, 31.7 & 1.8.2010).

The high costs of ‘the evil of inequality’ (Beveridge, 1944)

Social policy has been much concerned with benefit, compensation and reward at the bottom end of the labour market, but, if it wishes to contribute to policy and policymaking on the distribution of welfare and the quality of life across the whole of society, it must consider the full range of rewards, their justification, the differentials created and the implications for society as a whole. We can no longer neglect G. D. H. Cole’s comment: ‘the welfare state is only a way of redistributing *some* income without interfering with the causes of its maldistribution’ (Cole, 1955, p. 88). This requires closer scrutiny of the ways that ‘social policy is embedded within economic policy... Economic policy inevitably specifies support for those in society on whom economic development is believed to depend. Policies on investment, taxation and public expenditure show who it is the government believes are important and who are unimportant’ (Townsend, 1981, pp. 24 and 23).

Speaking on ‘morality in the marketplace’ in St. Paul’s Cathedral in October 2009, ‘one of the City’s leading figures’ and vice-chairman of Goldman Sachs International, Lord said ‘the British public should tolerate the inequality as a way to achieve greater prosperity for all’ (Guardian, 22.10.09). But, with ‘trickle-down’ alchemy discredited, the wide inequalities that have resulted from the growing power of the financial sector are now increasingly recognised to impose heavy costs on both the society and the economy. These are being analysed in a growing body of work on the UK and more widely, including various editions of *Inequalities in Health* (e.g., Townsend et al., 1992); Michael Marmot’s own studies (e.g. 2006) and his national and international commissions; Richard Wilkinson’s body of studies, most recently with Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better* (2009)^{vi} (See also Collison et al., 2007; OECD, 2010; Eaton & Eswaran, 2009).

‘The evil of Inequality’, as William Beveridge called it in 1944 (Beveridge, 1944, p. 31) is becoming recognised as comparable to the harm of smoking or global warming. The Equality Trust’s inequality data underestimate the problem, being confined to the barest statistics commonly available across different countries with no account for a wide range of occupational and tax-assisted welfare reinforcing the advantages of higher incomes, the ‘concealed multipliers of occupational success’ (Titmuss, 1958, p. 52). The cross-national differences in these might help to explain some of the variation among countries.

Increased inequality helped to create the credit crisis. ‘A contributing factor behind that failure [of the banking system] has been the sharp rise in income and wealth inequality, which drove up asset prices and encouraged excessive borrowing’ (Lankester, 2009, p. 155; see also Rajan, 2010).

The dominance of the rich, and how this influences discourse and policymaking, deserve more research. Anthony Sampson’s comparisons with Edwardian Britain are relevant here (2004). ‘To recognise inequality as the problem’ rather than poverty ‘involves recognising the need for structural change, for sacrifices by the majority’ and acknowledging ‘the limits of conventional welfare’ (Titmuss, 1965, pp. 132 and 131; see also Gans, 1971, on the functions of poverty). Analyses need to be more securely based in their societal context, what C. Wright Mills called the ‘structural anchorage’ (Mills, 1959b, p. 90). Failure to do this gives ‘hostages to the status quo’ (Eldridge, 1983, p. 28) and reduces the determination to seek alternatives.

‘The structure of inequality frustrates attempts even to document it’ (Townsend, 1975, pp. 4-5). *Poverty in the United Kingdom*, was subtitled ‘A survey of household resources and standards of living’. The chapter on ‘The rich’ is central to Townsend’s analysis of ‘the elaborate hierarchy of wealth and esteem, of which poverty is an integral part’ (1979, p. 926, penultimate sentence of

the book). At his retirement from the University of Bristol, he reflected: ‘One conclusion I’ve come to is that distribution, not redistribution, must be the watchword. ... Scientifically our priorities have been with redistribution instead of distribution’ attempting ‘to repair some of the damage caused by that distribution while the long-lasting construction of unequal employment and an unequal wage system has gone unimpeded. It is as if one side of the accounts has attracted all the attention, while the other has been largely ignored. This has been a long-lasting mistake’ (Townsend, 1993, p. 5). The prevention of inequality must trump partial amelioration.

The two elements of the ‘state organised redistribution of life chances’

Townsend’s argument is reinforced by the blinkered concern of social policy with redistribution (van Oorschot 2008). To analyse the ‘state organised redistribution of life chances’ properly requires as much attention to ‘the process of collecting resources from society’ as to ‘the process of re-allocating’ (ibid). The ‘legitimacy of welfare’ is dependent on ‘patterns of solidarity’ in contributing to the common good, but this receives less examination in the UK and America than in mainland Europe. The fairness and appropriateness of contributing are as important as those of spending. Who contributes and how become as important as who benefits and how. Surprisingly, discussions of ‘active citizenship’ contain little consideration of the solidaristic contribution that citizens should make in creating ‘an active society’.

The credit crunch and growing awareness of increased inequality and its harm have added force to van Oorschot’s argument, especially as we have learnt more about routine tax dodging by the higher paid and their companies, and how this shapes both work and ‘remuneration architecture’. ‘Fiscal efficiency’ dominated economic efficiency leading to ‘socially’ or ‘economically useless’ trades that exploited tax differences across frontiers and took advantage of loopholes (Turner, 2009; Guardian, *Tax Gap* series, 2009). Significantly, tactics designed to reduce solidaristic contributions to public resources have been regarded as both smart and desirable, and not only by those using them – without understanding of the losses to the common wealth.

Meanwhile, most debates about taxing and spending presume the richer contribute and the poorer benefit. The gap between perception and reality of tax and welfare deserves closer attention in policy analysis (as do the ways in which distorted views are fostered). The overall impact of UK personal taxation has remained fairly stable around 35% of total income, although it dropped slightly in 2008-09. Despite widespread assumptions about its progressiveness, overall tax is broadly proportional, but regressive for the poorest. Even after council tax relief and tax credits, the poorest fifth of households pays a larger share of income in all taxes than average. In 2008-09 the proportions were 36.2% for the poorest fifth, 33.5% for all and 33.9% for the richest fifth (Barnard, 2010, Table 3)^{viii}.

Redistributing upward through tax welfare

Significantly for this analysis, it is the government system designated to control growing inequality that also helps to maintain it. By providing tax reliefs that mainly benefit the higher paid, it enhances their privileges in little-known ways that escape public scrutiny. This deserves much closer attention than it has received, despite Richard Titmuss’s early analyses of fiscal or tax welfare (Titmuss, 1958 and 1962). Provision to directors and top management of financial counselling to maximise ‘tax mitigation’ and reduce what professional advisers term ‘tax wastage’ underlines the need for closer scrutiny and control of the public costs of this ‘wastage’. Adam Smith not only made a clear case for progressive taxes but emphasised the importance of contributing in return for ‘enjoy[ing] the protection of the state’ (Smith, 1776, pp. 324 and 307).

The poorest fifth of households have to pay a much higher proportion of their income in indirect taxes than the richest, as they need to spend their income, while the richer can not only save but

are actively helped to save more by valuable tax reliefs (TUC, 2010). For example, the net subsidies to non-state saving for retirement are equivalent to some 2.2 per cent of GDP if other special support is included with the substantial tax reliefs (PPI, 2010, Table 29). Revenue lost by not levying employers' NI on their contributions to company pensions has exceeded £8 billion in the last four years - greater than the tax foregone on both working and child tax credits (estimated at £6.2 billion for 2009-10).

The 'upside-down' benefits of pension tax reliefs redistribute upwards: 60 per cent of tax relief on individuals' pension contributions goes to those liable for higher rate tax, a fact revealed not in regular statistics but only by parliamentary questions^{viii}. So those already best placed to support their retirement are significantly subsidised by other taxpayers to achieve even better protection, while the revenue to fund state provision such as the NI pensions and Pension Credit is correspondingly reduced. Yet exploiting higher-rate pension reliefs to the limit is generally treated in media and tax guides as a 'victimless' privilege, even obligation.

Despite outrage over Sir Fred Goodwin's payoff pension, there has been less recognition of the widening gulf between the 'two nations in old age' that Richard Titmuss identified in 1955 (1958). Companies' different treatment of pensions for staff and for top executives and directors is highlighted in the TUC (Trades Union Congress) PensionsWatch annual surveys. Directors of the UK's top 103 companies will be able to retire on pensions of nearly £250,000 a year compared with the current average from occupational pensions of £8,320 – nearly 30 times more in 2009, compared with 25 times more in 2008. Directors' pensions increased by over 23 per cent from the previous year (TUC, 2009), and most were generous defined-benefit schemes with retiral at 60. The Institute of Directors ignores the cost to society of these privileges, yet is exercised over the rising costs of workers' retirement. 'Raise retirement age to 70, say Business Leaders' (IoD, 19.10.09, press release), and their demands are given more attention than trade union evidence on growing pension inequalities and their costs.

The introduction of a new pensions tax regime in 2006 was a missed opportunity to tackle the problem vigorously. In retrospect the tax review team should have anticipated the vigorous response to any tighter limit to taxfree contributions and set a much lower ceiling for consultation. Before that new regime it was often reported that pension contributions dwarfing basic salary were piled taxfree into top executive pension funds and that then other tax-mitigating routes would be used. But the official figures of tax reliefs rose from £13 bn in 2004-06 to over £18 bn in 2006-08, and even more since^{ix}.

Further changes for April 2011, including phasing out higher-rate tax advantage for those paid over £150,000, have again led to companies making more generous pension contributions in advance, despite government attempts to restrict the opportunities. This change appears to have been rushed through with a brief consultation only because it was realised that the 50% income tax rate introduced in 2010 would encourage even further use of pensions relief by higher-rate tax payers.

Coverage of tax changes in the press deserves far more scrutiny: it conjures up a world of harassed hard-working victims of the tax system, serving to delegitimise the role of the state and the necessary collection of contributions to the common wealth (Ferge, 1987). Presenting tax manoeuvrings at the top as if modern Robin Hoods were fighting on behalf of all taxpayers against the oversize and oppressive sheriff state, they did not allow that 'smart' schemes and 'fiscal excitement' diminish the resources of the majority who have to make up the tax lost or bear the public service cuts.

Failure in the last Labour budgets to align capital gains tax (CGT) with higher-rate income tax, or even the basic rate, surprised even the most mischievous tax advisers in their newsletters, 'CGT Silence is Golden', 'Why the well-advised are chanting "capital over income"'. The *Financial Times* reported a switch to investments that pay capital, not income, and a revival in 'offshore bonds' (*FT*, 1&2 May 2010, Personal Finance, p. 7). Over a century ago differentiation between earned and unearned income was introduced into the British income tax system as part of creating a more 'modern' system (Daunton, 2001) on the principle of greater risk, and so lower tax, attached to earned income: the more favourable treatment of unearned income has received little attention or analysis in its reinforcement of inequality.

The tax reliefs that privilege and enrich private provision were called 'subterranean' by Jacob Hacker in his analysis of the American private welfare state (Hacker, 2002). In the UK too their visibility is limited as they continue to fall outside the public accounts and their detailed scrutiny despite their significant effect on the distribution of resources across society. By various income tax allowances and reliefs the top ten per cent were able to reduce their tax bill in 2004-05 over and above the basic personal allowance by nearly £12 billion - some 70 per cent of that extra tax relief (my estimates derived from *Racing away?*, Brewer et al., 2008, Table 1). The top one-tenth of the top one per cent - some 47,000 people - were estimated to benefit by nearly another £50,000. With a pre-tax income 31 times the average, they were able to make use of tax reliefs 86 times the average, so tax benefits became a significant help in enabling those at the top to 'race away' even further.

Very little of this 'bottom-up' and 'upside-down' redistribution through the tax system appears in the few official statistics, almost as limited today as when Richard Titmuss wrote *Income Distribution and Social Change* in 1962. In addition, tax reliefs continue to receive little examination from parliamentary committees, let alone routine monitoring. There would appear to be a strong case for giving particular attention to the disproportionate tax benefits going to the wealthiest taxpayers in cutting the public deficit. The Green New Deal Group argue that putting a limit of £5,000 a year in tax reliefs above the personal allowance for everyone paid more than £100,000 a year could bring in £14.9 billion (GNDG, 2010).

The *Racing away?* evidence gives further emphasis to Tony Atkinson's observation: 'Taxing the rich cannot now so easily be dismissed as a revenue source' (Atkinson, 2007, p. 39). In 1959 Titmuss called attention to the influence of the pension and insurance industries who 'increasingly become the arbiters of welfare and amenity' (Titmuss in Alcock et al, eds, 2001, pp 141). Through lobbying and advising they have helped to reinforce these redistributive patterns with their reductions in contribution to public revenue: we have not paid enough attention to Titmuss's question: 'Who behind the 'decorous drapery of political democracy' (in Professor Tawney's phrase) has power?' (ibid.).

The focus on contribution has so far been confined to the individual, but this not only ignores the institutions with their tax responsibilities to support public provision, but also the ways in which those with economic power are able to move resources between individuals, companies and countries in ways which reduce their total contribution. Growing evidence on the more predatory corporate raiding of the common wealth has emerged throughout the credit crunch crisis. *The Guardian's Tax Gap* series (2009) benefited particularly from the detective work of Richard Murphy and colleagues at the Tax Justice Network: 'large corporations and wealthy individuals are increasingly avoiding their contribution to society through taxation. With the aid of governments, they are shifting the tax burden further onto ordinary citizens and smaller businesses' (Kohonen and Mestrum, 2008, p. xiii).

How devices such as tax havens and tax reliefs specially benefit the better-off has also been revealed by Murphy with revenue losses estimated to reach £25 billions - £12 billion from the 700 largest corporations as well as the £13 billion he estimates from individual tax avoidance (Murphy, 2009). Ronen Palan's brief review, *The history of tax havens* (2009), brings out the interlinked nature of many transactions and the great extent of offshoring opportunities.

Many of the methods used by banks and other businesses were specifically created to avoid the payment of tax in different administrations so the private gain was at public cost, with no social value and very probably some harm. Super-injunctions have been used to remove reporting from the on-line *Guardian* on the promoting of some tax avoidance schemes by one of the high-street banks^x. The importance of multiple transfers generating multiple fees at no social value has led to increasing support for a Tobin tax or some form of 'financial transaction tax'^{xi}.

Some critiques of the tax raiders have been particularly forthright. Prem Sikka, Professor of Accounting at the University of Essex, attacked the 'relentless economic warfare against normal, decent and hardworking citizens' waged through tax avoidance by 'banks, together with accountants and lawyers...Banks want public handouts but have systematically destroyed the tax base' (Sikka, 2008). Described by Lord Myners as the 'most state-aided industry', banking has played a significant part in bringing about a greater reduction of the government revenue from which that aid can be paid. Both by its own tax-reducing activities and its assistance to others to do the same, it has reduced the public resources from which help to schools, those in poverty and even banks can be made, and yet this erosion of the tax base receives little attention at a national, let alone international, level.

Compliance and control in taxation and welfare at an individual level have traditionally been the concerns of different professions and agencies. In *Rich Law Poor Law* (1989) Dee Cook found regulation increasing for those receiving social security benefits while reducing in taxation. A tougher stance on tax may be starting to emerge, but past policy responses have been much criticised for their weakness, the 2008 Public Accounts Committee criticising the HMRC's 'kidglove treatment' of the wealthiest tax evaders and the 'usually relatively trifling' penalties imposed on the few prosecuted – averaging 3% of the tax due with no sanctions in half the cases. In 'just two out of a thousand' cases were prosecutions launched, compared with sixty per thousand by the DWP (PAC, 2008).

The Association of Accountancy and Business Affairs' *Code of Conduct on Taxation* states £5 billion could be brought in by introducing the General Anti-Avoidance Provision that it has proposed (20??). In their manifesto the Liberal Democrats claimed £4.625 billion could be clawed back by a crackdown on tax avoidance. Quickly judged 'highly speculative' by the Institute for Fiscal Studies, it was dismissed by a leading tax professional: "'Accountants and lawyers will find ways round whatever rules are in place to help our clients...It is a bit like picking up a bar of slippery soap – you think you've got it, then it slips away'" (Guardian, 15.4.10).

Tax agencies' practices, public and private, need to be included in the scrutiny of overall lightness of touch on the wealthy and powerful, both corporate and individual. Very different treatment of taxpayers, presented as 'givers' to the state, as opposed to benefit recipients, presented as 'takers' means more has to be found in public spending cuts (Cook, 1989). This operation of double standards, not only of discourse but also of respect and reward, has continued to be little challenged. Meanwhile, far from reducing staff and offices, government should be recruiting more tax staff not only 'to tackle tax avoidance and tax evasion' but also the more humdrum work that was not being done - 'to scrutinise tax repayments before they take place'

and ‘to recover debt owing’ (Murphy, 2010 March, p. 2). Even requiring all taxpayers, including the ‘best’ advised and most powerful, to carry out their responsibilities in contributing for ‘enjoy[ing] the protection of the state’, as Adam Smith recommends, could bring in sums that would significantly help to reduce the public deficit.

The implications for study and practice in social policy

The credit crunch has demonstrated anew that in ‘the irresponsible society’ some become deprived and many more made insecure while others become better insulated both from sharing common risks and from contributing to the public resources needed to protect the quality of life for all. In the downward-looking discourse of recent governments, they exploit their rights and evade their responsibilities.

This is not a rhetorical point: it underlines the need for a broader approach to social policy that not only takes account of individual needs and the services and benefits that promote social welfare but also engages with the sort of community in which we live: what T H Marshall referred to as the ongoing war between citizenship and social class (Marshall, 1950 in 1992, pp. 18 and 40). Titmuss was concerned that we tend to lose sight of our common humanity and the things that unite us. The ‘social division of welfare’ was reinforcing sectoral advantage, nurturing privilege and contributing to exclusion and marginalisation with ‘the demoralising effect of cumulative social rejection’ (Titmuss in Alcock *et al*, 2001, p 145). Similarly, Townsend argued against the double standards growing in society in 1958: ‘The central choice in social policy lies...between a national minimum and equality...the source of confusion’ in choosing ‘is that the national minimum has been held to be the badge of equality...The problem for the future is to refuse to tolerate two standards of social value and apply one’ (Townsend, 1958, p. 529).

There are many issues that deserve to be explored further here. Among them the relevance of comparative and global factors has already been acknowledged. More should also be made of the contrasting language and presuppositions framing the different policy discourses on the needs of the City compared to the needs of citizens and, in particular, those who portrayed as dependent on the state. The dependency of banks ‘too big to fail’, the conditions that might be imposed on them and the restraints and incentives that might work are discussed on a totally different plane from ‘welfare state’ discourse. Contrasting discourses not only shape the policymaking agenda but close off particular policy responses that might challenge the existing distributions of power and resource (Edelman, 1977).

To the Queen’s question, ‘Why did nobody see it coming?’, the brightest and the best at the British Academy concluded: ‘in summary, Your Majesty, the failure to foresee the timing, extent and severity of the crisis and to head it off, while it had many causes, was principally a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole’ (British Academy, July 2009).

One of ‘the risks to the system as a whole’, as even the dullest of us now knows, is that ‘parts of the financial services industry have a unique ability to attract to themselves unnecessarily high returns and create instability which harms the rest of society’ (Turner, 2009; Kay, 2009). There could be no clearer example of what C. Wright Mills called ‘the higher immorality’ in ‘organised irresponsibility’ (1959a, ch. 15). The case for political economy analyses that engage ‘upstream’ with the societal context of social policies is clear - a classic use of the sociological imagination or, as Mills himself originally intended, the ‘social science imagination’: and to this, I believe, social policy can make a contribution.

‘Any adequate “answer” to a problem ... will contain a view of the strategic points of

intervention – of the “levers” by which the structure may be maintained or changed; and an assessment of those who are in a position to intervene but are not doing so’ (Mills, 1959b, p. 131). The crisis of the credit crunch and its after-effects challenge social policy, by itself and working with other subjects, to take a broader, societal approach to problems if we wish to contribute to debates about the quantity and quality of life and the distribution of welfare across the whole society.

‘Inequality has a dynamic of its own’ in ‘the irresponsible society’ (Titmuss, 1959, in Alcock et al., 2001, p. 151). Who contributes to welfare and how are as important questions as who benefits and how (van Oorschoot 2008), so the fairness of contributions from all in society requires more scrutiny. That needs to take account of the ways in which some, both as individuals and through institutions, insulate themselves both from the social costs of change and from contributing to their compensation. Erosion of the overall tax base has reduced the common wealth.

‘Inequality lies at the heart of the modern free market’ concluded Philip Augar drawing on his twenty years as an investment analyst (Augar, 2006, p. 214). The ways in which the inequality of resources and power across individuals and institutions shapes social policy as much as the rest of society require more attention. ‘To recognise inequality as the problem’ rather than poverty ‘involves recognising the need for structural change, for sacrifices by the majority’ and acknowledging ‘the limits of conventional welfare’ (Titmuss, 1965, pp. 132 and 131).

In 1909 the Minority Report on the British Poor Laws sought to anticipate those who believed nothing could be changed. ‘Less than a century ago ... half a million separate private cesspools accumulated each its own putrefaction’, but ‘a single main drainage system’ effectively removed that particular problem (Webb, 1909, p. 325). It seems a suitable reflection on which to end a paper stimulated by what an Executive Director of the Bank of England calls ‘banking pollution’.

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ⁱ Graham Room provoked me to write this paper and I have been helped by seeing draft chapters of his new book. My warm thanks to Jay Ginn for her detailed comments on an earlier version, to Neil Fraser, Brian Main and Kirk Mann for their advice and comments and to Dorothy Sinfield for enduring and commenting on yet more drafts and accompanying preparations. Much more was written as I found myself constantly out of my depth in attempting to identify the main issues and make some sense of them. In producing this paper, I realise I have tended to slip back into the shallows and repeat what I could do and failed to pursue key questions into unfamiliar depths. I hope that this paper will encourage others to be more resolute. I would welcome comments.

ⁱⁱ The Royal Bank of Scotland's chief executive, Simon Hester, the successor to Sir Fred Goodwin, had, according to *The Scotsman*, '10.5 million shares allotted' when he took up the post in November 2008, a remarkable 'golden

hello', and 'is in line for a non-cash bonus of about £2 million a year, plus stock options of £6.4 million, paid after three years' (*The Scotsman*, 11.5.09 and 23.10.09). And these arrangements are apparently the modified ones accepted by him after consultation with the bank's largest shareholder, the UK Financial Investments representing the taxpayer .

ⁱⁱⁱ This April Terry Smith, chief executive of Tullett Prebon, was paid 'a salary of £650,000' topped up with a bonus of £4 million – and, during the year, '671,000 shares under a long-term incentives plan worth another £2.5 million' at the current share price but not vesting until 2012 (*Guardian*, 15.4.10).

^{iv} The bonus practice has quietly spread far into the upper pay structure in the public sector as well as part of the Thatcherite reforms of the 1980s. Top civil servants throughout the UK have apparently given up performance-related bonuses 'to help save money during the recession'. In Scotland in mid-2009 the Finance Secretary 'clamped down on bonuses for chief executives of councils to stop them being given extra rewards for simply doing their job' (*Scotsman*, 13.6.09).

^v Or as a Deputy Governor of the Bank of England told the Treasury Committee, 'Too much of the balance sheet growth was re-financing stuff within the financial system rather than financing stuff in the real economy' (Andrew Haldane to Treasury Committee, Q 159, 26 January, 2010).

^{vi} 'Great inequality is the scourge of modern societies ... On each of eleven different health and social problems: physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life, violence, teenage births, and child well-being, outcomes are very substantially worse in more unequal societies' (www.equalitytrust.org.uk).

^{vii} Adam and Brewer (2010) have raised questions about the validity of this calculation.

^{viii} It is not clear if those paying only basic rate who would have otherwise paid the higher rate are included. The estimate is 'sourced from 2005-06 survey data that have been adjusted to account for the 2008-09 tax rates', PQ Ian Pearson, House of Commons *Hansard* 9 October 2008 Column 796W

^{ix} It is hard to tell whether this means more rumour than substance in the stocking-up to the lifetime limit or indicates the inadequacy and unreliability of the official statistics that have received so little scrutiny from parliamentary and other analysts.

^x See hard copy for *The Guardian*, 16 March, 2009 (Kerevan, *Scotsman*, 16.10.09).

^{xi} Even *The Guardian* discusses options for taxing bonuses by setting out the problems supported by comments from the Institute of Economic Affairs but with no opposing view in favour (*Guardian*, 21 October 2009).