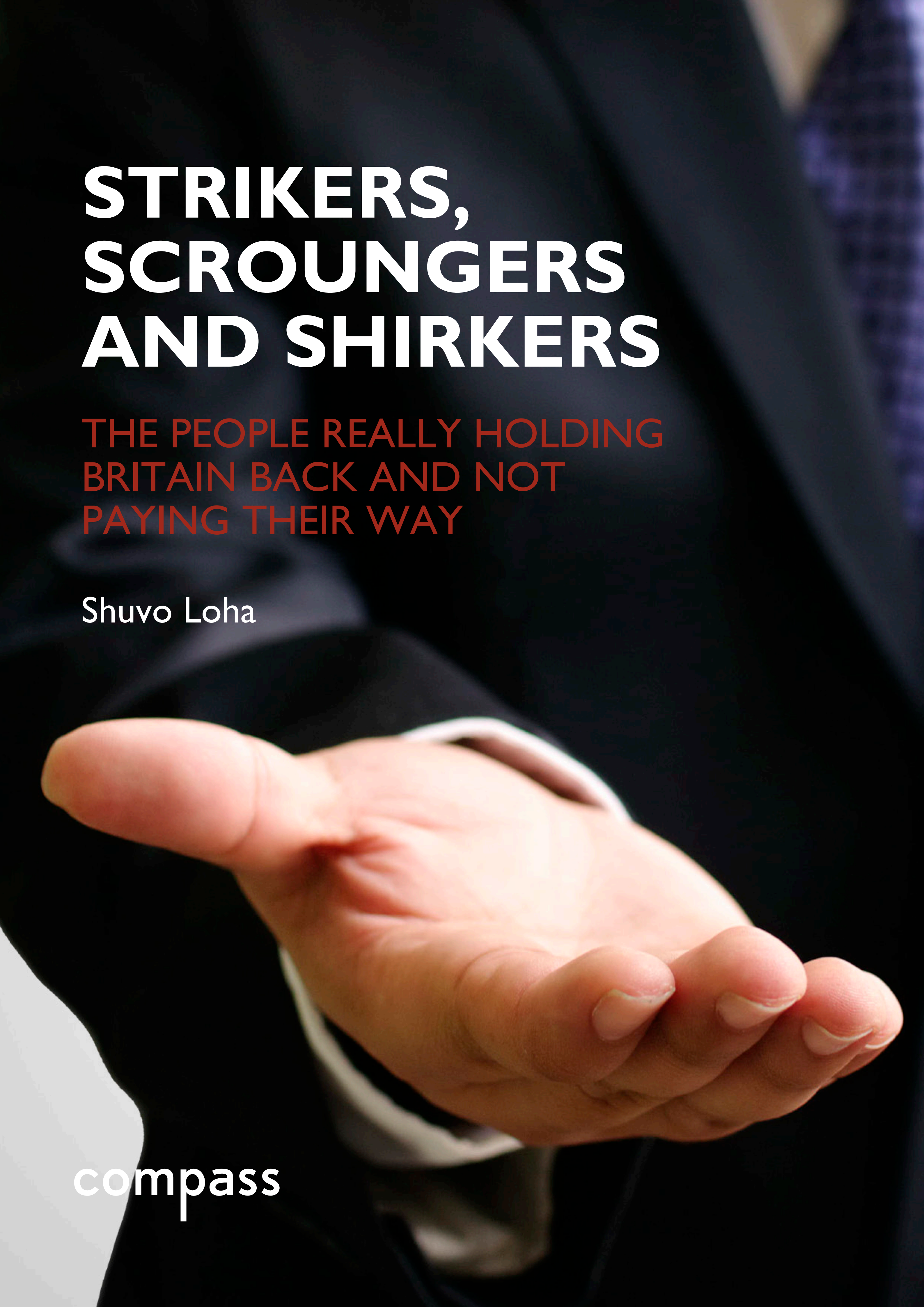
STRIKERS, SCROUNGERS AND SHIRKERS

THE PEOPLE REALLY HOLDING BRITAIN BACK AND NOT PAYING THEIR WAY

Shuvo Loha



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About the author

Shuvo Loha is the Managing Director of a recruitment firm focused on the banking, engineering and energy & climate change sectors. He has been an active campaigner on a number of issues for many years, including on curbing racism and fascism, trying to prevent the introduction and subsequent hikes in student tuition fees, building support for peaceful and just solutions in Israel and Palestine, and progressive economic reform in the UK. He graduated from University College London with a degree in Philosophy and Economics.

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Britain is being held back by its 'strikers', 'scroungers', and 'shirkers'.

The strikers are the big corporations sitting on piles of cash which they refuse to invest in Britain. The scroungers are the private landlords and multinational house-builders exploiting the housing benefit system, and the corporations reaping benefits designed to provide a living income to their workers.

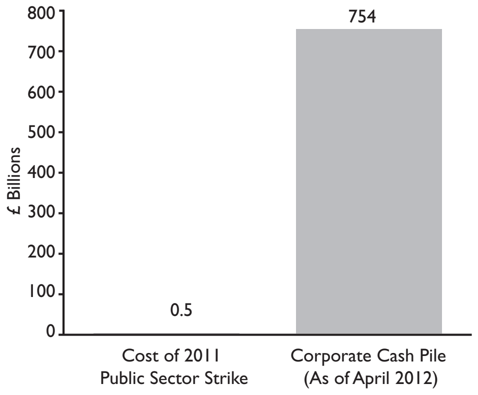
The shirkers are the tax dodgers – the big corporations and rich individuals who refuse to pay their fair share and evade or avoid their duty to their neighbours and the country.

They are the rich, powerful and well connected. Many use their wealth and influence to ensure the system works for them. Taken together, they are depriving the country of at least £750 billion in potential investment and costing the Exchequer £170bn annually.

They are holding Britain back and the system lets them get away with it or, worse, encourages their greed. It means Britain is less equal, more divided and finds it more difficult to modernise its public services. At the same time, those who pay their way without these huge perks are encouraged to look not up but down at those with less money, less hope and fewer opportunities. It is time to focus on the real scroungers, strikers and shirkers.

The strikers

Graph 1[1]



The tabloid press is usually quick to condemn striking workers for harming the economy when they have no other option to defend their interests. No worker who relies on their wages to exist goes on strike lightly. Yet there is a far more damaging strike occurring right now that deserves attention – an investment strike.

We all know the government is cutting investment and spending on a massive scale. It claims the cuts are necessary for the economic good of the nation, despite the misery this is causing, and will continue to cause, to millions of people.

Government ministers are at pains to point out that UK interest rates are lower than, for example, Spain's or Greece's, heralding this as the big success story of the austerity programme. However, what they are not telling us is that one of the main reasons a low interest rate is normally beneficial is that it promotes investment and spending in the economy. But that's not happening at the moment.

The government's working assumption is that, if the public sector is cut the resulting void will be filled by the private sector. And it says it has to cut public spending because government debt is too high.

Yet as Ann Pettifor of Prime Economics points out, 'the Treasury chose not to tell us: that the public debt to GDP ratio is tiny compared to the private sector debt to GDP ratio'.[2] So if the government thinks *it* should cut back, is it also saying private companies, the banks and financial institutions, which are supposed to be filling the void left by the retreating public sector, should also cut back?

Regardless of what the government would say that *is* happening as a result of its policies. Even with interest rates that couldn't be much lower, non-financial companies now sit on a UK record cash pile of '£754 billion, a staggering 50% of GDP', according to Ernst & Young.[3]

The void is not being filled. The government is wrong to think of the private and public sectors as entirely separate. One doesn't automatically move in when the other moves out. Rather, they are inextricably linked. The government is the single biggest purchaser of products and services from the private sector. So, as well as less work from the public sector, companies know that if the government is shedding jobs and cutting spending, unemployment is likely to increase and consumers will have less money to spend on goods and services. Hence, whilst there are a million young people out of work and a clear imperative for businesses to lead the way in job creation, the UK corporate sector is on investment strike.

It was in order to provide liquidity to businesses and households that the government embarked on its quantitative easing (QE) policy. However, Ernst and Young state that the £269 billon which the government has pumped into the economy over the last two years was necessary due to 'cash being drained out of the economy and indeed the Exchequer by the private sector'.[4] This is very worrying because it shows that the government's policy of quantitative easing, instead of increasing the flow of money around the economy, is sending money into the bank accounts of corporations and helping to revive the profitability of banks. Contrary to the stated aim, the extra money is not being spent or re-invested in the real economy. Until now, governments past and present have decided they can't force the banks to lend and so have chosen to give them more money in the hope that eventually it gets passed on. Surprise, surprise – it hasn't. Like so many decisions taken at the interface of big business and government, those at the top responsible for our money have been too naïve, too trusting and not managed our risks well. Despite being repeatedly outfoxed, the government hasn't learnt its lessons; under the Funding for Lending Scheme, it gave banks control of £80 billion rather than, as initially promised, ensuring it went directly to small businesses. The recent announcement about establishing a British Business Bank is certainly a step in the right direction but also further exposes the lack of a cohesive economic strategy at the heart of government. It will be funded by underspends in government departments but will still be channelled through banks that will need to develop the systems to deliver to small and medium businesses (SME's). An expert in SME's from Warwick Business School, Professor Stephen Roper, says that "…it won't do much to kick-start the economy in the short-term. This is a long-term solution and I think it will be two years or more before any new funding gets to companies."[5] But business and the economy need investment NOW. Henry Ejdelbaum, managing director of finance broker ASC Finance for Business says "If you can wait that long for funding, then you may be OK, otherwise this new scheme will not matter because your business may not be around".[6]

The big banks bear the responsibility for the financial crash. They lied about the Libor rates, which affect almost everyone. They took our bail-out money and did not deliver the liquidity they were supposed to provide – which became the single biggest barrier to the UK's economic recovery. Hence, there is a blindingly obvious moral obligation on the banks to use the money we gave them for our benefit. Yet the UK banking sector has chosen to go on investment strike.

The banks and corporations with large funds aren't investing them and the small businesses that want investment funds can't get them. At an individual or corporate level, the rational choice is to pay down debts and save for uncertain times ahead but for the economy as a whole this results in a collapse of demand. Richard Koo, an economist at the Nomura financial services group, notes that, under the current conditions, 'if the Government did not come in and borrow the money and put that back into the income stream, GDP could collapse very very quickly, even with zero interest rates. In that sense this is one of those very unusual cases where … you need the government borrowing and spending money'.[7] The Government is clearly in denial about Koo's analysis and has staked its reputation on the exact opposite approach. Consumers don't have much money, businesses aren't investing money, banks aren't lending money and the government isn't spending money.

Capitalism has boom and bust cycles built into its very essence. In a way, the bust is what provides the seeds for the subsequent growth. Having taken decisive action to rescue the banks and hence minimise 'the bust', the Government needs to remember what it rescued them for: to maintain liquidity in the economy. Only the government can break the vicious cycle we are in. Its failure to do so explains why the austerity programme designed to reduce government borrowing has actually required the government to borrow more. In order to justify the cuts politically, the government has been working hard to ensure austerity is seen as a virtue; but a virtuous economic circle it does not create. A recent report by a leading think-tank estimates that, if the government cuts had been delayed by three years, the economy would have grown by 1.2% this year instead of shrinking again.[8] The government needs a more sophisticated approach in which unlocking the investment strike is central to its purpose.

It should do three things:

Firstly, ensure any public money used to boost liquidity does so. This will mean either radically changing the conditions under which banks are given access to funds or, better still, cutting out the middle men – the large banks – and lending directly. In the medium term, it should promote smaller banks more rooted in their communities, following the approach that has been successful in other countries, such as Germany.[9]

Secondly, borrow more money to invest it in infrastructure, research and development that will help us in the transition to the economy of the future. Wouldn't this lead to financial Armageddon? Isn't this the problem with Greece? Don't we already have more debt than we know how to count? No, no and no. We have our own central bank which itself owns a large part of government debt so, if necessary, the debt can be cancelled. 'After buying £325 billion of debt from the market,' writes Jo Owen, a former Accenture partner, in the *Financial Times*, 'the public sector (the Treasury) is paying interest to itself (the Bank of England) on debt that it owes to itself. It makes no sense for the public sector to owe itself money.'[10] The difference between our Eurozone neighbours and us is that we control our own monetary policy and own the bank that lends our government money.

The current level of government debt is about 70% of GDP – much lower than in the 1940s, when it was 180%.[11] Back then, we still managed to find the cash to build a health service that was the envy of the world. Even today, our debt is lower than many countries, including the US and Japan.[12]

So spending now is viable and essential.

Thirdly, make fundamental changes to the economic system. Currently, businesses have a legal duty to maximise the interests of their shareholders but the interests of shareholders will not always be in line with the interests of society as a whole. Things don't have to be as they are: we can be both prosperous and have a fairer economic system. In fact, the catastrophic failures of the last few years make it essential. Companies could be regulated or given incentives to ensure decisions were made with both private profit and wider social goals in mind.

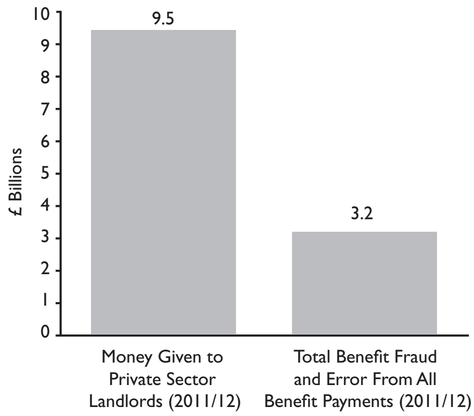
Creating incentives for business and banks to do more than just make short-term profits for their owners and managers would lead to a more cohesive society but also curb the excessive short-term greed that was in the rational interests of the few but ended up costing the many. The government should be proactive in correcting market failures and ensuring externalities (side effects of business activity such as carbon emissions) are priced in to business transactions. We can no longer ignore the price of reckless risk-taking that leads to losses and the subsequent misery of unemployment, not to mention the direct economic costs of increased welfare bills and reduced tax revenue.

In Germany, the most successful economy in Europe, the government is much more confident in maintaining a more stable economic foundation. For example, companies over a certain size have to enable workers' councils to feed in to their decision making. This works well and contributes to higher productivity: employees feel a sense of ownership over what their business does and long-term investment is promoted.[13] In Britain, this approach could be further developed by ensuring that, as well as employees, other stakeholders – the local community and even customers – are in some way represented in a firm's decision making. Although this might sound excessive, it is also efficient capitalism. The wider societal costs and benefits of decisions would be factored in, not just those that affect the firm's owners.

In the context of today's investment strike we need to rectify the economic damage caused by firms not investing. Incentives need to be created for businesses to invest in the long term. Even if just 10% of the corporate cash pile of £750 billion was spent on long-term investments the Treasury would increase its tax take by about £37 billion and cash would be flowing to improve the prospects for our country in the short term too.[14]

Scroungers…

Graph 2[15]



Let's turn to our scroungers – real and perceived.

The total combined annual spending on Housing Benefit, Child Tax Credit (CTC) and Working Tax Credit (WTC) is about £50 billion. Housing benefit is around £22 billion and HMRC paid out £28 billion in tax credits last year.[16] There is certainly a consensus across the political spectrum that the benefit system is in need of reform for reasons of both efficiency and fairness. Look at the tax credits system. The billions in Working Tax Credits are not going to the unemployed but to full-time staff to supplement their low income. It is making up the difference between low wages and the minimum necessary amount for families to live on, which many describe as a living wage.

The Greater London Authority defines a living wage as one that ensures an employee "achieves an adequate level of warmth and shelter, a healthy palatable diet and social integration and avoidance of chronic stress".[17] This does not sound like extravagance. It sounds like the least one deserves for full-time work in one of the richest countries in the world.

The question therefore is not the necessity or scale of tax credits under the current system but rather why shouldn't employers pay their employees enough for them to be able to live on? If they did there would be no need for what some describe as a subsidy for employers paying low wages.

As 29% of low paid workers work in retail, this sector in particular is coming under intense scrutiny. A recent report by The Fair Pay Network found that despite collectively making billions of pounds worth of profits and paying their CEO's millions of pounds a year, not one of the top 4 supermarkets were paying their workers a living wage.[18] They could easily do this and still make huge profits at the same time.

Where markets fail to deliver the basic needs of ordinary people, reform of the system is necessary. If the government raised the legal minimum wage from just over £6 per hour to a living wage of £7.20 outside London and £8.30 in the capital, all the money gained by these low paid employees could be saved by the government in reduced benefit/tax credits.

Even shifting half of the £28bn cost of the poverty subsidy to employers would save £14bn a year. Aside from the moral and social responsibility employers should have towards their workers, there are business benefits too. These are recognized by many including Boris Johnson and Guy Stallard of KPMG who says *"We've found that paying the Living Wage is a smart business move as increasing wages has reduced staff turnover and absenteeism, whilst productivity and professionalism have subsequently increased."* [19]

More scrounging exists in the housing market. One in five households in the UK rely on housing benefit to put a roof over their heads. Out of these households only 13% of the people claiming are actually unemployed, the rest are low and middle-income families, pensioners and others.[20] The situation is getting much worse. According to the National Housing Federation, because of a failure to build enough new homes, there has been an 86% increase in housing benefit claims by the employed, i.e. an extra 418,000 people since 2009.[21] This is the real story of hard-working families trying to make ends meet and ensure that one of life's basic human necessities – that of shelter – is met.

The system is as it is because all parties have recognized that without some intervention, particularly given the disparity between income and housing costs, there would be a proliferation of slum housing in the UK, the likes of which we currently see in developing countries. Nobody wants to see this here (although current government housing benefit cuts risk both social and ethnic separation)[22] and so subsidising of housing costs has existed in one form or another since 1919 and has been continually updated by both Conservative and Labour governments.

One of the main changes that has occurred to the system over that time is that the subsidy has moved from a supply side subsidy, i.e. from the government putting in money to build housing that can be rented more cheaply, to a demand side subsidy where the money is given to landlords to cover the cost of tenants rent. This is where some of the major problems lie.

Firstly consider this, the entire amount of cash a family claims for housing benefit goes directly to their landlord. 32% of all housing benefit claimants rent in the private sector which means the hardworking, squeezed-middle, tax-paying families are paying their tax directly into the pockets of private landlords enabling them expand their property portfolios.[23] In case there's any doubt as to the significance of government spending contributing to private landlords, who are naturally among the wealthier members of our society given they have a spare house they can put to work, 25% of tenants in the private sector require housing benefit.[24]

Secondly, not only does this put upward pressure on rents (private sector rents happen to be around £4000 pounds per year higher than the social sector), it may well be distorting the prices in the house buying market as landlords are more secure in their rents being paid thus less likely to sell, further compounding the cause of the problem in the first place, a disparity between housing costs (buying or renting) and income.

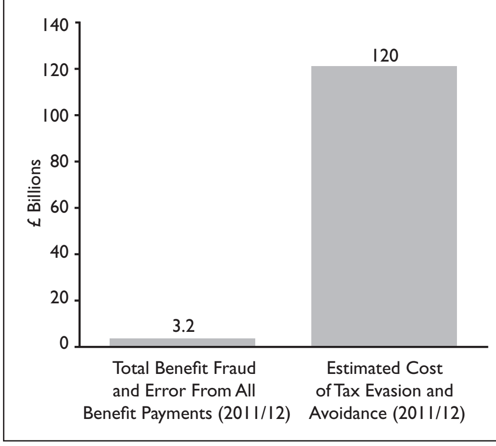
Thirdly, despite having 1.8 million households on the council waiting lists for housing there is a serious lack of competition in the house building market resulting in the market being unable to provide the number and range of housing needed for our country.[25] Perversely, large property developers are being paid by the government through the Get Britain Building programme that gives large house builders chunks of public money if they can play the system right, which with the help of lawyers and accountants, they generally can. Just like with the investment strikers, this money is not delivering the desired outcome of an increase in house building but rather rebuilding the balance sheets of these companies who are often incentivised not to build so they can profit from land speculation. As Jules Birch from Inside Housing says "Put all that together and you have what amounts to a corporate welfare package worth several billion pounds".[26] Once again, public money going directly to big business without delivering the stated aims.

The question is not who the real scroungers are, that would be facile, but rather how do we change a system that allows private profiteering at the expense of fairness and dignity. As Toby Lloyd from Shelter puts it, "we have chosen to accept as a society a massive inequality of wealth and income but we find it distasteful to have people starving on the streets".

There is only one solution to this problem. Close the gap between income and housing. This can be done in only two ways – either increase household income or decrease housing costs. In reality both need to occur. The government needs to invest in building houses that will be owned by the government. Although the economics for this are sound (over 30 years the scheme would pay for itself from benefit savings alone), the long-term payoff is not appealing to governments with short-term electioneering on their minds. But the added immediate benefit to the economy of this programme would be to provide jobs in the construction industry. Concurrently, we need to progress as a society so that all workers are not just paid the minimum wage but paid a living wage so the tax payer no longer subsidises poor pay.

and shirkers…

Graph 3[27]



According to Tax Research UK, the amount of Tax that the government is owed is about £120bn more than the amount that is actually paid.[28] To get a sense of the proportions, that is the equivalent to the entire Health budget.

About 60% of this tax dodging is tax evasion, i.e. breaking the law by not accurately declaring how much tax is owed. £70bn is approximately the entire Education budget and Home Office budgets put together! Yet instead of the government pursuing our interests, and this missing revenue, vigorously, they say there's no money in the kitty. Instead, we are told we need to cut police numbers and cut nursery places making it that bit harder for working parents to stay at work.

About £25bn is lost in tax avoidance, i.e. using legal structures, generally only available to companies and wealthy individuals (who are willing to pay lawyers and accountants to avoid the tax, but not the tax itself)! This activity is not illegal, and though morally questionable, the burden of closing tax loopholes allowing the ultra-wealthy to avoid paying tax revenue that is critical to the providing of health, education, pensions and other basic necessities, is our collective responsibility and ought to be urgently taken on by our government.

Earlier this year we saw the government's impotence on individual tax dodgers in the Jimmy Carr scandal but this is small fry compared to corporate tax avoidance. According to the Financial Mail "Internet giants avoided about £650 million in UK corporation tax in 2010 by legally taking payments via offshore companies".[29] This is what just 5 foreign companies (Apple, Amazon, Google, eBay and Facebook) should (morally but not yet legally) have paid into the UK. That's enough to pay for 26,000 nurses for a year – from just 5 non-UK companies.

In 2010/11 another £25bn in tax was paid late, (where no-one is contesting that the tax is due but has not been paid), resulting in a loss of access to revenue and loss of actual interest.[30] This amount is the equivalent to the entire budget for the department of Business, Innovation and Skills.

Despite being owed these huge sums, the department needed to collect this money on our behalf, HMRC, is also facing cuts. This surely makes no sense. Mark Serwotka of PCS, a trade union representing HMRC staff, remarked, "With 10,000 more job cuts planned by 2015, the government stands no chance of tackling this, when even a modest dent in the billions lost to our exchequer would change the debate about public spending overnight."[31]

Conclusion

In total the strikers are hoarding £750 billion, the scroungers sponging £50bn and the shirkers avoiding £120bn. Even if a fraction of this was mobilized for public good the economic outlook for the UK would be much brighter and the Government's planned £123 billion worth of fiscal consolidation could be rendered obsolete. In this light, the government's much repeated mantra that those with the broadest shoulders should carry the greatest burden rings hollow. It's time we really were all in it together.

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