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Abstract:
The rollback of the state and the redistribution initiated during the Reagan-Thatcher period in the US and Britain has resulted in these countries being the least egalitarian in the OECD, with wages increasingly de-coupled from productivity growth and gains accruing to top CEOs. The view that inequality is attributable solely to the new premium on human capital is challenged; it is argued that inequality has resulted from mainly from personal tax breaks and the corporate drive for 'shareholder value'. The social costs are evident from the sociological and epidemiological evidence. Equally, inequality has helped fuel US consumer spending, facilitated by low interest rates, holding gains and credit deregulation. The result is a 'triple deficit'. The risk is that by relying exclusively on market-led devaluation, a crisis of confidence will result; righting financial imbalances requires not merely a Plaza-type solution, but a major reversal in the growth of inequality.

1. Introduction

There is a voluminous literature on growing inequality in Britain and the USA, not to mention an avalanche of newspaper articles on City bonuses and fat-cat salaries. In the development field, the debate on equality has focussed largely on whether globalisation has reduced or increased intra- and/or inter-country income inequalities, with less attention paid to growing income and asset inequality in the OECD countries. The conventional development wisdom regarding the latter is based largely on the Kuznets hypothesis; notably that as countries grow richer, inequality will at first rise but ultimately will fall as countries become 'fully industrialised'.

The empirical evidence in support of the Kuznets hypothesis---first advanced in the 1950s--- has never been strong. Such justification as once existed was based on follow-up work using cross sectional Gini coefficients showing an 'inverted U' as one moved up the per capita income scale. Since then, however, inequality appears to have risen for the OECD countries taken together. This result is most strongly influenced by what has happened in the Anglo-Saxon world; notably, Britain and the United States where income and asset inequality today has returned to levels last seen in the 1930s. Squaring this trend with conventional economic theory has required telling a story about the growing premium placed on highly educated labour (including top entrepreneurial talent) in the 'new economy' pioneered in the Anglo-Saxon world while bemoaning the lack of

dynamism of 'old Europe'. An alternative story traced below takes a closer look at the changing political and economic landscape of the period.

The rollback of the welfare state---particularly in the UK, but also of its weaker US cousin set up under Roosevelt's New Deal--- is the main legacy of the Reagan-Thatcher years, underwritten by subsequent governments in both countries and whose international expression is the 'Washington consensus.' The neo-liberal revolution of the 1980s had two critical implications for developmental alternatives to the pure free-market model; first, it coincided with the decline and demise of the 'socialist' (USSR-style) centrally-planned economy option; secondly, in Europe it signalled the re-emergence of unfettered free-market capitalism as an alternative to the dominant post-war social democratic consensus.

Underlying the Reagan-Thatcher political project were structural changes in both economies; notably, the decline of industrial capital and the trade unions, the rise of the international financial sector and the growing importance of the two-tier service economy; ie, low-wage and low-skill (eg, MacDonald's and Wal-Mart) and high-tech (eg, Microsoft and Goldman Sachs). The much-hyped 'new economy' has helped to fragment labour markets, change the structure of remuneration, weaken job security and spread neo-liberal ideology. Growing inequality fed back into the political consolidation of neo-liberalism in a variety of ways ranging from the shift towards individual and corporate donations in the funding of political parties, the concentration of media power in the hands of fewer owners and the commoditisation and packaging of politics into sound-bites and spin. In short, the modern Anglo-Saxon model has challenged the 'European welfare state' version of the market economy under which a relatively strong, democratically-financed state mediates conflicts between capital and labour and guarantees political and social cohesion and high levels of public provision.

It is crucial to emphasize that the Reagan-Thatcher project itself was a response to the decline of US and British industrial hegemony in the post-war period. Having been dominant globally for half a century, by the 1970s Britain was the 'sick man of Europe'

and the US was rapidly losing its manufacturing dominance, in part because of an inflation-financed war, but crucially because it faced stiff competition from reconstructed Europe and emerging Asia---what today we would call a 'globalisation' effect. As profits fell[1] and share prices stagnated, Wall Street complained increasingly that the fault lay with stodgy corporate executives whose salaries were paid regardless of performance; the mantra of 'maximising shareholder value' began to be heard. Spurred on in the early 1980s by the appearance of corporate raiders and junk-bond finance, America's corporations began to restructure by selling off entire divisions, becoming 'lean and mean' and looking for new 'synergies' through mergers. Above all, 'maximising shareholder value' meant tying CEO remuneration to market performance, crucially through the use of share options, thus laying the basis for a quantum leap in executive rewards and the rise of a new class of super-rich whose influence soon spread to Britain.

The Reagan-Thatcher period also saw the introduction of important legal milestones which would impact the distribution of wealth and power. In the UK, the explosive growth of financial services accelerated after the large-scale deregulation and streamlining of City transactions under the 'big bang' legislation of late 1986; this boost in comparative advantage gave London a decisive edge over Frankfurt and New York. The end of national wage bargaining and a variety of anti-union measures---symbolically capped by the defeat of the miners---constrained union activity; Britain's strong exchange-rate policy favoured the financial sector and helped underpin long-term deindustrialisation. Moreover, Britain's relatively lax residency laws, coupled with the absence of the direct taxation of land or financial assets, generous inheritance laws and low rates of tax on income, have helped make the country a leading tax haven.

In the United States during the 1980s, airlines, trucking, banking and some utilities would be deregulated while industrial concentration---as reflected in growing corporate mergers---would grow explosively in the 1990s. As top corporations became more concentrated, CEO pay grew disproportionately, aided by favourable tax legislation. Reagan's *Economic Recovery Act* of 1981 greatly reduced top rate of personal tax while extending corporate tax write-offs and easing depreciation rules; further tax reductions

followed in 1986. Income inequality grew strongly under Reagan and Bush I, a trend the Clinton years did little to reverse. Indeed, the 1997 *Taxpayer Relief Act* produced another bonanza for the wealthy: it is estimated for every $1 in tax savings going to the bottom 80%, the top 1% of income earners saved over $1000 in tax. While swathes of unionised skilled workers lost their jobs as traditional industries disappeared, the remuneration of top CEOs grew. As the president of the New York Federal Reserve Bank, William J McDonough, noted in a speech to mark the first anniversary of 9/11, in 1980 America's top executives on average earned about 40 times as much as the average worker; by 2000 the ratio was 400:1, a jump impossible to explain by corporate performance.[2]

2. The Return of Inequality

Figure 1: US Family income inequality, Gini coefficient, 1947-2005

Source: Figure 1L from: Mishel, L, Bernstein J, and S. Allegretto (2007).

The distribution of income in the US today is the least egalitarian of any of the major industrialised countries. This was not always true. The policies introduced under Roosevelt's New Deal in the 1930s improved the lot of the poor, the Second World War brought full employment and the post-war period saw further strides in reducing the extreme inequalities that characterised US capitalism in the early 20th century. However, over the past three decades the distribution of household income in the US has become as unequal as it was before the Great Depression.[3] In broad-brush terms, this shift is

explained by the fact that the rich---the very top percentiles of the household income distribution--- have become very much richer than before. By contrast, income has stagnated for the vast majority of Americans while the bottom twenty percent (the lowest quintile) is actually worse off than in 1970.

In the years 1970-2000, the pre-tax income share of the top 10 percent of households---the 9th or 'top' decile---rose from 23 to 44 percent. This is a startling figure. It means that the lion's share of the increase in US national income over the past 30 years has been captured by the richest 10%. Moreover, within the top decile, the inequality in income distribution is as striking as for the population as a whole. The 11-point gain in the share of national income going to the top decile has not been shared out equally. Far from it; the share of the lower half---from the 90th to the 95th percentile---has remained nearly flat, with the gain concentrated in the top 5%, and amongst these in the top 1%.[4]

US Census Bureau data confirm this trend and show that despite a GDP growth rate of 3.8% in 2004, only the top 5% of households experienced real income gains; incomes for the remaining 95% were flat or falling.[5] Moreover, the combination of rising remuneration in the form of share-options, capital gains and other forms of asset appreciation, plus lax inheritance tax, means that America's wealth distribution looks increasingly like its income distribution. An unequal distribution of wealth helps propagate the transmission of income inequality from one generation to the next, thus re-enforcing the hierarchy of privilege.[6] Krugman's warning is worth quoting:

> The United States did not start as a society that you could describe as middle-class. We were a society with a dominant economic elite. We became a middle class society and thought we had reached a stable state. We were wrong because we have now moved right back to where we were before. …. We can no longer dismiss income distribution as a minor issue. In the United States it is now of the same order as economic growth in determining the standard of living of ordinary families. (Krugman, 2004; 79, 88)

3. Income Distribution, Technology and Taxation

The conventional economic explanation of why income distribution in the US (and to a lesser extent in the UK) has worsened is that the new economy puts a greater premium on high levels of education and entrepreneurship. Doubtless there is some truth is the 'skill-biased technological change' view, but recent studies confirm that the change in labour productivity patterns alone does not explain the very high degree of inequality now observed in the Anglo-Saxon countries.[7] After all, the Nordic countries too enjoy high levels of productivity growth and have produced some of the world's most technologically advanced and dynamic industries, yet there is no sign that inequality has increased significantly in these countries over the past three decades.

Economists have traditionally seen economic growth and average productivity growth as two sides of the same coin. If labour productivity growth is high, one would expect the average real wage to be growing. In effect, labour productivity growth and wage growth in the Anglo-Saxon countries have become 'decoupled' from one another. An influential paper by Ian Dew-Becker and Robert Gordon (2005) of Northwestern University shows that in the USA over the period 1966-2001, only the top 10 percent of the income distribution enjoyed a growth rate of real wage and salary income equal to or above the average rate of economy-wide productivity growth. Median real wage and salary income barely grew at all. Half of the income gains in the US went to the top 10% of the income distribution, with little left over for the bottom 90%. Moreover, only half of the increase in inequality is attributable to gains of the 90th percentile relative to the rest. The other half is due to the increase in inequality within the top 10%.

Dew-Becker and Gordon (2005) argue that too little attention has been paid to the latter; ie, to the growth of inequality *within* the top decile. They attribute this growth in large measure to two complementary factors. One is the growth of 'winner-take-all' markets; markets in which enormous rents go to a few super-stars. The other is to the escalating earnings of corporate CEOs. Between 1966 and 2001, the median wage in the US has hardly increased in real terms. By contrast, average earnings of the top decile (the top

10%) increased by 58%. More striking still is the fact that over the same period real earnings of the top 1% increased by 121%; the corresponding figure for the top 0.1% is 256% and for the richest .01% is 617%. In their view:

> Growing inequality is not just a matter of the rich having more capital income; the increasing skewness in wage and salary income is what drives our results …. This source of divergence at the top, combined with the role of de-unionization, immigration, and free trade in pushing down incomes at the bottom, have led to the wide divergence between the growth rates of productivity, average compensation, and median compensation. [8]

Three factors are of particular importance in explaining the explosive growth of CEO compensation since the early 1980s: share options, leveraged buyouts and the growth of financial corporations. Granting a low-priced option-to-buy shares (which can be exercised at some future date as the market rises) became a favoured way of rewarding top executives in the 1980s, initially because of their tax advantage.[9] During the long boom of the 1980s-90s, as the use of share options became ubiquitous, CEO rewards grew hugely. In the words of *The Economist*: '…the story behind the growth of pay in the 1990s is really the story of the option. In 1992 S&P 500 companies issued options worth $11 billion… in 2000 the number reached $119 billion.'[10]

The growth of super-rewards has often been a defensive response to the buyout-and-merger mania[11] on the past two decades. A leveraged management buyout is merely a debt-funded takeover in which a specialist company---aka, 'corporate raider'---gains control of the assets of a limited liability corporation, changes its status from public to private, uses its cash flow to service debt, sells off assets (typically greatly profiting the new owners) and ultimately sells the shell back to shareholders. Major swashbucklers in this business include Morgan-Stanley and Kohlberg-Kravis-Roberts, the firms behind the infamous RJR Nabisco buyout in the USA, and financiers such as James Goldsmith and Philip Green in the UK.[12] Most important, in the USA, it is estimated that executives of non-financial companies represent only some 20% of the highest-paid CEOs (and even fewer in Britain). Riding on the back of the 1990s boom, financial consultants, senior investment bankers, fund-managers and other top people in the financial services sector have become prominent in the US rich-list. 'To qualify for Institutional Investor's Alpha

magazine rankings of top hedge-fund managers in 2005, you had to earn $130m [annually].'[13]

Equally, over the same period the incidence of total taxation in the US has become less progressive. A recent paper by Piketty and Saenz (2006) investigates this issue; the authors summarise their conclusions as follows:

> The progressivity [*sic*] of the U.S. federal tax system at the top of the income distribution has declined dramatically since the 1960s. This dramatic drop in progressivity is due primarily to a drop in corporate taxes and in estate and gift taxes combined with a sharp change in the composition of top incomes away from capital income and toward labour income. The sharp drop in statutory top marginal individual income tax rates has contributed only moderately to the decline in tax progressivity.

During and immediately after the Second World War, the top marginal rate of income tax in the USA ranged from 84 to 94%. From the early 1950s to the mid-1960s, the top rate was 91 percent---levied on income in excess of $400,000 (the equivalent of about $2.64 million at 2006 prices). In 1971 under Nixon, the top marginal rate was reduced from 71 percent to 60 percent on taxable income in excess of $996,000 (at today's prices), shortly thereafter it dropped to 50 percent and remained there until 1987. Under Reagan in 1988, it was reduced to 30 percent. 'These large reductions of the top marginal rate during the 1970s and 1980s were an open invitation to astonishing increases in executive compensation, and the invitation was widely accepted.'[14]

A recent study by Frydman (2005) and Saks at Harvard notes the remarkable stability of executive compensation from 1936 to 1969. During this 33-year period, the average 1.3 percent annual increases in executive pay were less than the wage gains made by the average American worker. By 1969, the inflation-adjusted value of executive pay had just barely returned to its pre-World War II level. Frydman and Saks also note that between 1969 and 1992, average total executive compensation increased by 75 percent, and that during the period 1993 to 2002 executive pay rose at an astounding rate of more than 14 percent per year so that at the end of the 20th century, "the real value of executive compensation was more than seven times its level prior to World War II."[15]

Although a similar trend can be observed in the UK, the same is not true for most other EU countries. In France, for example, whereas effective tax incidence thirty years ago was less progressive than in the United States, it is now more progressive. Indeed, the UK currently ranks 13th in the EU-15 income distribution tables. And although a nominally progressive government has been in power since 1997, a recent study by the Institute for Fiscal Studies shows that inequality has not improved since that date.[16]

The above picture also holds true for the distribution of assets, which strongly influences the distribution of earnings, and is in general even more unequal---and more difficult to measure because of inadequate data. The richest 10% of Americans own 70% of the country's wealth; the remaining 90% own what remains. More instructively, the asset share of the bottom 50% of Americans is 2.5%. Much the same is true of Britain, although here a higher proportion on asset concentration is explained by land ownership.[17]

4. Inequality and Welfare

When discussing inequality, one must distinguish between income distribution before taxes and transfers (sometimes called the 'market' distribution) and income distribution after taxes and transfers. It is conventional when comparing countries to use the latter.[18]

Figure 2: Gini Coefficients by Country (1990s)

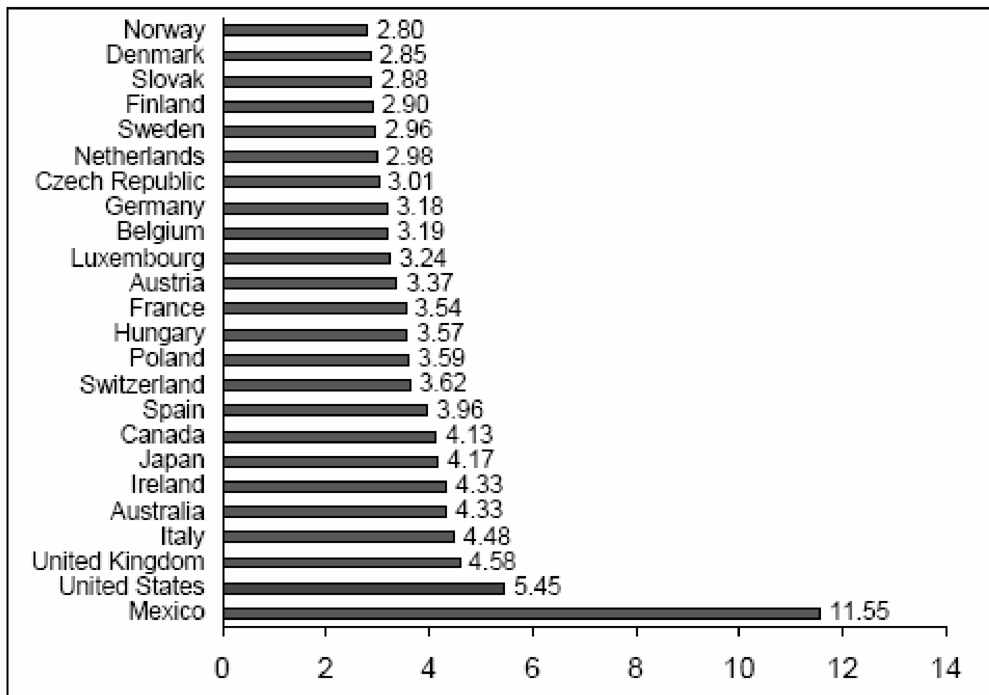
Country	Gini
Sweden 1995	.221
Finland 1995	.226
Luxembourg 1994	.235
Netherlands 1994	.253
Belgium 1997	.255
Denmark 1997	.257
Germany 1994	.261
Austria 1995	.277
France 1994	.288
Spain 1990	.303
Ireland 1987	.328
Italy 1995	.342
UK 1995	**.344**
Greece (CHER, 1999)	.362
Portugal	.375
EU-15 average	*.288*
USA 1995	**.372**

Source: Smeeding (2002); Atkinson (2003).

That European countries are in general far more egalitarian than the United States is apparent from Figure 2 showing Gini coefficients measured on a comparable basis for the US and the EU-15.[19] The most egalitarian countries (those with the lowest Gini values) are, unsurprisingly, the Nordic group; at the

other end of the table one finds the USA and the UK where inequality has grown significantly since 1980.[20] The highest EU values are for Portugal and Greece, something hardly surprising given that these two countries are the least developed in the EU-15.

Figure 3: Household Income Inequality for Selected Countries (ratio of 90th to 10th percentile)



Source: Smeeding (2004) in Schmitt and Zipperer (2006)

A slightly different way of measuring inequality is to compare the household income of different percentiles---1% slices---of the population. The greater the ratio of the 10th percentile (poor) ---those who occupy the 10th slice from the bottom--- to that of the 90th percentile (rich), the greater the degree of income inequality. Figure 3 shows these ratios for selected countries, and the ranking corresponds roughly to that found above where Gini coefficients are compared. The most egalitarian countries are the Nordic group where the ratio is all cases is below 3.0. In the list of countries covered, Britain and the United States come close to last: the UK's ratio is 4.58 while that of the USA is 5.45. Mexico's score of 11.45 makes it highly unequal even amongst developing countries and is included for comparative purposes.

What is also important---but not illustrated here---is the dispersion of household income at the top of the distribution. Suppose we confined ourselves to the top 10% of the distribution---the top decile or 'the rich'---and sliced this into 10 levels from (relatively) less affluent to the very, very rich. Surprisingly, we would find that the degree of inequality amongst 'the rich' is no less than for the population as a whole. Indeed, it is at the top end of the distribution that inequality has been growing most quickly in the past 25 years. As the saying goes, if you are rich if you can live comfortably on the interest from your capital but you are *truly* rich if you can live comfortably on the interest from the interest on your capital.

Growing inequality is at least in part a political phenomenon, attributable to the policies followed by specific right-wing governments rather than simply a deterministic attribute of globalisation.[21] This point emerges clearly when looking at the UK under Thatcher in the 1980s. In the period 1984-90, the Gini coefficient for the UK rose by 10 points. This change was larger than that in any other OECD country, and it happened more quickly. Not only did inequality increase more rapidly in the UK than in the USA in this period, but there were differences in its root causes. In both countries the rich grew richer; in the UK however, a combination of de-industrialisation, a steep rise in unemployment and the political assault on trade-unions and welfare means that the poor grew poorer faster in Britain than in the USA.

The assault on welfare in the UK was not just a matter of bashing organised workers. Government statistics for the period 1980-2000 show the number of children in poverty to have risen from 1.4m to 4.4m and a doubling in the number of pensioners with less than half the average income.[22] By the end of the century, not only was Britain less equal than other EU states at a comparable average income level, its social and economic infrastructure was in tatters. It is important to add that since 2000, some progress has been made in improving infrastructure and reducing poverty at the bottom of the income pyramid, although not in reversing inequality trends.[23]

5. Luxury Fever

The American economist Robert H Frank coined the term 'luxury fever' nearly a decade ago to describe the growth of consumerism in the United States since the early 1990s.[24] The reason we buy ever more elaborate consumer goods, Frank argues, cannot conceivably be because they do the job ever more efficiently. More elaborate goods may in some cases be more efficient, but rarely is this in proportion to the rise in their price tag. Rather, it is because as the income distribution becomes more skewed, the spending patterns of the super-rich are spreading to an ever wider public.[25]

Whereas in the 1950s the average American middle class family might have been satisfied with a 3 bedroom house with a carport, by the 1990s only 4-5 bedrooms would do and a two-car garage was essential. The American generation of the 1990s may have owned more cars than their parents, but they did not have more children. Yet the average American house built at the end of the 1990s was nearly twice as large as its 1950s counterpart. The average American car of the same year costs 75% more than a decade earlier. Americans, whatever their social status, find it increasingly difficult to 'keep up with the Joneses', and this concerns everything from the sums spent on weddings to the price of a house in an area with a good school to the university fees which must be paid if the children are ever to find jobs at a salary commensurate with the life style which their parents have taught them to aspire.

Crucially, says Frank, there is a price to pay:

> All of us, rich and poor alike, but especially the rich---are spending more time at the office and taking shorter vacations; we are spending less time with our families and friends; and we have less time for sleep, exercise, travel, reading, and other activities that help maintain body and soul. Because of the decline in our savings rate … a rising number of families feel apprehensive about their ability to maintain their living standards during retirement. At a time when our spending on luxury goods is growing four times as fast as overall spending, our .. public infrastructure [is] deteriorating. … Poverty and drug abuse is on the rise … A growing percentage of middle - and upper-income families seek refuge behind the walls of gated communities.[26]

Frank's reference to growing insecurity is resonant with ILO-based work by Guy Standing on labour market insecurity.[27] But Frank makes greater use of the conventional economic notions of cost externalities and market failure. An individual's decision to buy this house or drive that car almost always has an effect on the rest of us, often negative and unintended. My decision to drive to work instead of taking public transport---bearing in mind the woeful state of public transport in the US and Britain---may result in a negligible addition to congestion or pollution, but if most of my neighbours decide to do so as well that day, the result is a situation for the collective which none of us could foresee. Similarly, I may decide quite sensibly to take out an extra mortgage to move up to a large detached house, but if everybody gets in on the act, house prices rise, there is greater pressure on urban infrastructure, less green area and so on. In short, what may be a sensible decision taken in isolation turns out to be a costly and unjustifiable from the point of view of the community. This 'paradox of isolation' is one of the fundamental problems of market-based choice. This is why markets often need to be regulated and collective decisions need to be made through representative political institutions rather than at individual level.

In much the same vein, Judith Schor at Harvard[28] has written on why we increasingly want what we don't need. Schor's key point is that our reference groups are widening and that today, comparisons are made over a much broader range of goods and services. Two generations ago, the typical middle class family tended to view its consumption status in relation to that of the Jones's next door, or perhaps by looking slightly further afield at how the life style of the local doctor or bank manager. That appears to have changed: the revolution in the media, in advertising and the rise of celebrity culture means the same family now looks further up the income ladder.

Consumption status is conferred by a far wider range of goods and services; the phrase 'aspirational goods' (ie, lifestyle items) has entered common usage. It is no longer enough to have a detached house or a nice family car in an age where virtually everything you buy---including where you have your hair cut or take your holidays---is scrutinised. And it is not just adults who compare themselves to others; children are subject to intense

peer pressure about what designer jeans they wear or whether they sport the coolest brand of trainers. As Schor notes, 'when the children of affluent suburban and impoverished inner city households both want the same Tommy Hilfiger logo emblazoned on their chests and top-of-the-line Swoosh on their feet, it's a disaster'.[29]

The change in people's aspirational goals is reflected in survey evidence which relates the level of household income considered 'desirable' to that actually enjoyed. Clearly, very poor households report that they need more money to live properly. What is surprising is that aspirations rise in proportion with income, so that even the rich feel they need more money to enjoy a truly comfortable lifestyle. The aspirational lifestyle is defined by the consumption pattern of those further up the income ladder. As the income ladder is extended ever further upward, so the pressure to earn and consume more increases. It is this fact above all, Schor argues, that helps explain the demand side of the debt-fuelled consumer boom in the USA and the UK to which we return shortly.[30]

6. Paying the bill: longer working hours and years

If the new consumerism is driven by the growing inequality in income distribution, so too consumerism drives inequality as top earners aspire to ever more luxurious lifestyles funded by spiralling annual earnings running into single and double digit millions. And as top earners pull in more, so too, those on the lower rungs of the ladder of riches demand more, skewing the income distribution even further. But growing inequality entails many other costs. These 'other costs' include working more hours, retiring later, saving less and becoming more indebted.[31] More generally, the renewed rise in sumptuous private affluence is associated with greater neglect of economic and social infrastructure, declining social cohesion and a variety of social ills now being catalogued under the new label of 'social epidemiology'.

Figure 4: Annual hours worked per full-time person in active labour force: 1883, 2000

Total Employment	1983	2000
Netherlands	--	1371
Norway	1485	1380
Germany	1674*	1463
France	1672	1500
Denmark	--	1504
Belgium	1684	1530
Switzerland	--	1568
Italy	1694	1619
Sweden	1520	1625
Ireland	1910	1690
UK	1713	1707
Portugal	--	1708
Finland	1787	1727
Spain	1912	1814
USA	1824	1834

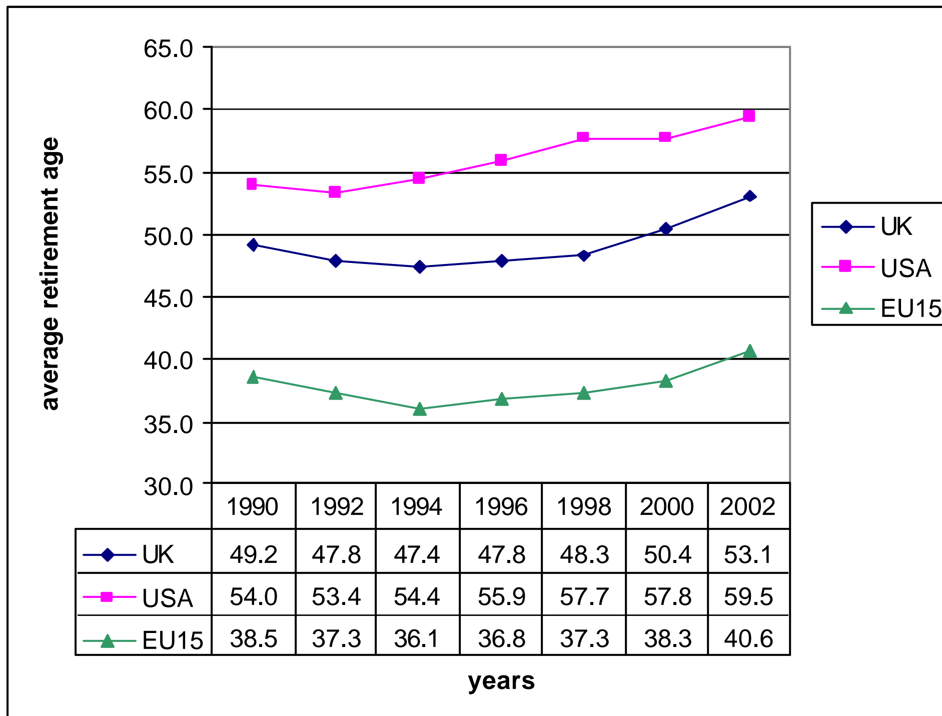
* 1983 figure for West Germany

source: OECD Employment Outlook, Annexe Table F., OECD 2003; ILO (1999) 'Americans work longest hours among industrialized countries' ILO News, Monday 6 September 1999

To earn the money needed to meet their aspirations, American and British families are putting in longer working hours, and the single earner family is being replaced by one in which both partners have a job. This trend is borne out by a comparison of annual hours worked and female labour force participation rates. Americans, followed by Britons, work the longer annual hours, and women work more, than in other industrialised countries. In America, moreover, the proportion of workers remaining in the workforce after 60 and indeed well beyond retirement age is greater than in most European countries.

US workers put in the longest hours on the job in industrialized nations: 1834 hours per capita in 2000. Based on OECD and ILO data, the US pattern of increasing annual hours worked per person, which totalled 1,824 in 1983, contrasts most sharply with those of European workers, who are spending progressively fewer hours on the job, particularly in countries such as Norway and The Netherlands where hours worked in 2002 were, respectively 1371 and 1380 per year. In France, full-time workers put in 1500 hours in 2002 versus nearly 1700 in the 1980s. In Germany, average working hours for 2002 were 1463 versus 1674 in 1983. Workers in the United Kingdom, who put in 1707 hours annually in 2002, appear to have neither gained nor lost much free time since 1982 when they worked 1713 hours.

Figure 5: Employment rates for group 55-64



	1990	1992	1994	1996	1998	2000	2002
UK	49.2	47.8	47.4	47.8	48.3	50.4	53.1
USA	54.0	53.4	54.4	55.9	57.7	57.8	59.5
EU15	38.5	37.3	36.1	36.8	37.3	38.3	40.6

source: *OECD Factbook 2006*: Economic, Environmental and Social Statistics.

Not only do Americans work more per year, they appear to remain in employment longer. Figure 5 contrasts the trend over 1990-2002 in average employment rates for workers aged 55-64 in the USA, the UK and the EU-15. In 1990, 54% of American workers in this group were in full time employment compared to 49% in the UK and 39% for the EU as a whole.[32]

While the trend is upward in all cases, today nearly 60% of older American workers are in full-time employment, considerably more than the proportions in the UK and the EU-15 as a whole. While this state of affairs might have worrying implications for pension provision in some EU countries, it does support the argument that Americans not only work longer hours but enjoy fewer years of retirement.

7. Paying the bill: Health Costs

A century ago, poverty was still defined in absolute terms and the poor died of malnutrition or were swept off by epidemic diseases. As Europe grew richer during the years of post-war reconstruction, better infrastructure, higher wages and new welfare provisions rescued most people from the threat of absolute deprivation. Writers on health and social policy speak of the 'epidemiological transition', meaning that as countries grow richer, the traditional 'diseases of the rich' such as stroke and heart disease reverse their social class incidence and become associated with the poor---a most striking example today being the incidence of obesity. And as absolute deprivation shrank, so poverty itself began to be redefined in relative terms.[33] Today, for example, the household 'poverty line' in most EU countries is typically defined at half of median household income.

It may appear paradoxical that looking at within-country and between-country data, there is a significant relationship between health (as measured by life expectancy) and per capita income in the former case but little relationship in the latter. Hence, although the income disparity between Bangladesh and the Harlem district of New York City is huge, infant mortality is higher in Harlem. The apparent paradox is resolved if we accept that what affects health is not absolute income, but income relative to others---a key marker of social status in society.

Layard's observation that growing prosperity is not accompanied by growing 'happiness' has become today's academic cliché.[34] There is now ample evidence that the growth in inequality---the rise of the super-rich and the celebration of new life styles about which New Labour has been so 'intensely relaxed'---is associated with poor health, high rates of violence and low levels of social capital. Wilkinson (2005) cites various studies showing the difference in life expectancy (measured from age 16) between rich whites and poor blacks in USA is about 16 years for both sexes. The studies quoted cover 23 different areas; in all cases, differences in area incomes are closely associated with differences in death rates. Wilkinson suggests that health inequalities related to different socioeconomic

status may deprive the average poor person of 20-25% of the length of life enjoyed by the rich. He adds:

> What would we think of a ruthless government that arbitrarily imprisoned all less well-off people for a number of years equal to the average shortening of life suffered by the less equal of our own societies? [Wilkinson (2005: 18)]

Nor is this phenomenon associated purely with poverty: the finding holds across all classes, while slope of gradient varies from one country to another and across time. It is greater in the US and Britain than in the Nordic countries. For the UK, in a well-known study of the civil service, Rose and Marmot (1981) took a large sample of male office employees and found that death rate from heart disease among low-status was four times as high as among highest ranks. Donkin, Goldblatt and Lynch (2002) report that whereas in early 1970s the difference is life expectancy between social class V (unskilled manual) and social class I (professional) was about 5 years, by early-mid 1990s difference was 9.5 years fro men and 6.5 for women. As Wilkinson writes:

> Inequality promotes [survival] strategies that are more self-interested, less affiliative, often highly anti-social, more stressful and likely to give rise to higher levels of violence, poorer community relations, and worse health. In contrast, the less unequal societies tend to be much more affiliative, less violent, more supportive and inclusive, and marked by better health ….. more unequal societies tend to have higher rates of violent crime and homicide, and … people living in them feel more hostility, are less likely to be involved in community life, and are much less likely to trust each other; in short, they have lower levels of social capital. [Wilkinson (2005: 24)]

In this context, Robert Putnam's well-know study *Bowling Alone* shows the decline of community bonds---what he calls 'social capital'---in the US after the 1950-60s, a period of growing inequality. Putnam's work reveals that in the more unequal parts of the US, where participation in community life is lower, it is particularly the poorer people who have ceased to participate. Where there is more income inequality, poorer people are more likely to feel out of place participating in community groups, more likely to feel ill at ease and to think that they will make fools of themselves and be looked down upon. Equally, there is a clear link between growing inequality and the rise of Christian

fundamentalist communities as a replacement for traditional support networks.[35] The right-wing political implications of this trend in the United States have become manifest in recent years.

8. Paying the bill: falling household savings and growing debt

If the growth in inequality has helped fuel a consumer boom, this state of affairs has serious macroeconomic implications too---not just for the USA but for the rest of the world. The relatively favourable growth record in recent years of the USA---and to a lesser degree of Britain--- compared to Europe is largely explained by a long consumer boom financed by growing household borrowing and, helped along in the US since 2001 by a ballooning budget deficit.[36]

Although one hears much about the US 'twin' deficit, in reality it is a 'treble' deficit encompassing the household, government and external balances. Both the government and the private household sectors spend more than they save, and this gap is reflected in an external deficit on current account equivalent to nearly 7% of GDP that must be financed from abroad. At present, the US spends about 50 percent more than it earns in the world market. In absolute terms, the 2006 current account deficit was close to $850bn, by far the largest deficit ever recorded. To get some idea of the magnitude of this sum, if we add the external deficits of the poorest third of the world's 168 countries, the resulting figure represents barely one-twentieth of the US deficit.

The US Government's budget deficit on its own would not be terribly worrying if were it not for a further factor: US households now spend more than they earn to a degree that offsets net corporate savings. Whereas, historically, the household sector was a net lender to the tune of about 2.5% of national income, today households have become net borrowers of about 6 per cent of national income.[37] Clearly, any fall in household borrowing would cause the economy to contract unless offset by more spending elsewhere; eg, by Government. If financial markets worry when there is an external deficit, they worry even more when there are government and private deficits as well.

Since the US private and government sectors have ceased saving, it is foreigners who must save---chiefly by lending their savings to the US. As foreigners use their surplus dollars to purchase US assets, the US has moved from being a net creditor to a net debtor to the tune of roughly $4trn. Overseas investment in the US in 2006 reached $14trn, about the same as the country's national income. Servicing US net indebtedness has begun to add to the country's current deficit.

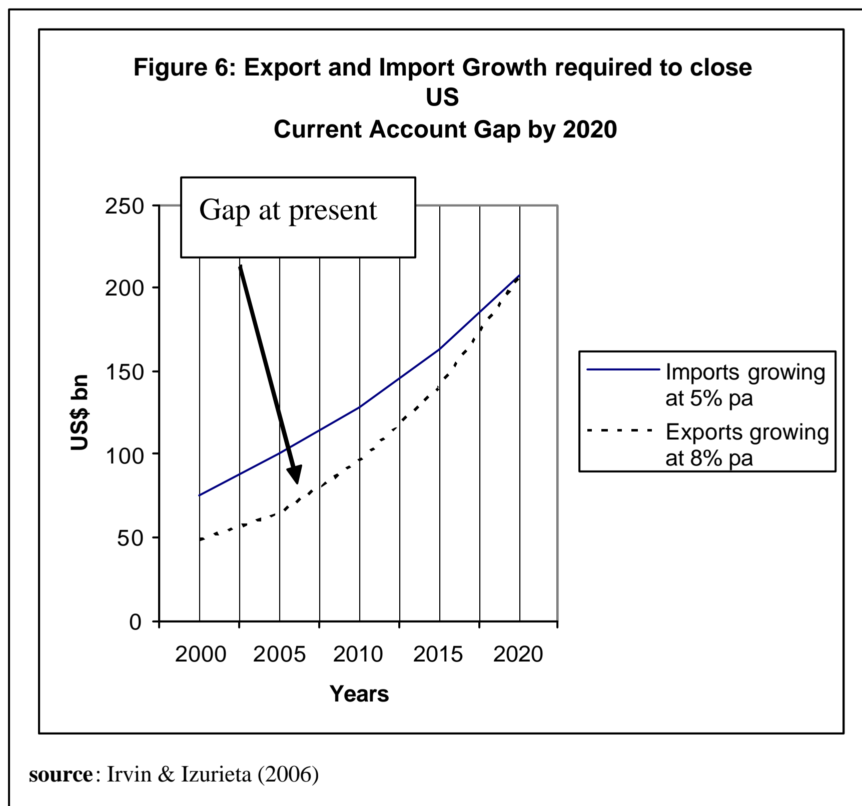
Most important, the deficit has increased despite a nominal devaluation of 40%, or a *real effective* devaluation of nearly 20% percent over the five-year period 2002-07. If adjustment is sought by recourse to devaluation alone, then it is clear that much larger effective devaluation is needed. But a very large devaluation might well be accompanied by a US---and thus a world---recession. Such a recession would hardly provide a climate conducive to US export growth. In sum, the US deficit is huge, it is growing and a precipitous cure brought about by markets alone might prove very costly. Once financial markets believe that the US deficit is truly unsustainable, the prophecy will become self-fulfilling.

9. Why US growth cannot be sustained

The spiralling growth in US and UK household debt is closely related to the liberalisation and growth of the financial market. The stock-market boom of the 1990s morphed into the real-estate boom of the current decade, with low interest rates, rising asset prices, mortgage withdrawal and unsecured credit card debt helping to fuel faster growth in private spending than of household income. For a variety of reasons, the growth in US household spending in the past decade has been relatively painless. Holding gains have been turned into ready cash because of the ease of re-mortgaging, and low interest rates have kept financial markets well-lubricated. But there are at least three reasons why this pattern cannot persist unchecked.

First, any slowdown in asset appreciation tends to generate uncertainty about the sustainability of future gains, and hence lead to a further slowdown. Secondly, although the value of asset growth may slow or even reverse, consumer liabilities remain the same.

Under conditions of very low inflation, the value of household debt erodes only slowly. Thirdly, although a slowdown in private spending can be offset by an increase in government spending, the scope for such counter-cyclical policy has been reduced by the Bush administration. When the stock-market bubble burst in 2001, Washington responded by lowering interest rates and granting swingeing tax cuts for the rich. While Washington's monetary stance has since tightened, tax cuts cannot easily be clawed back, so narrowing the scope for Government to prime the pump in future. The budget deficit is well in excess of the 3% limit that orthodox economists deem it prudent for a country to observe while the net liability position is about 50% of GDP. In short, if the private household sector dramatically cuts its own spending and returns to a sustainable savings path, government must run ever growing deficits to sustain aggregate demand at a time when the scope for so doing has greatly diminished.



source: Irvin & Izurieta (2006)

The UK position bears striking similarities to that in the US. UK net household debt is large and growing, and the UK's external current account deficit is the largest of the EU-15 states. At the same time, the UK is a much smaller economy than that of the US, and its external deficit is largely with the rest of the EU (bearing in mind that the EU as a whole runs a current surplus). Equally, the UK Government deficit represents a

smaller share of GDP, as does the public borrowing requirement. Since the UK does not belong to the eurozone, it has little say in shaping an EU response to the US deflationary danger. Nor does the UK Treasury appear very concerned about this danger judging by their silence on these matters.

The response of the Bush administration to growing external debt has been confused and confusing. The US Treasury appears to believe in a 'market-based' solution sustained by increases in productivity resulting from a synergy between the foreign capital keen to invest in the US and the resilience of 'corporate America'. The Federal Reserve appears keener on market-led exchange rate adjustment combined with action to reduce the 'world savings glut'.[38] This response mirrors the IMF view which, succinctly stated, is that a full-employment growth path is sustainable as long as governments practice fiscal and monetary restraint and prices---chiefly the prices of foreign exchange and labour---are allowed to adjust freely (including free appreciation in surplus countries). While the precise degree of devaluation required is not stated, the unofficial view in Washington for some years now is that a real effective dollar devaluation of about 20% would suffice to restore overall trade balance, equivalent to a nominal devaluation of around 40%. Relative to the dollar's peak against the euro in 2002, the dollar has fallen by nearly this nominal amount at the time of writing. But although the US trade balance for the first quarter of 2007 had improved slightly relative to the position 12 months earlier, at the time of writing there is as yet no sign of a significant shrinkage of the trade gap. Indeed, Reuters reported an ex- economic aide to the Bush administration saying that a weakening dollar might 'make things worse.'[39] Or again, McKinnon and Schnabi (2006) say:

> William Cline estimates that a 28% real effective real depreciation of the U.S. dollar would reduce the U.S. current account deficit from a projected 7.5% of GDP to 3% of GDP… We conclude that the impact of massive dollar devaluation on the U.S. trade deficit would be ambiguous, but that the macroeconomic stability of the world economy could be seriously undermined.[40]

Why is further nominal exchange rate adjustment unlikely to restore balance? First, a large nominal change may bring about only a small real effective change. A number of

US trading partners (eg, China, Malaysia, Hong-Kong) have effectively pegged their currencies to the dollar and are unlikely to be persuaded to accept the slowdown in export-led growth that a major currency revaluation would entail. Secondly, a real fall in the dollar will not lead automatically to an external account improvement. This is due in part to the fact that dollar depreciation has a 'wealth effect'. When the real value of the dollar falls, US holders of (say) euro-denominated assets gain and consequently feel richer and continue spending. Finally, the trade gap is simply too large. Exports would need to grow 3% faster than imports for fifteen years merely to bring US exports and imports to balance (see Figure 6). Such a turn-around could not be engineered by price-adjustment alone but would require constraining import growth via a major slowdown in economic activity. But a recession-induced adjustment would be painful not just for the US, but would threaten the international economy as a whole. Exchange rate adjustment may be desirable, but it needs to be accompanied by increased absorption in the rest of the world. Since US imports are growing steadily at about US$ 200 billion per year and exports at about US$ 100bn, a *full* correction of the current account which avoids US recession requires the rest of the world to absorb about US$950bn of exports ($850+$200-$100 billion) next year and even more in future years.[41]

The US trade gap cannot be closed without significant world economic acceleration. The main surplus countries are China, Japan and Germany who together absorb over 50% of the US deficit, with Russia and the main oil producing countries accounting for a further one-quarter. Russia and Saudi Arabia are large energy exporters, and their surpluses can be treated as a derived demand from industrial expansion elsewhere; ie, chiefly the EU and Asia. Since growth in China is already very high, little more need be said other than to express some question about how long the current rate can be maintained. What of Japan and Germany? In Japan, after fifteen years of stagnation and five of deflation, a looser fiscal and monetary stance seems to be producing conditions favourable to sustained growth.[42] By contrast, after five years of very slow growth in Germany, a slight improvement in performance in the past year appears to have produced dismay at the ECB, which in March 2006 raised its interest rate and is warning member-states once again against budget deficits.[43]

In sum, 'Anglo-Saxon' growth has been driven by private spending sustained by rising asset prices. The role of Government has been confined largely to keeping interest rates low by capping public borrowing, and to promoting liberalised credit markets enabling holding gains to be converted to ready cash. Orthodox professional discussion has focussed on whether or not Government (particularly in the US) has been too discretionary in fiscal and monetary matters, about how and when to rein in irrational exuberance, about supply-side 'flexibility' and so on. Significantly, almost nothing has been said about the relatively low levels of productive (private and public) investment, the decline in manufacturing relative to financial sector activity and the growing household income dispersion accompanying the Anglo-Saxon consumer boom.

10. A Tax-based Solution?

The macro-economic scenario set out above is gloomy. Briefly, I have argued that growing overseas indebtedness mirrors growing household indebtedness, a phenomenon which growing income and wealth disparities have helped to fuel. Moreover, in the shorter term, any attempt to turn off the tap of consumer spending might fuel a recession---and a run on the dollar---which could seriously damage the world economy. In the longer term, clearly, any initiative which seeks to contain consumer spending and shift resources to the public sphere will need to bite the bullet of fiscal redistribution.

The conventional argument against fiscal redistribution is that since the rich save more, higher taxation would reduce total private savings and investment. In a closed economy, this is clearly nonsense since taxation redistributes resources to Government, which can then save and invest along traditional Keynesian lines. The problem is that in an open economy, the rich can shift their money abroad; ie, the redistribution of savings and investment is not between classes but within countries. The answer is twofold. First, some form of taxation is required on international capital flows. The Tobin-tax idea has been with us for many years and now has a number of variants, some of which have been successfully implemented. Second, there is growing inter-state co-operation on 'withholding taxes'; ie, pre-emptive taxes levied on capital seeking overseas sanctuary.

The US already operates a withholding tax scheme and the EU has made considerable progress recently in the application of such taxes to offshore banking centres; there is no reason in principle why such an arrangement cannot be extended. However, successful action here also requires considerable strengthening of fiscal co-operation between OECD countries.

Abstracting away from the problem of capital flight, there remains the 'crowding out' objection that increased personal taxation would merely lower household savings. A solution proposed by a number of economists, and most recently by Robert Frank[44], has been to replace personal income tax with a personal consumption tax. The mechanics are relatively simple; individuals in addition to declaring disposable annual income would declare annual savings and it is the difference (Yd-S) which would be taxed. In contrast to other writers on inequality, Frank presents clear proposals for a highly graduated consumption tax with a top marginal rate of 70%. The merit of such a tax, Frank argues, would be to soak the rich while scotching the argument that taxation reduces private savings.

Another egalitarian form of taxation which has been discussed for many years is a wealth tax; ie, a tax on the stock of private assets. One of its variants, the land tax, was famously proposed by the 19th century American writer, Henry George, and was favoured in the UK by early 20th century Liberals and, more recently, by Nicholas Kaldor. The case for some form of land tax in the UK stems from the relative importance of the landed aristocracy in the country's rich list.[45] More generally, however, Britain is one of the few EU countries which does not have some form of wealth tax.[46] At the same time, with the exception of France, other EU countries have tended to use a high threshold and a very low rate---typically less than 1%---with the result that its redistributive impact has been small.

Doubtless, the favoured instrument of redistribution remains the progressive income tax coupled with estate tax and other asset taxes. Although in the past 20 years top rates of income tax have come down in most OECD countries, Britain's top marginal rate is

amongst the lowest of the EU-15 countries and Britain's overall tax incidence is regressive. In general, however, it is for political reasons that the system cannot be redesigned to make it more redistributive; if it bites the rich, the rich will bite back. This is as true of a steeply progressive consumption tax as it is of income tax, or indeed any combination of taxes on income and assets. At the same time, there is no doubt that the steeply progressive personal income tax regime which emerged prior to and following the Second World War was a major factor in shaping the household income distribution and keeping executive pay in check. As Michael Trotter has written of the USA:

> [In] the Eisenhower years … the top marginal rate of federal income taxation for married couples was 91 percent, and it kicked in at taxable income of $2.7 million in 2006 dollars. Under these circumstances it is not surprising that most employers weren't willing to pay executives or anyone else great sums of money that just went to swell the federal government's tax coffers. Most employees didn't see much point in it, either. As a result, the income spread back then between the top "earners" and the rest of mankind was not nearly as wide as it is today. (Trotter, *loc cit*).

11. Conclusion

This paper has focussed on the political economy of the massive redistribution of income taking place in the Anglo-Saxon world since 1980. Contrary to the conventional narrative (including the New Labour version) about the benefits of 'meritocracy'[47] and achievements of a new entrepreneurial 'wealth creating' class, the argument presented here is that the new inequality brings growing political and social instability. At the heart of the analysis lies the decline of Anglo-Saxon economic competitiveness experienced in the 1960s and 1970s. The Reagan-Thatcher era was seen by some---including apparently Tony Blair and Gordon Brown---as ushering in a new, dynamic spirit of entrepreneurship unburdened by high taxes, rigid labour markets and wasteful public spending. Privatisation, coupled with a new, market-driven reward structure for high-fliers would re-invigorate capitalism in its heartland.

In truth, the industrial position of the US and the UK, far from improving, has worsened. The growth of the financial services sector and restructuring of corporate manufacturing

has fuelled growing inequality and a debt driven consumption boom. These phenomena feed on each other, as the ladder of aspirational lifestyles stretches ever further upward. As the rich fight to become very rich, the middle class finds its footing on the ladder ever more precarious, skilled public service workers cannot find houses near their jobs, semi-skilled workers find can't make ends meet and a new 'permanent' underclass emerges which can no longer aspire to getting anywhere near the base of the ladder of opportunity, still less to climbing its lower rungs. For the majority, the 'new economy' means more hours worked per year, more working family members, later retirement on meaner pensions and greater unsecured debt. The social costs of growing inequality have been carefully documented by writers like Frank, Putnam, and Wilkinson; in a phrase, inequality seriously damages social health.

The macro-economic implications of all this affect both the developed and the developing world. If the negative savings of US and UK households outweighs all forms of positive domestic savings, investment and growth in the Anglo-Saxon world must be financed by high savings rates in the developing world. As a recent paper on global imbalances puts it:

> Current global imbalances not only pose huge dangers; they also cause a grossly inequitable distribution of global resources. Capital is 'flowing uphill' to rich countries—overwhelmingly to one rich country, the US. A stark illustration of this inequity: the average US current account deficit in recent years has been one third higher than the total Gross Domestic Product of sub-Saharan Africa.[48]

Although UK growth is more closely related to financial services than its US counterpart, in both countries a slowdown appears imminent and indeed is already evident in the US. While a 'soft landing' for the dollar may appear more likely today than a year ago, financial sentiment is notoriously volatile and a major run of the dollar would almost certainly precipitate a major world recession. There is little reason to suppose that widespread recession would not accelerate the growth of inequality both within and between countries.

Assuming that recession is avoided, can the growth of inequality in the Anglo-Saxon world be reversed? The answer must in principle be ‘yes’, but the solution requires a return to levels of income and corporate taxation not seen for 30 years---and probably strict new measures by government to regulate the inter- and intra-generational distribution of assets. Given the current absence of countervailing power to the super-rich who, increasingly, are able to able to buy public institutions and sway political opinion, it is difficult to be optimistic.

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July 2007

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Endnotes

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[1] See for example Glyn and Sutcliffe (1973).
[2] See Pizzigati (2004: 451, 479). A study by Crystal concluded that differences in corporate performance explained only a tiny fraction of differences in corporate rewards; the main explanatory variable was corporate size; see K. Day 'Soldiers for Shareholders' *Washington Post*, August 27, 2000.
[3] See Krugman (2004).
[4] In economist's terms, the upper tail of the income distribution conforms to a Pareto distribution. Thus, if (hypothetically) the richest, second richest and third richest person are A, B and C, if B were 10 times richer than C, we would expect A to be 100 (10x10) times richer than C. Some economists (eg, Martin Feldstein) regard this as a normal state of affairs and see no problem with the rich becoming richer as long as the poor are no worse off.
[5] See 'Life in the bottom 80 Percent' *The New York Times*, September 1, 2005.
[6] Following in Meade's footsteps, see Stiglitz (1969) for a model of the relation between patterns of inheritance and the distribution of assets and of income.
[7] See for example Bernstein and Mishel (2007) .
[8] See Dew-Becker and Gordon (2005), abstract.
[9] In the USA, options cashed in by executives become tax-deductible expenses for companies. By the 1990s, the use of options is though to have cut billions off corporate tax bills (Pizzigati, 2004: 11).
[10] See *The Economist* 'A Special Report on Executive Pay' January 20th 2007.
[11] In 1999 alone, mergers in the US totalled $1.75 trillion, ten times the value of mergers in 1990 (Pizzigati, 2004: 171).
[12] For current concerns in the UK, see Will Hutton, 'Private Equity is casting a plutocratic shadow over British business', *The Guardian*, 23 Feb 2007; also see 'Special Report: Private Equity' *The Guardian* 24 Feb 2007.
[13] *loc. cit.*
[14] See Michael H Trotter 'Tax plutocrats to restrain their pay' *Daily Report, Law.com*; Tuesday 27 February 2007.
[15] Quoted in Trotter, *loc cit.*
[16] See Brewer, Goodman et al (2006).
[17] Recent sources are Cahill (2002); Lansley (2006); and Pearce (2004).
[18] Equally, until recently, pre- and post-net transfer data was not available for the EU. This has been remedied with the development of the EUROMOD dataset, developed at Cambridge to estimate and compare the effects of taxes and transfers on personal and household income across the EU-15.
[19] The Gini calculations refer to the mid-1990s and are based on the Luxembourg Income Study (LIS) household data, 1979-99, the most recent attempt to measure income using a standardised definition. For details, see Smeeding (2002). Gini values for Portugal and Greece, excluded from the Smeeding study, are taken from Papatheodorou and Pavlopoulos (2003) whose data is from the Consortium of Household Panels for European socio-economic research (CHER);.
[20] Although Smeeding (2002) uses several measures of income inequality besides the Gini coefficient, I have ignored them since they all give roughly the same country ranking.
[21] See Paul Krugman, 'For Richer' *New York Times Magazine,* Oct. 20, 2002
[22] See for example Gordon and Townsend (2000).
[23] See Toynbee and Walker (2005); also Paxton and Dixon (2004).
[24] See Frank, R H (1999).
[25] A recent academic study offering a fundamental critique of economists' treatment of consumption is Offer (2006).
[26] See Frank (1999: 5).
[27] See Standing (2004).
[28] See Schor, J (1998).
[29] See Schor (1998: 5).
[30] I am indebted to Jennifer Shaw of the University of Sussex for comments on the 'drivers' of consumerism; for the sake of brevity I have excluded important factors such as advertising, declining real prices of many goods and the influence of governments on 'lifestyle items'; eg, the notion that the 'range of choice' of public goods should be market-driven, that super-casinos expand choice and so on.

[31] The seminal work on the US is Schor (1992); note that this work has been questioned by various authors, including Bluestone, B and S Rose (1997). A recent critique is summarised in: *The Economist* 'The Land of Leisure' Feb. 2, 2006.
[32] It should be noted that the EU-15 average includes the UK; also, the average does not show the considerable variation between different EU countries in employment rates for the 55-64 age group.
[33] A pioneering book on the importance of *relative* poverty is Runciman (1966).
[34] See Layard (2005).
[35] In this context, see for example M Gladwell, 'Letter from Saddleback; the Cellular Church' *New Yorker Magazine*, September 11, 2005.
[36] Much of the current section is based on Irvin and Izurieta (2006).
[37] In 2006, unsecured credit-card debt alone in the US amounted to over $750bn; in the UK, total household debt now amounts to over £1 trillion, the highest per capita in the EU.
[38] See for example Ben S Bernanke 'The Global Saving Glut and the U.S. Current Account Deficit', Sandridge Lecture, Richmond VA, March 10, 2005.
[39] See 'Weaker dollar may make US trade gap worse-ex-Bush aide' Reuters, Wed May 2, 2007.
[40] McKinnon, R and D Schnabi (2006).
[41] In 2006 the US trade deficit was $765bn; see US Census Bureau, Foreign Trade Statistics, December 2006.
[42] A complication is the inflow of hot money taking advantage of Japan's very low interest rates, one reason why the BoJ has recently raised its rate by a quarter of one percent.
[43] See for example Irvin, G (2006); also see Goodhart, CAE (2006).
[44] See Frank, *op cit*.
[45] A handful of aristocratic families, starting with the Grosvenors, own most of London's most valuable real estate and regularly figure at the top of the annual rich list published by *The Times*. See Lansley (2006) Chap 5. On a land tax for the UK, see A Seager 'A land tax is 200 yeas overdue' *The Guardian*, 8 Jan 2007.
[46] In 2000, the following EU member states levied a wealth tax: Austria, Denmark, France, Germany, Greece, Luxembourg, Spain, Sweden, and The Netherlands.
[47] A particularly trenchant critique of the New Labour notion of 'meritocracy' is Barry (2005).
[48] See McKinley, T and A Izurieta 'The Gross Inequities of Global Imbalances' *International Poverty Centre, UNDP*, Feb 2007, No 30.