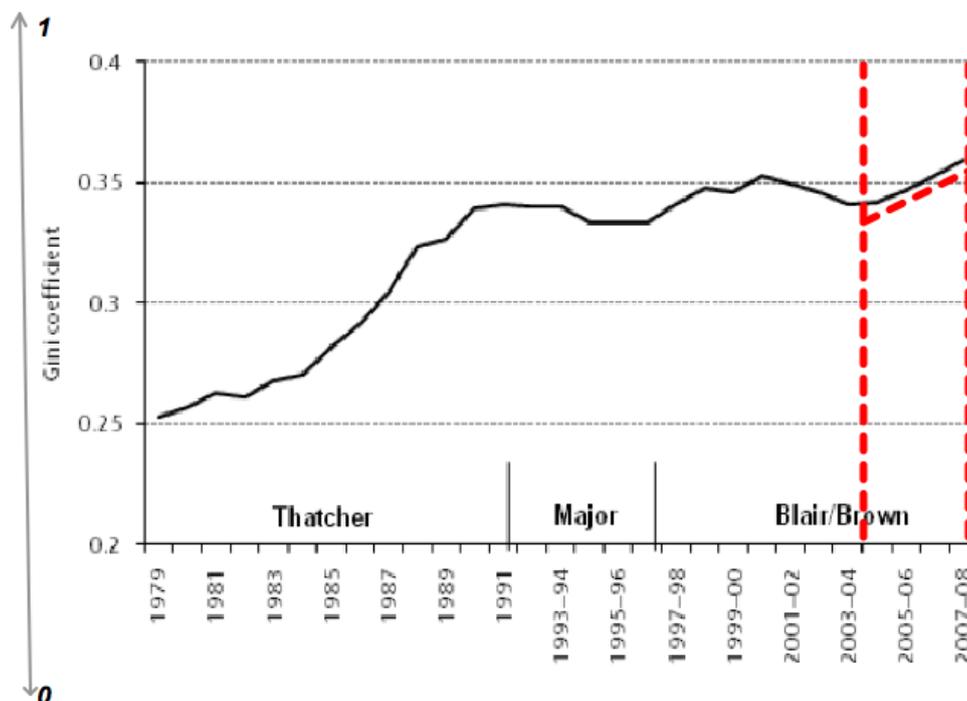


MIND THE GAP

Large income disparities are very destabilising for any economy. In the UK this is a very real problem. The OECD and other sources measure the *GAP* between the rich and the poor in the UK and around the world. Here is an interesting graph, the Gini Index for the UK.

In simple terms, 1 means one person receives all income, 0 means that everybody has an equal share. The graph speaks for itself. Amongst all developed countries the UK has the largest growth in income inequality. This, by the way includes the US. By contrast, Scandinavian countries, France and Germany have actually managed narrow this *GAP*.

Graph 1



Most people were appalled by the excessive salaries and bonuses that bankers paid to themselves and found this practice immoral and bad business ethics. The government was telling us that it only concerned a few top bankers, a drop in the ocean, and we should accept this if we wanted to stay competitive in the global market. On *backofanvelope* I calculated some figures. You can decide for yourself if we should be accepting what the Government proposes.

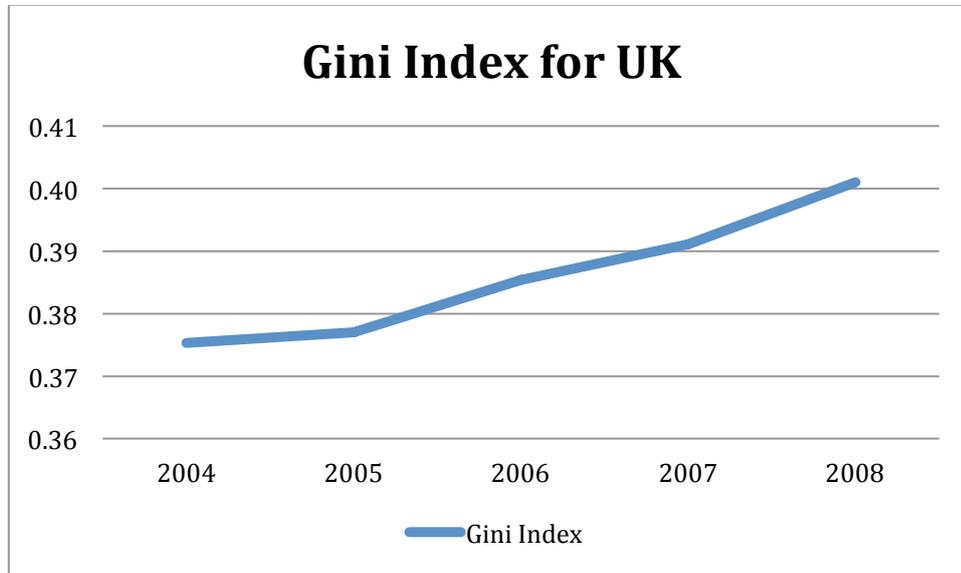
This paper is not intending to dump on bankers, Banks and I mean the MFI's Monetary Financial Institutions are however a concern because they should fulfil key socio-economic functions, i.e. providing liquidity to consumers and small businesses. However they have become a self-serving industry more occupied with gambling and speculation for their own profit interests and quite disconnected to the needs of the rest of us. I see bankers as being enslaved by 'mega' corporations they and politicians have created over a long period of time. But, lets face it, if we could create money from nothing, and 65% of our income came from interest that we received from lending to others wouldn't we all want to create and lend as much money as possible? Combining this with a compensation policy that encourages this behaviour is one of the major drivers for the widening of the *GAP*

Lets take a look at the last 5 year run-up to the late financial crises (2004-2008 inclusive), the time after the last bubble burst (tech-stocks, remember?). During this time the

monetary base (total money in the UK economy) M4 expanded at a rate of 17% per year. £1.3 trillion was created by our MFI's. M4 almost doubled in less than 5 years. This is money created by the MFI's and lent with interest to consumers, businesses and the Government.

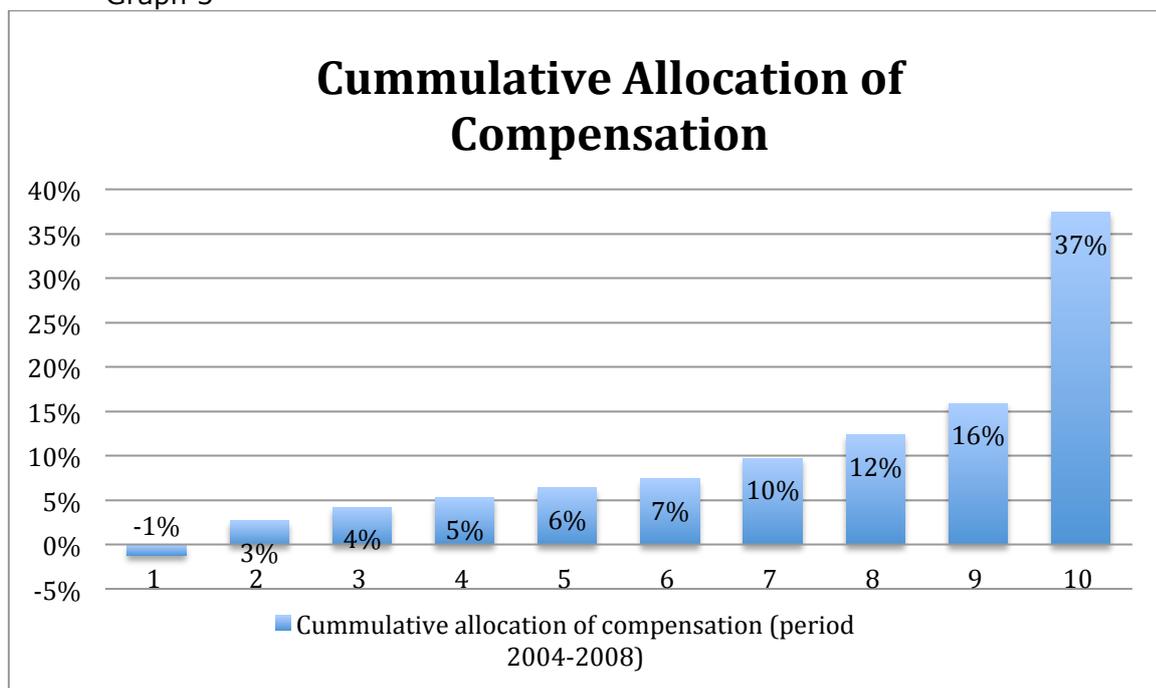
Now zooming into our GINI index for the 5 year time period we are looking at. Income disparities grew at a very high rate during this time of monetary expansion, wealth cumulated more and more with the rich.

Graph 2



Graph 3 divides the taxpaying population into 10 deciles. We have about 30 million taxpayers in the country so each decile holds roughly 3 million people; The poorest 10% in the left column and the richest 10% in the right column. The graph illustrates how uneven the distribution of compensation was over the last 5 years. The richest got 37% of total compensation and the poorest actually lost 1.3% of theirs.

Graph 3

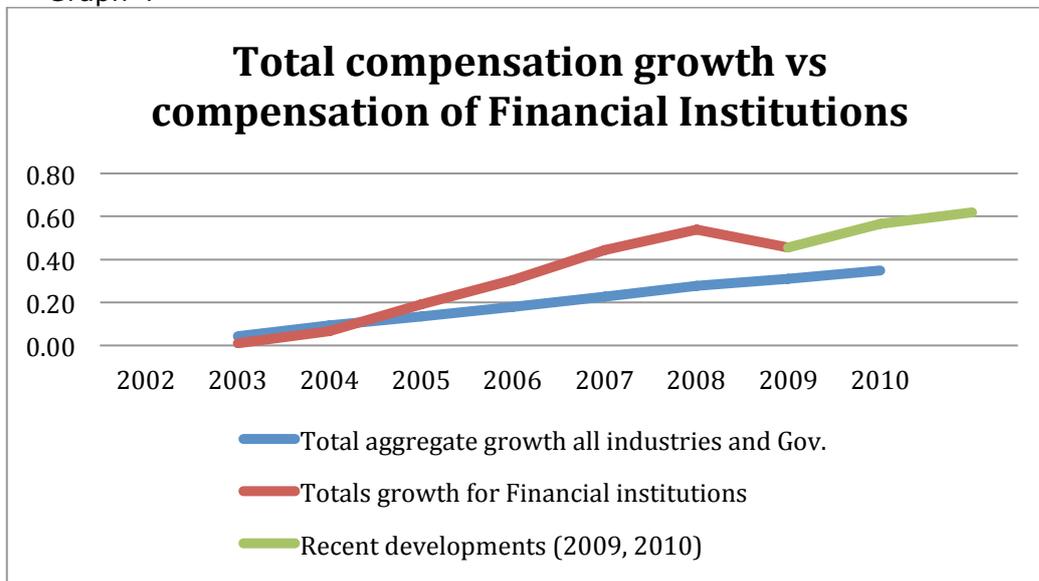


About 1.3 million people are employed in the banking industry (4.2% of total employees in the economy), 702,000 (57.7%) of these are represented in the top 10% decile. Or you can

also say, 23% of the richest 10% are bankers. You may want to know who the others are in this decile. I haven't researched the facts but I have a suspicion. Since most of this newly created money fuelled the property bubble, I would be looking at this industry for high-income growth.

Graph 4 shows how banks compensated their employees and how the rest of the economy did in comparison. The rest of the economy grew at an average rate of 4.3% while banks increased remunerated at a rate of 11% up to 2008. After that the banks booked £30 billion in losses and remuneration dropped by 8%. As you can see (green line) it was only a short interlude, then remuneration continued at the rate they had become accustomed to.

Graph 4

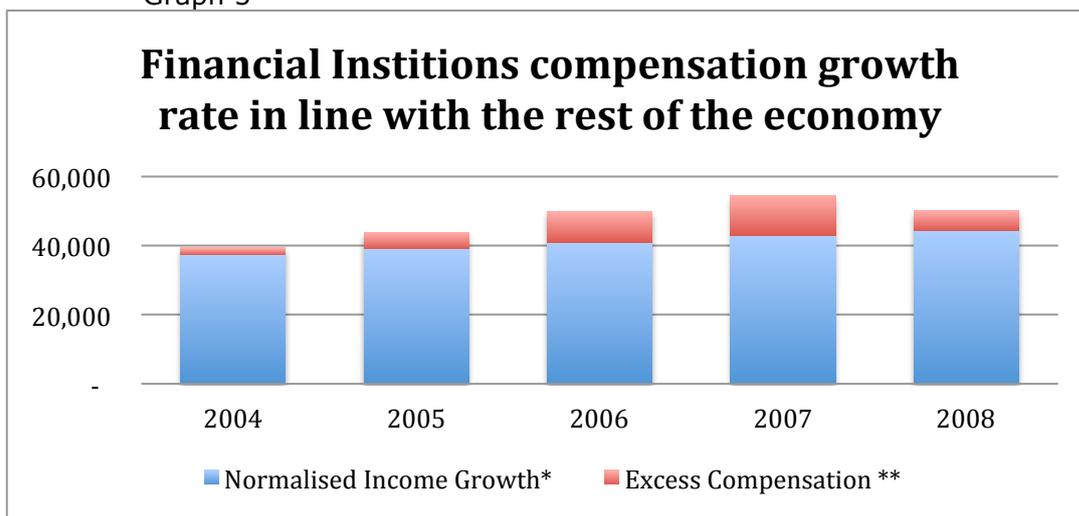


Part of this large growth rate could be explained by the increasing numbers of employee (during this period) but the increase over and above the rest of the economy would only explain about 2- 2.5%. And it doesn't explain why compensation grew again after 2009 when employment actually declined sharply and has since then not reached the level of 2008.

Now, lets assume that banker's were compensated at the same average rate as the rest of the economy. So, their remuneration would have also grown at 4.3% per year. They still get very nice salaries and bonuses but those just grow at a more moderate rate. I think this is a reasonable assumption.

Graph 5 shows this increase of 4.3%, the blue columns, and it shows what the bankers got beyond this average, the red caps.

Graph 5



These little red caps amount to **£32billion** over this period, on average 6.4 billion per year.

To set this into perspective; The poorest 3 million in this country receive only about 10 billion out of the total compensation pot, those little red caps would make a huge difference to their standard of living. Or if the government, for example, would receive this extra cash it could reduce the deficit by 4-5% per year, this is massive.

Here are a few items the Government has budgeted for this year 2011/12. For housing and environment 24 billion, defence 40 billion, Industry agriculture and employment 20 billion, education 84 billion, personal social services 32 billion, EU contribution 6 billion.

Income tax receipts are budgeted to be 150 billion, of this amount the lower 6 deciles (60% of the population) pays about 60 billion. One could reduce the tax burden for those 18 million taxpayers by 10%, — negligible!?

What do you think, is this really just a drop in the ocean and something we just have to accept? Or should we not find ways to narrow the *GAP*?

Fiscal measures alone may be successful in the short run and that will show up in the Gini Index, but further down the road when we have to start cutting costs on social-and health care services (and it will happen) the *GAP* will widen again because this always affects the poor more than the rich.

Yes, there is a need for fairer wealth distribution through fiscal measures, but really, we need to redesign our banking system. We need one that stops private banks creating money from nothing, stops banks taking risks on the back of taxpayers, regulations that amongst other things compensate for the right reasons. Those and other systemic changes will stabilise our economy, end those boom and bust cycles that victimises mainly the poor, and liquidity will start flowing where it actually produces something real.

Many lessons in History teach us that the path we are on at the moment will lead to revolt and socio-economic instability, and eventually the collapse of society and depression. We may have already seen the first signs of this with the recent riots in London.

Sources:

The data sources are.

- The Bank of England (research statistics)
- Office of National Statistics
- ESDS online database
- The Poverty Site
- Institute of Fiscal Studies
- OECD