



Rt Hon Frank Field MP

ACCEPTABLE BEHAVIOUR CONTRACTS FOR THE SUPER-RICH

On the 12 February 2008 Frank Field, MP for Birkenhead, gave the annual Allen Lane Foundation Lecture. The lecture summary follows.

On one occasion, Mrs T expressed her surprise to me that a giving culture had not been re-established in the wake of her Government's radical tax cutting strategy which saw the top rate of tax cut from 98p to 60p and then to 40p in the 1979 and 1988 budgets. Mrs T anticipated the advent of an American model of philanthropic donation that would significantly change British public culture. While there have been some notable exceptions, Mrs T's hopes lie still born. Here I suggest that a more radical approach to tax changes could be used to breathe life into this noble aspiration; a ten per cent surcharge on earnings above £150k which can be totally offset by charitable giving. This could encourage richer taxpayers to embrace the responsibilities of wealth that were, for example, such a characteristic of an equally flamboyant and rich Edwardian age. As John Wesley was fond of commending, while we should make as much money as we can we should, likewise, give money away in equal proportion.

I begin by thanking the Allen Lane Foundation for offering me a return visit to give a second lecture in its annual series. My first invitation was before the advent of the 1997 Labour Government and I then spoke on the state-run war of attrition on self-improvement. It was, you may dimly recall, a time of great optimism. The Conservative Government had run out of ideas and direction. A party of the right, that might have treasured the role individuals could and should play in improving their own lot and that of their families and, in so doing, improving the wellbeing of the nation, had, through its crazed extension of means-testing, launched what I described then as the most sustained attack ever on self-improvement. In making that judgment I did not have the foresight to see the impact of one, Gordon Brown, whose more serious addiction to means-testing, and with it the destruction of self-improvement, makes the policies of the Thatcher/Major Governments look childlike in comparison.

10 years on

- Four out of five families with children have their living standards determined not by working harder or gaining qualifications, but by the swish of the Chancellor's pen in setting arbitrary eligibility levels for tax credits.

- Four out of ten pensioners are likewise eligible for pension credit but perhaps as many as one in two workers now know that they cannot save enough to make a real difference to their retirement income.

It is not my purpose today to examine how the Government has run its own anti poverty strategy most determinedly into a cul-de-sac. That the Government doesn't seem to realise where it has landed its strategy, and seems incapable of distinguishing ends and means, takes on tragic proportions. No-one could fault the Government's aim of eliminating pensioner and child poverty. These objectives are as audacious as they are breathtaking. The heart-break comes from the means it is employing to achieve these most noble of ends. Not only are its policies unsustainable in the longer run because of costs, but they are deeply hostile to the maintenance of a free society. If policy is pitted against human nature, and in particular the self-interest of individuals and families, it is only a matter of time before the Government's strategy is defeated either at the hands of the Government itself, or failing that, by the electorate.

My task today is quite different, although its theme is linked to that first lecture. There are a number of building blocks that have to be maintained if a free society is to be sustained. One such block is philanthropy. Giving back to society that has rewarded some individuals so handsomely is important for the giver as they attempt to achieve their best selves. It is also important for the beneficiary of such philanthropy whose opportunities to achieve their best selves can, as a consequence, be transformed. Likewise, while philanthropy has a role in innovation, I would suggest its role above all else is in establishing centres of power and influence counter-poised to governments. It is in this role that philanthropy becomes a crucial part of sustaining the freedom which a thriving civil society bestows on its citizens.

Wealth beyond the dreams of avarice

If historians have a chance to reflect on our age they will no doubt find room for a discussion on the rise of the seriously mega rich; an age when the likes of the Medici family are reproduced not in one place but across the globe in every city and on a scale never before imagined. The same historians will try to explain the circumstances that gave rise to this unique phenomenon. The lead in here will not simply be globalisation, but that aspect of globalisation where the branding of people results in a monopoly rent return for the privileged few.

The causes do not need to detain us. The results in terms of the extreme concentration of income and wealth do. In his new book *Who runs Britain?* Robert Peston tries to convey the new territory we now inhabit.

He writes that on Tony Blair and Gordon Brown's watch 'thanks to benign tax rules, Britain has become a billionaires' paradise ... The talents of individuals are rewarded in terms of millions of pounds, while the relatively poor are getting poorer'.

I continue citing Robert Peston's words, but I emphasise he is quoting official statistics about individuals who register for tax, or register part of their income for tax purposes in this country. The scene he describes ignores those who, while amassing fortunes beyond the dreams of avarice, use non-domicile rules not to register their income, pay no tax and therefore do not appear as part of the scene he describes.

'In this jungle, where the super-predators feast best, some 30,000 people earn more than £500,000 a year and their average income is £1.1m'. This top 0.1 per cent of British earners take 4 per cent of all personal earnings – a sum more than the entire economy of Vietnam that supports 84 million people.

Likewise

- median earnings – not top earnings – of the FT 100 top companies' executives stands at £2 million – up by a fifth on the previous year
- Grant Thornton, the accountants, established that in 2006 the 54 UK based billionaires paid income tax of £14.7m on a fortune of £126bn.

The roll call does not stop here, of course.

- The highest paid British based hedge fund tycoons in 2006 were Noan Gittesman and Pierre Lagrange of GLG earning a reported \$240m.
- While a common-or-garden London-based hedge fund partner can expect to earn a mere £40m a year.

It is not only the size of the pay cheque that has changed. Something more fundamental has happened. What were once the earnings accrued by great companies are now the rewards of individuals – exceptional individuals, maybe – but individuals all the same. Those great institutions were rooted not only within the nation state, but often in particular areas – a biscuits fortune was made in Reading; chocolate fortune in Bristol and York; fortunes from ship building were made along the Clyde and the Mersey, a similar fortune came from soap making at Port Sunlight, as did the great fortune in running the football pools industry in Liverpool.

It would be wrong, however, to concentrate just on the great fortunes these companies individually made for their owners. For again, in contrast with today's super-rich, each of these great companies were large employers; 16,000 in Cammell Lairds at its peak. Huntley and Palmers in Reading employed 5000 around 1900; Fry's kept 4500 hands busy making chocolates in Bristol and Lever Brothers on the

Port Sunlight site alone employed 8000 just after the First World War. But the roll call did not end here. Each of these companies was also a noticeable donor. Lever's record is second to none – the gift of one of the country's finest art galleries, set in a model village and a foundation that brings much distinction to public life through the work it supports.

The Rowntree Foundation is, similarly, the product of the Quaker Joseph Rowntree's fortune made from producing chocolate, with the same holding true of the Cadbury Foundation and the mighty string of trusts that has grown up in the protective shade provided by the Sainsbury family. Allen Lane not only changed publishing with the establishment of the Penguin Press, not only made high culture easily accessible but, on retirement, established a foundation we are celebrating today. A more recent generous and imaginative giver comes from the founder of M&G with the Esmée Fairbairn Foundation. The same can be said of every firm that is or was once a household name.

So two characteristics stand out from many of these earlier fortune-makers. They were, first and foremost, model employers. Indeed they still are, employing large numbers of people. They were also, as I have already commented, noted for their charitable giving. The double whammy characteristic of the new wealth is that relatively few people are employed in making their great fortunes and secondly very few give generously to charity.

The picture is not one of total bleakness. Some of the new seriously rich have responded as Mrs T believed they would and have done so with great generosity.

- Sir Tom Hunter whose estimated net worth comes in at well over £2bn has pledged to give away £1bn of this to the Hunter Foundation and by other means.
- Lord Sainsbury – David Sainsbury – has likewise pledged to give away his entire fortune during his lifetime.
- Ann Cotton, launched in 1993 Camfed – the Campaign for Female Education. Her belief is that Africa will remain poor unless it educates its children, and particularly its girls who will then be less likely to become HIV infected, will marry later, have fewer children and will be more likely for those children to grow up more healthily. By 2006, Camfed had supported 70,000 children in schools across Africa and assisted more than 300,000 children and young people through its health and micro loans programmes.
- Peter Cruddas, who is the son of an office cleaner and a Smithfield market port, left school at 15 to support the family. His intention is to donate a £1bn to charity over his lifetime.
- J K Rowling has established the Rowling Charitable Trust which has annual income of £5.1m to aid women and children, to combat poverty and counter social inequality.

There are others. I asked the House of Commons Library to undertake a search of the most significant donors which gave rise to a list of 20, including such people as Sir Peter Lampl who has used some of his wealth to such effect in extending education opportunities, and widening our understanding of the slowing down of social mobility in our society. There are other organisations too such as New Philanthropy Capital, a group of young philanthropists who have pooled resources and approach their charitable giving with the same care and eagerness they do in investing their own incomes.

This list is not fortunately exhaustive. For other notable individuals have begun to question the lopsidedness of our current award system. Sir Stuart Rose, the M & S boss, raises a more reflective attitude on behalf of some of our new rich.

I find myself, as I get older, questioning more and more, do I need all of this? I like to be warm and dry but I don't have a yacht ... There is a much bigger social conscience around in business than there used to be.

A new opportunity

I have noted signs of that much bigger social conscience. There are a number of philanthropic stars in the sky. But the powerful intensity of their action testifies, I fear, to how few they are in number and how dark the remainder of the sky remains. So what other options are open to government to begin a renaissance of a giving culture?

I here draw an analogy with what is happening elsewhere in our society. I have recalled elsewhere how I still remember vividly the day that a group of pensioners came into my Friday surgery at Birkenhead Town Hall and turned how I viewed the world upside down. It was a little over ten years ago that I was forced by circumstances to accept that what I had previously categorised as horrendous individual acts of behaviour were no longer merely individual and isolated exceptions from the general rule of decent conduct. A pattern was emerging from the complaints my constituents brought me about the collapse of decent behaviour and the number of such complaints was growing at what seemed like an exponential geometric rate.

As I listened to that group of very decent citizens, who had always put more into society than they ever believed they should draw out, I realised that countering anti social behaviour would become the major issue I would be dealing with as an MP for the remainder of my political career. Class politics had well and truly given way to the politics of behaviour.

Why had behaviour changed so much for the worse? There were economic causes, such as the stripping out of male jobs in the local economy as manufacturing disappeared as though it had never been present. Young males were bereft of wage packets and were denied their traditional role as hunters and gatherers of the family wage. The rise of the very young single mother on benefit as a consequence was soon apparent.

There was also an equally serious fracturing of family life as more and more families lost the knowledge, confidence and wider support to nurture children successfully. To fill this void I have argued for a reinvention in a secular way of the rites of passage.

- The celebration of a birth and welcoming of a child into the community which used to take place at baptism.
- The recognition of the movement from childhood to the beginnings of adulthood signified in Bar Mitzvahs.

To support the acquisition of social skills in families I have also suggested the building up of a new contract culture. The contract in this respect would cover what the different parties in the community expect from schools and would be, for example, an extension of the contract society that we already enter into with a bank when we buy a house or with our employer when we take up a new post.

Extending contracts to giving

Might there not also be a role for acceptable behaviour contracts in helping to redevelop a giving culture? I asked the House of Commons Library to look at the latest data to judge how much money would be raised if rich individuals had an extra 10p tax applied to their incomes over £150,000 a year. Such a levy would give rise to £2.8bn and a further £0.8bn would similarly be raised from a ten per cent surcharge on dividend income above £150,000 a year – a total of around £3.6bn.

I propose the Government should consider the following reform. It should give notice that it will levy an additional 10 per cent tax on these two sources of income. Where the actual point in the income scale should be set is a matter of public debate. To kick off such a debate I would suggest an additional 10 per cent level on incomes above £150K a year. But voters might decide a threshold of £200K or £250K. What is crucial is that, in introducing the new tax, the Government should make plain that individuals who give sums to charity, or to existing foundations, or establish new charitable foundations, would be able to offset the whole of their additional tax liability against their giving.

This aspect of the reform is crucial. In no way do I wish the idea to become part of the stealth tax strategy. The aim is not to increase government income and the share of national income spent by the government. The opposite is the objective.

The purpose of the strategy is to strengthen civil society in two key respects. The first is to ensure that the income of civil society grows in absolute terms and that, similarly, it grows in relative terms to that income which the government takes from taxpayers.

The reform is also about enriching civil society in another, perhaps more important, respect. Amongst the rich are some very creative entrepreneurs. Civil society needs to harness the entrepreneurial gifts that have been bestowed on this group. After a record increase in public expenditure, but with such modest outcomes, few people believe that moving successfully against our country's deep-seated social and economic problems is best found in yet more government action. How to progress the invention of new strategies, and the ability to act without waiting for the clanking of the government machinery to come into operation, is a crucial part of this reform.

Taking £150,000 a year income as the starting point, and if everyone responded positively to this idea, an additional annual £3.6bn would be deployed into new or existing foundations. Some of the rich may believe that life would be simple if they simply paid the additional tax to the government, but I would hope that their numbers would be very small indeed. In these circumstances the government should be committed to setting up a national endowment fund where any money raised from this source would be given to bodies deemed most appropriate to gain help in building up an endowment income.

This residual fund takes on the appearance of a fund I suggested to the then Chancellor when Labour was returned to power in 1997. My plea then was for Gordon Brown to establish a Chancellor's endowment fund committing £50m endowment for the each of next 50 years. Once begun I did not believe any future Chancellor would withdraw from an annual sum which each year would become an even more miniscule part of the national accounts. A small panel would decide to whom the £50m endowment should be given each year. The aim would be to strengthen both the great civil institutions of our society, like the British Museum, while in other years the £50m annual endowment could be used to encourage the growth of new bodies.

The aim for this reform that I emphasise yet again would be for individuals to make the choices themselves over which parts of civil society they would support. It would only be when they failed to do so that the Government would levy the new surcharge but with the resulting revenue earmarked for the charitable sector.

Conclusion

There has been an explosion in the number of super-rich in our society. In some respects the flouting of wealth, and with it a celebrity status, takes on an Edwardian feel when the parading of riches became respectable. There are, however, very significant differences between the role of the super-rich in our society, and those in Edwardian days.

There are of course exceptions to the rule in comparing both periods. But generally the wealth of the super-rich 100 years ago was based in building up the country's trade and commerce. This resulted in a very significant increase in the numbers in employment. Another difference between the two ages is apparent when one looks at the role that many, although not all, of the Edwardian super-rich played in establishing great foundations through which they directed, and which trustees continued to direct, considerable sums of money to advance charitable objectives.

Today's super-rich, and there are some notable exceptions, are neither employers of great numbers of people, nor generous in charitable giving. The contract therefore between great wealth and philanthropy has been fractured. Contracts on acceptable behaviour have been imposed on miscreant youths who do not fulfil properly their obligations to a society that supports them. Similarly, I believe acceptable behaviour contracts should now be applied to today's super-rich.

The cornerstone of this new contract will be the levying of a 10p additional rate of tax. The whole of this tax can be off-set by individuals setting up their own foundations, or supporting existing foundations. But with all contracts the aim is not simply to change behaviour but to develop a new spirit. And that spirit is for the new super-rich to fulfil their wider obligations to civil society and to use the precious gift of entrepreneurship that they have been given to tackle the wider problems of our society, and not simply to advance their own financial success.