

## FROM OWNERSHIP TO STEWARDSHIP

Saturday 19<sup>th</sup> November 2005

**The Revolt of the Elites:** how the rich became richer and the poor poorer

In the first half of the twentieth century it was the potential 'revolt of the masses' which threatened the social order and thwarted the *mission civilisatrice* of the western world. At the outset of this century, however, the chief threat to liberal democracies seems to come from the other end of the social hierarchy and the masses in large parts of the world are remarkably quiescent.

Writing in the era of Bolshevism and the rise of fascism, José Ortega y Gasset attributed the potential revolt of the masses to the likelihood of their gaining political domination during the C20th. In the period of *les événements* in France and elsewhere during the late 1960s, many commentators of that time picked up on Ortega's work and linked the social revolution of that time to his prediction that the bourgeois elites who had previously dominated the institutions of state, the higher education system, and the centres of cultural production were no longer capable of fulfilling their historic role of assuming responsibility for setting the cultural standards which underpinned their notion of what constitutes western civilization.

Ortega's views were widely shared amongst the intelligentsia of the 1930s. But he was wrong. It has been the elites, not the masses, who have led the way in undermining the cultural norms of liberal democracy and it is the elites who have

been most negligent in protecting the commons, including and especially the physical environment, on which our collective future depends.

In his final book, *The Revolt of the Elites*, American essayist Christopher Lasch described how the new elites, by which he meant the masters of the universe who control capital and produce and manipulate information, having freed themselves almost entirely from the constraints of geography that pinned down their predecessors, are free to roam the world without any sense of obligation to physical space or community. They have removed themselves from local context and concerns, located their families in gated communities, and hold in disdain the parochial concerns of immobile workers and the middle class.

The truly wealthy, by which I mean the one per cent of the world's population who own and control over fifty per cent of global wealth, have taken this a step further. These are the true beneficiaries of globalization, who, thanks to almost complete financial liberalization, can shift their capital to almost anywhere in the world without impediment. This was, of course, the real objective of the neo liberal revolution. The Washington Consensus was principally about freeing capital from the threat of social democracy and American New Dealism. And above all it was about overthrowing the apparently irresistible rise of the high tax / high spend welfare state governments of the 1960s and 1970s.

Tax havens played a crucial part in the success of the neo liberal ascendancy in the late 70s and early 80s. But even at that time they were not new. Cayman emerged as an important tax haven in the 1950s and Jersey entered the game seriously in the 1960s. They helped capital to circumvent exchange controls and enabled the ultra-rich to evade income, capital gains, and inheritance taxes. For



capital they represented a helpful disciplinary stick which could be shaken at politicians of a leftist persuasion.

But tax havens really came into their own in the 1980s when the abolition of exchange controls allowed private wealth to flow offshore in vast quantities.

Between the early 1970s and end 2004 the number of recognized tax havens increased from about 25 to 72. The value of private wealth held offshore rose from a few hundred billion dollars to \$11.5 trillion (million billion). The volume of world trade shifted on paper through tax havens rose from almost insignificance to over 50 per cent. The value of dirty money flow out of developed countries increased from relatively modest amounts to an estimated \$5 trillion.

In other words, over the past 25 years or so, capital has been reconfigured in a way that Karl Marx could only outline in broadest terms in the third volume of *Das Kapital*. Located in tax havens, untaxed and in many respects untaxable (especially by countries in the developing world), it has revolted against the moral constraints of local community and the political realities of western democracy, and fashioned a virtual but nonetheless real place called Offshore to suit its needs.

Tax havens were created by the elites for the sole purpose of breaking free from the social contract and reinventing a world in which they have political ascendancy because they can use the power of tax and regulatory competition to determine the political agendas of even the most powerful nations. The neo liberals have been successful in achieving the majority of their economic and

political goals, but none more so than the goal of freeing capital from its obligations to pay its dues to society through the tax system.

Capital has become a social and economic free rider, and will remain such until states regain the ability to tax it. For the neo conservatives this is nirvana. Grover Norquist, a key associate of George W, has said that his vision is not to kill the state, but to reduce it to the point where it will drain down the plug hole on its own accord. And this will be achieved by starving the beast of its tax revenues. This is not an immediate prospect for Europe or even the US, but it is a looming reality for many developing countries.

Remedying this situation does not require a global tax regime. But it will require global cooperation between nations, rather than further tax competition in a futile race to the bottom. Without addressing this problem, and in particular addressing the problems caused by illicit capital flight and tax evasion in developing countries, we cannot hope to reverse the trend towards wide scale impoverishment, social alienation and insecurity.

Notes prepared for session one.

JEC, 18 November 2005