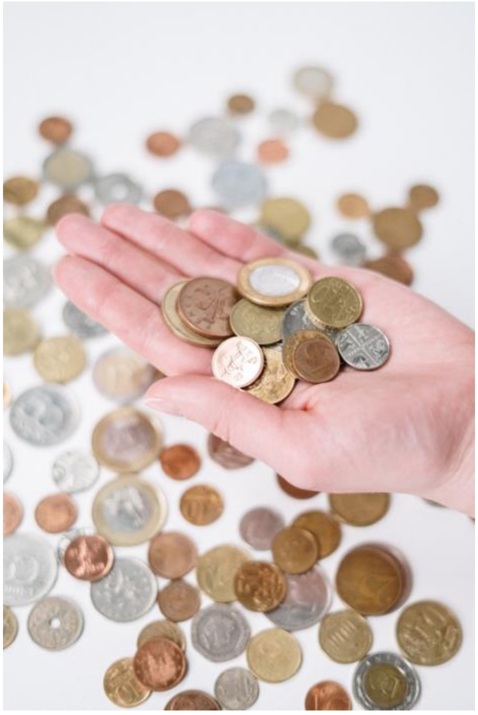
THE LEADERS INSTITUTE

Transforming our global economic system for a better world

"Unfettered markets in their current form are not meant to solve social problems and instead may actually exacerbate poverty, disease, pollution, corruption, crime and inequality." Mohammad Yunus Founder of Grameen Bank and Winner of Nobel peace prize 2006.

Introduction

There is no doubt that capitalism has made the world richer and healthier than previous generations yet the world also has over a billion living in extreme poverty. In addition, over the last forty years there has been a serious and growing disparity between the rich and the poor in western society. Is this 'normal' and should we just accept it? Is it right when the 80 richest people in the world control as much wealth as the poorest half of the world which accounts to 3.5 billion people? How has this happened? Can capitalism ever be more inclusive? These are questions I wanted to explore and try to find answers too in this document.



Our present global economic system was very much influenced by Adam Smith's The Wealth of Nations in 1776. What has been forgotten is that this work was a continuation of his previous writing The Theory of Moral Sentiments in 1759. By ignoring this previous work we have developed an economic system based on self-interest whereas Smith's account of self-interest is directly linked with the common good. There are other assumptions too that abound in capitalism.

In 1944 Karl Polanyi wrote The Great Transformation where he coined the concept 'commodity fiction'. He argues that capitalism was constructed on the foundation that nature, labour and money are commodities i.e. they are produced for the market place for consumption. Polanyi says nature isn't produced by us for market consumption, nor are human beings and neither is money. However, in the market system they are treated as if they are commodities. The belief is that the result of this 'fiction' is phenomenal growth but also disastrous consequences such as environmental destruction, poverty and cyclical monetary breakdowns.

Thomas Picketty in Capital and Ideology questions the assumption of capitalism that inequality is just an unfortunate by product of progress. Picketty argues that inequality is a political choice based on a flawed ideology and belief that the market will provide and adds that this inequality is not the result of globalisation or the growth of technology. Therefore what is the basis of this flawed ideology and how has it developed? Also, if this is true and we caused the mess, then surely, we can also transform it. When exploring the present form of capitalism we can begin where things seem to have gone wrong and the consequences.

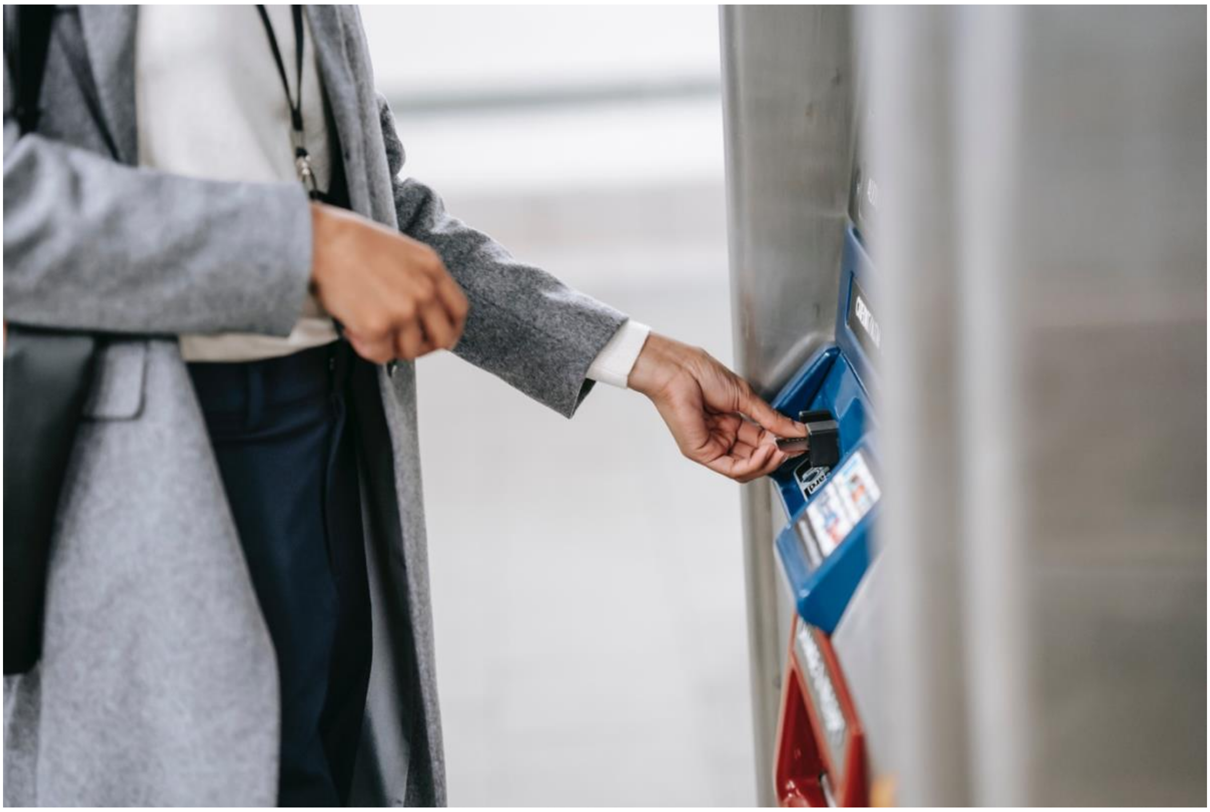
The Turning Point

Two critical areas have brought capitalism to an intolerant place: short-termism and business ethics. We can trace the moment when capitalism took a wrong turn.

In 1970 the American Economist Milton Friedman wrote an article for the New York Times called: “The Social Responsibility of Business is to Increase its Profits.” In it he said: “*The business men who believe that they are defending free enterprise when they declaim that business is not concerned ‘merely’ with profit but also with promoting desirable ‘social ends’; that business has a social conscience and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else that may be the catch words of the contemporary crop of reformers….. Businessmen who talk this way are unwittingly puppets of the intellectual forces that have been undermining the basis of a free society these past decades.”*

Freidman concluded*: “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits…”*

This triggered a new era of capitalism where the emphasis was placed on shareholder value maximisation in the 1980’s and short -term results with investors during this period, and after that, more akin to speculators seeking quick returns. This structural change in investor behaviour pressured boards to create value on a short term and even quarterly basis. This has been linked with capital not being invested in R&D which could increase the rate of product innovation and thus have a positive impact on employment and economic growth. Instead, capital was used for share buy-back schemes that artificially increase share prices. The result was volatility, inflated asset prices and stagnating long-term growth and employment with salaries kept low.



Both politics and economics were tied to this worldview. Some insightful individuals saw where things were going. Fernando Henrique Cardoso, then President of Brazil reported in 1996: “The economy reigns supreme, determining political choices and the limits of social action. And the free market emerges as a leading ideology, fostering competition and an exaggerated, narcissistic individualism that equates the realm of values with the dictates of efficiency.” (Human Development Report UN 1996)

More than a quarter of the UK's biggest listed companies and a third of large US public businesses spent more on dividends and buybacks in 2019 than they generated in net income, leaving many vulnerable to collapse. This along with previous years of management focusing on maximising short-term shareholder pay-outs, have 'hollowed out' company reserves according to a study from the University of Sheffield, Queen Mary University of London and Copenhagen Business School. The report found that 28% of FTSE 100 companies, 37% of S&P 500 firms and 29% of S&P Europe 350 paid out more in shareholder distributions than they generated in net income in the last available accounting year. The research showed that management decisions over the last decade had made them a risk now dealing with the global pandemic. Their targeting short term pay-outs will make the economy weaker, a higher cost to governments and a need for central bank intervention. The research also showed that businesses took on low-grade debt risking refinancing and liquidity problems if the debt is downgraded. Thus exposing themselves to be weak in a global recession post COVID.

Rather than being judged by their innovation and long- term growth, the principal arbiter of a company's success became its current share price. Very rapid and large returns were demanded by investors. Executive renumeration began to demand share options as incentives resulting on a focus on share price. Profit reporting became quarterly rather than annually. When share prices fell, huge salary packages became common and unrelated to performance. By 2001 the salaries of CEOs of top companies was six times higher than in 1990 and 500 times the average income. This has continued. In August 2020, Fast Company said workers pay had increased by13.7% since 1978 while CEOs has increased by 1,167% with Robert Reich who was the US Secretary of Labour under Bill Clinton to comment "Capitalism is off the rails." Today CEO pay now relies heavily on stock options and awards, which are pegged to the company's stock price and increase in value if the company's stock grows more valuable.

In 2014, Mark Carney, then Governor of the Bank of England, warned that there was a growing sense that the basic social contract at the heart of capitalism was breaking down amid rising inequality. He added that capitalism was at risk of destroying itself unless bankers realised they had an obligation to create a fairer society and that prosperity requires not just investment in economic capital, but investment in social capital.

Carney added: *"All ideologies are prone to extremes. Capitalism loses its sense of moderation when the belief in the power of the market enters the realm of faith. In the decades prior to the (2008) crisis such radicalism came to dominate economic ideas and became a pattern of social behaviour."*

Founder of the World Economic Forum, Klaus Schwab adds: "Free market fundamentalism has eroded workers' rights and economic security, triggered a deregulatory race to the bottom and ruinous tax competition, and enabled the emergence of massive new global monopolies." He argues that we need to rethink what 'capital' means to enable us to build a new form of capitalism. He proposes the new form is Stakeholder Capitalism that takes into account employees, customers, suppliers and the surrounding community of where a company is based. Now in 2021 Stakeholder Capitalism is a growing concept to include People, Planet and Profit.

Capitalism is being challenged as the rising inequality of the majority and the top 1% of wealthy increases with the stagnation of the middle class in many developed countries. For this reason prosperity in society cannot be only understood by using monetary measures only, such as income or wealth. Focus on GDP doesn't reflect how growth changes the real, lived experiences of most people. GDP measures wealth but ignores its distribution. It also fails to consider the human and financial costs of capitalism including social welfare, environment degradation, the mental and physical well-being of a population.

No-one sums up this view better than Muhammad Yunus, Winner of the Nobel Peace Prize in 2006 and a social entrepreneur who has been successful financially supporting the poor with microcredit and lifting people out of poverty. He writes: "*Our economic theory has created a one-dimensional world peopled by those who devote themselves to the game of free-market competition, in which victory is measured purely by profit. And since we are persuaded by the theory that the pursuit of profit is the best way to bring happiness to humankind, we enthusiastically imitate the theory, striving to transform ourselves into one-dimensional beings."* He argues that the reality is that people are excitingly multi-dimensional.

Where did our economic theory come from?

Today's world is very different from 19th and 20th century economics yet we still use the theory of that era. Capitalism originates from the Latin 'caput' or cattle heads and refers to possessions. Umair Haque noted in his book 'The New Capitalist Manifesto' that capitalism grew out of the industrial Revolution, a time when resources were plentiful and the population scarce. Today the scenario is reversed so a new form of capitalism must emerge for this new era. The word 'capitalism' was first used by writer William Thackeray in 1854 when he meant private ownership of money.

Has capitalism today become a symbol of loss of trust in leaders and institutions including banks?

The Millennium generation are driving values such as responsibility and purpose, this and our awareness and knowledge now about sustainable development means the older approach to business and capitalism is threatened, maybe even dying. At Davos in January 2020 Marc Benioff, an American entrepreneur stated that 'capitalism as we know it is dead.'

The annual Edelman Trust Barometer research revealed at the start of 2020 that 53% of those polled which included 1,150 UK residents over the age of eighteen, believe capitalism does more harm than good. It also found that the public had bought into the idea of stakeholder capitalism in a significant way. Of those polled, 93% said stakeholders were 'the most important to long-term company success.' Just 7% said shareholders are the most important.

While trust in capitalism has suffered in the UK, the situation is worse elsewhere. In France 69% said capitalism does more harm than good; in Italy it was 60%, in Spain 59%, with again, 59% in the Netherlands and 57% in Ireland. The global average was 56%. Additionally, 66% said they believe companies are capable of taking action that 'both increases profits and improves communities.' The problem is only a handful do this. More than half in the study from the UK, 58% said they distrusted business because they believe it "serves the interests of only the few." This is the perception of many people today.

Executive pay, net zero carbon and diversity are issues shareholders question today, especially whether pay increases or changes in pay structures are truly warranted. Investors have also long been arguing for greater gender diversity at board and senior executive levels. Although progress has been made in improving diversity on FTSE 100 boards, more needs to be done to tackle the lack of women in the FTSE 250. The Investment Association and the Hampton-Alexander review wrote to one -fifth of the FTSE 350 demanding action and are monitoring progress.

Executive Pay and Performance

Research carried out by the London School of Economics in 2017 claimed that UK bosses are 'absurdly' overpaid and that the performance of companies they run would be no worse if executive salaries were reduced dramatically and endorsed by top head- hunters. The study involved interviews with ten international recruitment firms who have appointed around 70-90% of chief executive appointments in recent years. They told the researchers at the LSE that for every appointment of a CEO another 100 people could have fulfilled the role just as competently and that many who were chosen for top jobs were 'mediocre'. Executive pay now is many hundreds of times that of the average employee with no evidence that they are unusually able. Added to which there is little evidence that lower pay would see a 'brain drain'. In other countries including Denmark CEOs don't get this high a salary and don't leave. So why has this occurred?

Since the 2008 Crash research has found that organisations and head- hunters are more likely to elect narcissists into powerful roles – people who are self-centred, exaggerate their talents and abilities and lack empathy. It has also been found that professionals selected for management development who scored high on tests for psychopathic traits held senior executive roles. In addition, the consultancy Talent Smart found that chief executives had the lowest 'emotional intelligence' scores in the workplace and far below that of middle managers. None of which fits with the leadership required today who need to address sustainability, global inequality and climate change. Above all, the world requires leaders who will put the collective interests before their own.

Therefore, the frameworks we use in succession planning should identify leaders who not only have the ability to execute and deliver but also demonstrate honesty, empathy and humility. In addition, signing a code of ethics for board directors could be similar to what already happens with professionals such as doctors, lawyers and architects who have to sign this before being allowed to practice. Violations should then result in rescinding the ability to practice. Having good rules and the skills to carry them out is a must. Anat Admati of Stanford University points out that corporations have obtained many political and civil rights but lack the equivalent in obligations. We see this sometimes in the lack of criminal liability where executives resign and just walk away. Finally, Martin Wolf from the Financial Times writes: "…… unbridled corporate power has been a factor behind the rise, of populism, especially right -wing populism." Thus showing a link between out economics and politics.

Our present market system will never solve economic problems at both individual and social levels. To change our economic system we also have to change how businesses and the economy are measured for measuring tends to make things real. It requires how we put a value on resources such as water, food and energy. When we do this, businesses rethink their production processes, and crop farmers adopt irrigation methods that minimise water consumption. When we put a value on food it is not enough to just focus on how we eliminate food waste we have to rethink how we produce food. ***Today we have to rethink much of what we have taken for granted for a very long time including what is important to both business and society.***

What We Value

Aristotle said: "Wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else." Oscar Wilde wrote; "the true perfection of man lies, not in what man has, but in what man is." From this viewpoint we could say that money or capital should be to enrich society and help solve its challenges. If we are to achieve this, we need to develop a greater social consciousness and the ability to see different perspectives to transform business, the financial world and our economic system.

In the small country of Bhutan in the Himalayas the economy is measured in terms of nine domains: Living standards, education, health, environment, community, time use, psychological well-being, good governance, cultural diversity and resilience.

Many of these issues have been highlighted during COVID and they are both tangible and intangible. What we do know is that wealthier countries are not necessarily happier. At a certain level of income, happiness more or less stays the same and then decreases. This is sometimes known as the Kuznets Curve. Bobby Kennedy once said: "GNP measures everything – except what makes life worthwhile." The global pandemic has shown us that happiness comes from being with those we love, from serving others, living in harmony with nature and realising our innate wisdom. More can be found in the Global Happiness and Well-Being Policy Report 2019.

Nobel-prize winning political scientist Elinor Ostrom said: *"We have never had to deal with problems of the scale facing today's globally inter-connected society. No one knows for sure what will work, so it is important to build a system that can evolve and adapt rapidly."*

If we really want to learn and change our economic system for this different world, we have to let go of out- of- date preconceptions and see things through new understanding. We shouldn't fear the transitions of many aspects of our lives and world and be what Arie de Geus described as 'an extreme tolerance of the new.' This means changing the focus on quarterly profits, short-termism and self-serving ends.

A different economic system will challenge our deepest assumptions, discourse and make us face fears head on. It will include challenging how we measure progress by GDP that should include creative endeavour, science, education, and happiness. This will require companies, governments and investors to be willing to play their part. Capitalism can only truly flourish if it creates wealth in all sections of the population not just a tiny few. Capitalism is out of balance when one in eight people go to bed hungry every night, whilst 1.4 billion adults are overweight. According to the Food & Agriculture Organisation, *it would take only $80 billion a year to feed the hungry, yet food waste represents a cost of $750 billion a year. This 'out of balance' is causing people to question the whole basis of capitalism as we have understood it.*

A different system should include reconsidering the way we generate and distribute wealth to the way we accommodate growth and make use of resources. Even the IMF is realising this and when Christine Lagarde was its managing director she spoke at a conference in 2014 where she declared that excessive inequality "makes capitalism less inclusive. It hinders people from participating fully and developing their potential. Disparity brings division." She also added that concentration of wealth in the few, if not checked, undermines democracy.

We are reaching a tipping point where the cost of inaction is starting to exceed the cost of action. Redefining capitalism requires businesses to develop longer-term models in which growth is aligned with the needs and aspirations of the communities that they serve. This includes customers, employees, suppliers and the local community – in other word stakeholder capitalism.

Stakeholder Capitalism

Stakeholder capitalism is a form of capitalism in which companies do not only optimise short term profits for shareholders, but seek long term value creation, by taking into account the needs of all their stakeholders, society and the planet at large.

Stakeholder capitalism will require corporate governance structures that maximise stakeholder value not just shareholder value. In our present neoclassical economics, however, value is merely a function of exchange. Only what has a price is valuable. Yet our greatest achievements have a wider understanding of value, for example, getting a vaccination quickly to fight the pandemic or inventing the internet had both purpose and ambition as values, and finding a vaccine for Covid-19 should save millions of lives worldwide. We also need to include value collectively through public and private organisations and civil society. We can do this by asking: what is the value to create; how do we evaluate the impact; and how do we share the rewards?

There are also three areas that must be integrated into stakeholder capitalism. The first is that inclusivity makes stakeholder capitalism sustainable, commercially and socially. Second, to benefit all stakeholders, companies must innovate and deliver what people need and want that will add value to their lives. Thirdly, organisations need to address trust and data issues.

Financial institutions should no longer evaluate their loans on the basis of categories of firms or countries, but rather in terms of activities that help solve a specific purpose such as removing plastic from the ocean or creating more sustainable cities. In fact, sustainability would be at the heart of this as defined by Stanford Dean Pamela Matson:

"*Sustainability is the ability to meet the needs of people and their communities and organisations not just in the near term but over the long term. It's about people and their needs, not just about technology, the environment or 'being green'. With an environmental lens sustainability is about managing and protecting earth's natural resources and ecosystems, climate and atmosphere so that current generations* ***and*** *future generations will have the things they need to live a decent life. In doing so, the millions of other species with whom we share the planet will also benefit."*

In stakeholder capitalism, companies would share the rewards as well as the risks of creating value. Business has benefited enormously from public investment not only in education, research and basic infrastructure but also in technologies such as today's smart phones. At the same time, governments can set conditions on the prices of goods such as medicines that receive public investments and knowledge governance such as the patent system and IP.

The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Shared value is not social responsibility or philanthropy, but a new way to achieve economic success. The purpose of business must be redefined as creating shared value, not just profit. At present the public are ahead of business policy and strategy when it comes to stakeholder capitalism. According to the Edelman survey, people in the UK want to see business move away from focusing on shareholders and place greater importance on employees, customers and the community in which it operates. They also want to know what their employers and companies stand for and what they believe in.

However, the transformative power of shared value is at its seed stage and will require leaders to have new knowledge, understanding, consciousness and skills. It will require different types of leaders from what we've had in the past. Most of what we talk about when discussing leadership such as integrity, humility, courage and trust will always be there. But they will also need to be able to focus on the long term, to be purpose driven, to think systemically, to hold different perspectives at the same time and work much more transparently and effectively in partnerships. We also have to tackle executive pay which today is structured around shareholder returns; the media who report on profit and share price gains; and new legal provisions to encourage a stakeholder approach. We also have to re-skill and upskill billions of people to ensure all gain in the future not just the few. It becomes clear that these big challenges are so interconnected they should be transformed together in a systemic way.

Finally there is a good reason for this transformation. Those who have committed to stakeholder capitalism have performed better and they use metrics to measure how a company has fulfilled its purpose. Companies are beginning to realise the benefits of doing more than tasks and work with communities. These things can be measured and assessed for the value they bring and for what is important in the 21st century.

Measuring Our Economic System

Our economic measures today are based on theories written in the 1850's and text -books written in the 1950s. This is not compatible with today's world and there is much support to move beyond measuring GDP as an indicator of how well a country is doing. GDP was never intended to be used in this way. It was originally a mechanism to establish whether a country could afford to go to war. Focus on GDP has created big environmental problems and inequality. Measuring social capital is a challenge but we need to find a way.

In 2008, French president Nicolas Sarkozy invited twenty- five international economic thinkers, led by economist and philosopher Amartya Sen and fellow Nobel-Memorial winner Joseph Stiglitz, to assess the measures of economic and social progress that currently guide policymaking. On surveying the state of indicators in use the two came to the conclusion: "***Those attempting to guide the economy and our societies are like pilots trying to steer a course without a reliable compass."***

If we put GDP growth to one side, we can ask the question 'what enables us all to thrive?' Surely the answer must include health and well- being, education and opportunity, home and community all within the means of our planet that gives us life. This is what economist Kate Raworth has done in her model Doughnut Economics. In the inner ring of her model are twelve basics that lay a social foundation for life including: food, clean water and sanitation, energy, education, healthcare, housing, a minimum income, networks of support, social equity, peace and justice. These are also set out in the United Nations Sustainable Development Goals already agreed by 193 countries in 2015 to be achieved by 2030 but as yet no country has achieved.

Around the inner circle Raworth has another circle for a regenerative and distributive economy. She describes this space as a safe and just space for humanity. Outside this is the final circle which she calls the ecological circle. This is where we are destroying the planet and actions must be addressed. Included in the ecological circle are: climate change, ocean acidification, ozone layer depletion, air pollution, biodiversity loss, chemical pollution etc. Therefore, linking our economic activity with ecological issues.

Another model we should incorporate is the circular economy where the focus is more on reducing waste. For example, approximately $57b of global electronic waste is generated each year. While food loss and waste is around $950b. To address these challenges we can take actions such as:

- Re-use, repair or refurbish
- Change to new business models
- Put in resource management systems that preserves value.

In rebuilding the economy after the pandemic we have an opportunity to achieve this.

So how do we do this? Signing up to goals doesn't appear to be enough. For Raworth and a new breed of economists, we have to return to the concept of 'value'. However, here Raworth integrates into her work not monetary value alone but social values. Guiding her is the work of social psychologist Shalom Schwartz who through cross- cultural research in over 80 countries has created the Theory of Basic Human Values which he argues are present in all of us. Together these try to explain what being human is and knowing this, we can then build an economic system around understanding human needs and ecological needs rather than just focussing on GDP and a narrow definition of growth.

We then begin to shift the perspective of ourselves from a model of mankind as superior, selfish and separate from the rest of nature to a model of an interconnected web of human beings that are part of the whole of life on Earth. People are actively trying to bring this change and while policy makers set targets, they need to put action behind the,

The challenge then is to work with policy makers, investors and boards of companies. Another economist Mariana Mazzucato states we need a new vocabulary for policy makers. *"Policy is not just about 'intervening'. It is about shaping a different future: co–creating markets and value, not just 'fixing' markets or redistributing value."*

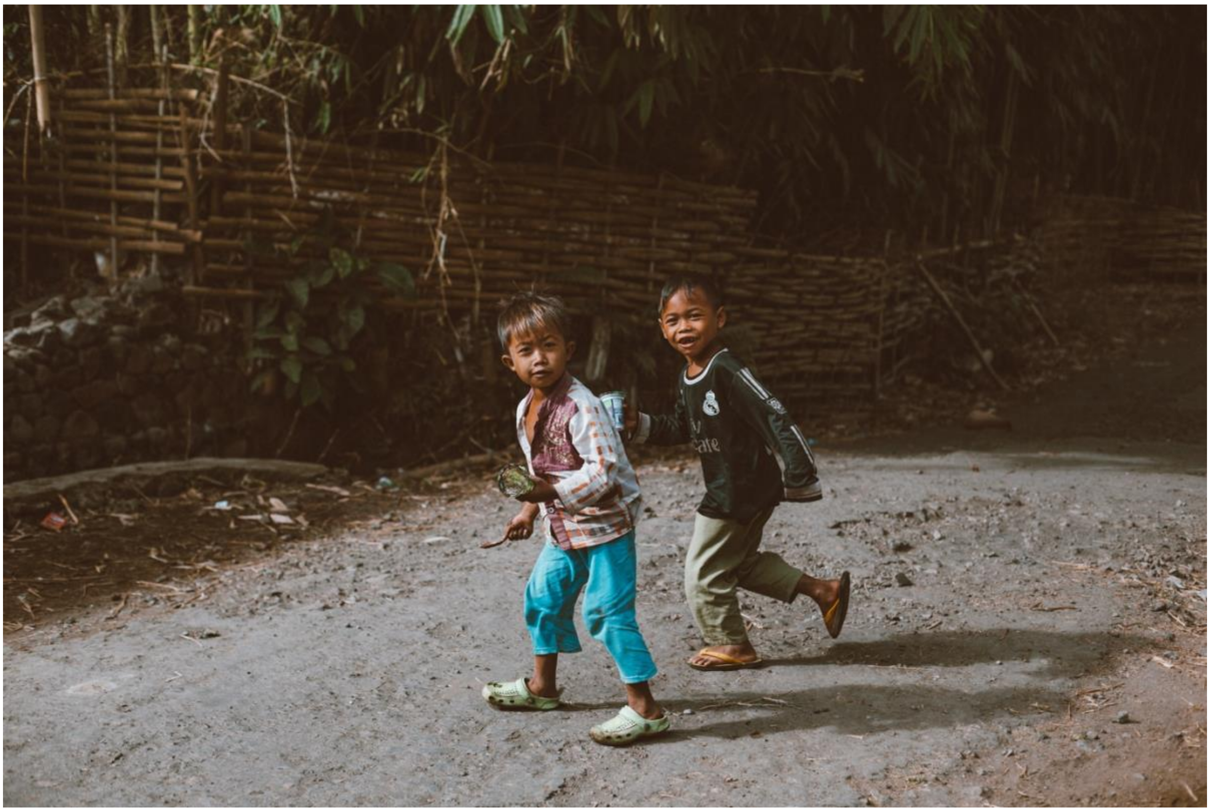
Mazzucato also challenges the short termism of investors which was anticipated by Keynes and described by John Boggle in The Clash of the Cultures: Investment VS Speculation, where he says that institutional investors rent the shares of the companies they invest in, rather than take ownership for the long term. The impact of this short-termism Mazzucato says can be seen in the turnover. *"Increasing turnover is a sign that institutional investors' were trained on the short- term movement of stock prices rather than intrinsic long -term value of the corporation."*

In a McKinsey survey of boards around the world in 2013, it was clear that short-term pressure had increased, resulting in companies setting less than three years for their strategy even though almost all said that taking a longer-term view would improve corporate performance, strengthen financial returns and increase innovation. Therefore, the long- term benefits were still being replaced by short term profits for investors.

This reckless behaviour by the financial sector was even more disastrous in 2008 with the financial crash. Governments had to save the economies from collapse using tax- payers' money yet it was the public sector that paid the price with austerity. This was directed not only by national governments but also institutions such as the IMF and the European Central Bank. The politics of austerity was central to governments for almost ten years. Cuts were made across the public sector including education, health and social care, transport and infrastructure. It has caused more poverty and resulted in consumption growing from debt such as credit cards. It also made it a difficult challenge for the NHS when faced with a pandemic. The government must not return to austerity following the coronavirus. Governments must think differently.

Why Inequality Happens

Transforming our economic system today is not separate from our political system thus making it more complex. ***Although capitalism is an economic system rather than a political system, it has become so enmeshed it can be referred to as a 'sub-ideology' and called democratic capitalism.*** The central features are the dominance of private property and ownership, competitiveness, and the profit motive. To function the system requires entrepreneurs to be free to innovate and investors free to seek the highest rewards. Central is the assumption that the profit motive is the greatest incentive with the underlying belief that the nature of humans is that we are an economic animal. No more are these beliefs stronger than in the USA when the US government offered a huge financial reward for Osama bin Laden and expected individuals to be motivated by the money to betray their 'leader'. They did not understand that even in a very poor country, profit isn't the driving motive.



Democratic capitalism also believes that inequality of wealth is a normal desirable state as this drives the system. For wealth will naturally gravitate to those who serve society's needs best and poverty is a fate of those who contribute little. Reward is therefore apportioned by a 'natural' system of justice and fairness which many see as Darwin's theory of evolution. Yet it was Herbert Spencer(whose writings on evolution preceded Darwin's by a decade), not Darwin who coined the phrase 'survival of the fittest' and applied his thinking to human history and institutions where they were applauded by the growing class of millionaire entrepreneurs in the USA at that time. What Darwin's work gave was, according to Brian Silver in *The Ascent of Science* 'a place in the world, not as conquerors with spoils but as inheritors with responsibilities.'

Yet capitalism has not been fully responsible for the prosperity in the western world. Both the UK and the USA had rich resources that served well during industrial expansion while the exploitation of resources from other parts of the world continues today. In 2019 Ipsos Mori found a shift in what worried people in the UK with poverty and inequality highlighted by 21% of their respondents which was the highest result on the agenda in over twenty years and was ahead of the economy, unemployment and immigration. Exploring this further, it was found from figures from HM Revenue & Customs that the richest quarter of the UK population receives more income before tax than the worst off 75%. The systems are wrong.

That same year, the Joseph Rowntree Foundation said 4 million workers were living in poverty and two thirds of the 4.1 million children living in poverty were in working households. In addition, the Institute for Fiscal Studies showed that 57% of people in poverty live in households where somebody is in paid work, compared with 35% between 1994-5. In theory the government should 'top this up' with a 'living wage' to reduce poverty. However, a minimum wage is a blunt and ineffective instrument as those on the national living wage are in higher income households because the main earner is in a better paid job. At the same time, there is a problem between pay and benefits. Tax credits, introduced by Labour formalised the idea of the government topping up inadequate pay while the minimum wage was to prevent employers from paying very low wages as they believed tax credits would supplement their earnings. Universal credit was supposed to solve these problems but does not. We still have high levels of poverty, particularly for those in work. If the UK government does not tackle these inequalities our democracy and the legitimacy of the state could be threatened.

For a while, capitalism brought results and took people out of poverty. Between the 1950s and 1970s family incomes grew substantially but from 1973 to 1993 they moved very little and for those below management levels, incomes declined in value. In today's world we can now see income levels globally and that decline in income value has continued for those on low incomes. Today this decrease has also affected many who would be considered middle class. There is no doubt that democratic capitalism has had winners and losers and so the gains have not been evenly spread. This is true also when looked at across the world.

Global Inequality

One of the studies that clarifies what has been happening in regard to recent global inequality is by economist Branko Milanovic. He found that those who have gained in recent years are people from the emerging Asian economies. This is predominantly China but also India, Vietnam, Indonesia and Thailand; from the poor and middle- income groups who gained up to 2008 and are regarded as the emerging middle class. Those who have not had real income growth are from the 'old' rich economies of the OECD such as the USA, Europe and Japan from the lower middle classes. The very rich are also winners of globalisation. Over half of the top 1% are American, the rest from Western Europe, Japan and Oceania with a small number from Brazil, Russia and South Africa. These Milanovic calls the 'global plutocrats'.

What shouts out here is that the gap in income between the top and bottom has widened in the 'rich' world and that globalisation has favoured the already wealthy in these countries. In fact most of the income gains have gone to the richest 5% globally. All this is based on findings up to 2008 when of course we had the Financial Crash. What has been the pattern since?

In China the growing middle class has benefited hugely. Between 2008 and 2011, the average urban income doubled and rural incomes increased by 80%. While in the rich countries, the incomes of the lower middle classes continued to stagnate. This has resulted in income levels in urban China the same or even exceeding the mean incomes in some European countries. However global wealth has continued to be in a very narrow band. In 2013 Forbes published their list of billionaires that showed 1,426 of these had a net worth equal in or greater than $1billion representing one hundredth or one hundredth of the global 1%. The total estimated at $5.4 trillion. At the same time, the world GDP has increased by 2.25 times which is significantly less than the increase in the wealth of the very rich which has doubled as world GDP.

During lockdown we can see even more disparity. By the end of January 2021 the richest 660 in the US have made $1.1tn or £800bn since the start of the coronavirus crisis while millions lost their jobs. This is an increase of 39% in total of net worth. They benefit from having their competitors shut down or controlling technologies and services we were all dependent on during the pandemic. Amazon Jeff Bezos and Facebook Mark Zuckerberg added nearly $60 billion to their fortunes over two months according to the Institute for Policy Studies analysis of Forbes data. In just one day in July 2020, Jeff Bezos added 13bn to his net worth after the pandemic caused Amazon stock price to surge. By the end of the crisis they will have accumulated far more.

In the Summer of 2020 the collective wealth of billionaires hit $10.2trillion profited by the tech boom. This is much more than enough to vaccinate everyone in the world and obliterate poverty and hunger around the world.

By May 2021 the expectation was that the tech boom during the pandemic would return to normal but that is not the case. The Big Tech companies are still surging ahead as they have become an integral part of our lives at work and in our personal lives. The combined revenue of Amazon, Apple, Facebook, Alphabet and Microsoft rose 41% in the first three months of this year reaching $322bn.

Profit growth has also surged resulting in after-tax earnings for these companies by 105%. This has emerged from advertising growth from Google and Facebook whereas Apple and Amazon's growth has come from newer services.

What we now see is a growing divide in wealth between innovative entrepreneurs invested mainly in tech, healthcare and industrial products compared to those focused on sectors such as property, entertainment, and financial services. So even in the world of billionaires there is a divide deepening. In addition, Gabriel Zucman calculated that the 400 richest US citizens pay a lower tax rate than every single other income group, from cleaners and nurses to plumbers.

Now in 2021 the wealth of the world's billionaires continues shooting up from March 2020 to March 2021 to $12.39tn – a 54% rise according to research by the Institute of Policy Studies using data from Forbes, Bloomberg and Wealth-X. This is particularly poignant when we know that the pandemic hit the poor and low- income families more than the rest of the population. In fact, the pandemic caused the global economy to shrink 3.5% in 2020 according to the IMF resulting in huge job losses and pay cuts. This growing dichotomy is a threat to social cohesion according to the IMF who believe the higher earners and corporations should pay more tax in a gesture of solidarity.

Many blame globalisation as the cause for the great divide between rich and poor but Martin Sandbu (author of The Economics of Belonging) argues that globalisation has become the scapegoat. He says that factory jobs peaked in the 1970s followed with a steep decline, but industrial output has not declined. He believes that it wasn't a case that the Chinese stole industries but that the jobs disappeared as a result of technology and so this was inevitable and cannot be reversed. Sandbu argues that since the late 1970's, western economies have experienced widening economic fractures that have polarised societies politically and culturally. He says that we have moved from an economy of belonging to an economy of divided between the successful and the left behind. Another fracture in our society. Therefore, the growth of Populism with people who have lost out and feel left behind will continue unless there are radical economic shifts.

Sandbu believes there has been a shift to a knowledge economy which suits the better educated using cognitive skills. This means many manual workers will suffer. However, in lockdown many trades kept going and were incredibly busy – plumbers, tree surgeries, fence and timber workers and electricians. Showing that again, there is a difference between trades as well as billionaires. The complexity involved in resolving our economy is truly challenging. However, we need to get better jobs and upskilling for those left behind and hold to the post war promise that everyone could be part of the economy and nation. A Green Economy could achieve this. Policy makers have to be bolder and more innovative in their thinking. We need growth that is sustainable, inclusive and serves the planet as well as people. We need to address regional inequality where highly paid work has focused on large capital cities leaving regions with poor investment and poor job and career prospects. *We must not ignore the fractures in society any longer.*

The gulf between the rich and poor worldwide remains high. As Piketty argues the returns of investment outperform the economic growth rate. This means that those who hold financial assets become wealthier than the general workforce who earn money from a salary. We need to tackle inequality across the world or we will struggle again each time there is a pandemic or catastrophe.

However, equality isn't just about rich or poor. Professor Daniel Markovits shows that meritocracy, which is supposed to enable those to do well based on merit have hit a wall. In his book The Meritocracy Trap, Markovits states that since 1984 rich and highly educated parents in the US have spent huge amounts on their children's education compared to middle class parents resulting in the top universities being full of students from the very wealthy. This is based on duel earning professional parents who are spending their hard- earned money on education gaining their children premium jobs.

However, those parents work long hours and face burnout hence the trap. What he sees happening is a 'time divide' where people who used to work 40 hours a week either work 50 hours to earn huge salaries and those who work fewer than 30 hours. This makes meritocracy something impossible to achieve as middle- class families will never reach the top. He writes: "A poor or middle- class child faces longer odds against climbing the income ladder in the US than in France, Germany, Sweden, Canada, Finland, Norway or Denmark." In other words, Markovits claims that meritocracy, which was to end the wealthy dynasties of fortune and privilege, has just recreated it with a new group of elites.

In the UK, Adrian Woolridge sees meritocracy differently. He accepts that meritocracy isn't perfect but asks if there is a better way. Instead of seeing a concept fully formed he regards meritocracy as a way of seeing the world that has evolved and developed and should continue to do so to improve how it works. Instead of writing meritocracy off, Woolridge argues we should re-energise it and transform it to work as it was set out to as a means of making talent rather than privilege its essence. Without doing this, inequality will continue and be a danger for democratic systems.

Does this inequality threaten the sustainability of democracy?

It's been found that Senators in the USA are much more likely to listen to and respond to the issues of the super- rich than those concerns of the middle class and not pay attention at all to the low - income people. This was a factor in the voting for Trump as people were fed up of the 'same old' politicians and thought Trump would listen. Young people also feel left out and are taking actions themselves around the world to bring about change. The middle class were very influential in the past and challenged the upper class. Some believe that without a middle class, there is no-one to challenge the elite.

During the industrial era the growing middle class in the UK had a significant role in shaping the culture from architecture to the widening of the arts. They limited the power of the rich and staved off extreme politics. In other words, the middle class brought stability, but this is now decreasing with the rise in inequality. The shift in economic power means that sales of luxury goods are the focus for producers while social services such as health and education declines. The wealthy will be more supportive of spending on policing to ensure their security. This squeezing of the middle class is likely to continue with further polarisation between the rich and the poor in the UK and Europe resulting in further growth of populism in politics. Success for children will depend on who their parents are. Much will depend now on how we move out of the global pandemic and who pays. For none of what happens next is by chance but shaped by policies.

In April 2021 the Financial Times wrote: "Radical reforms – reversing the prevailing policy direction of the last four decades – will need to be put on the table. Governments will have to accept a more active role in the economy. They must see public services as investments rather than liabilities and look for ways to make labour markets less insecure. Redistribution will again be on the agenda; the privileges of the elderly and wealthy in question. Policies until recently considered eccentric, such as basic income and wealth taxes, will have to be in the mix."

Policy makers can improve the well- being of the whole population by addressing income distribution that can include the tax system. Just as the majority of people have stuck to the lock down rules for the good of all, so the majority believe in greater equality and fairness. The political will has to be as strong and steadfast in this as it was in putting the country on lockdown. What happened in the weeks of lockdown is that many realised that family, friends and communities are more important than consumerism and materialism. People, regardless of their politics, would prefer to live in a safer and more friendly society and know that this would also develop the health of the nation and address many social problems. Poverty exists because the mindset and our economic framework is built on assumptions that underestimate human capacities and capabilities. This can now change if more challenge those assumptions. In some ways we are being forced into this by the global pandemic.

Impact of COVID

By May 2020 it was clear that the pandemic ensured that inequalities in society were more visible. Analysis of May 2020 economic data by the Resolution Foundation think tank showed that in less than three months the income of the average working household dropped by 4.5%. Compare that with the 2008 financial crash which was a drop of 2.7% on an annual basis. This drop in income was the highest since the mid-1970s when the oil crisis triggered a huge rise in consumer prices. However, income inequality in the UK had been rising for two years before COVID as the effectiveness of the redistribution through the tax and benefit system diminished and now has widened as a result of the pandemic.

Economist Branko Milanovic says this is a historic moment: "Even if the pandemic is over by then, December 2020 will be entirely different and the political forces that these twelve months will have set in motion – and which we currently cannot predict - will fundamentally affect how economies behave in the future." It is now October 2021 and we are only just emerging from lockdown in the UK. What will future economies do?

Today we have a unique opportunity to create a world that can eradicate poverty in a more sustainable and equitable way. To do this we must take on board what Ghandi said: *"The future depends on what you do today."*

The challenges are complex and we cannot resolve those challenges in a divided, fractured world. What is required is a huge mindset change. To do better we have to include all stakeholders and develop stakeholder capitalism. There are good reasons for this transformation as already those companies that have adopted a stakeholder are performing better and using metrics to measure how they fulfil their purpose.

People expect more from government today not just in economic ways but to feel secure. To progress there needs to be more public/private partnerships and include civil society. Often neglected are SMEs and these must be included too. In other words, we can achieve a fairer economy if we all work together.

While policy makers do their work, it is their thinking that must change first. People too have an important role. Instead of burying our heads in reality- television, soaps, and football we should be actively making the changes required for the world to not just flip back to what it was before the pandemic. We should all take responsibility for the world we create. Together we can co-create a better world for all including all life on the planet.

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