

**THE  
INSTITUTE  
OF  
EMPLOYMENT  
RIGHTS**

**the  
mythology  
of  
business**

**David Whyte**

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## About the author



### David Whyte

David Whyte is Professor of Socio-legal Studies at the University of Liverpool. His most recent books are *How Corrupt is Britain?* (ed., Pluto, 2015) and *The Corporate Criminal* (co-authored with Steve Tombs, Routledge, 2015). He is on the Executive Committee of the *Institute of Employment Rights* and a member of the Advisory Board of *Corporate Watch*.

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# Introduction: the Zombie myths of business

The ‘myths’ that we are about to consider are the kind of things that politicians now routinely say without thinking. Yet these 10 myths have very little foundation in reality and are rarely, if ever, accompanied with any concrete evidence to support them.

They are what we might call ‘zombie concepts’ since they do not refer to any known social reality but nonetheless live to haunt us. Zombie concepts are the ideas that stalk through politics like the living dead. They have no real explanatory power or evidential basis – but they follow us like zombies with the purpose of terrorising us and preventing us from doing anything to challenge or stand in the way of corporate greed.

These ideas stalk us through our communities and in our workplaces. All of the zombie concepts analysed here are mobilised to prevent workers from realising their collective rights, and to disempower communities that demand sustainable ways of living.

The aim of this pamphlet is to show how these zombie myths sustain a lifeless and inhuman politics.

# Myth 1:

## The ‘Trickle Down’ effect

.....  
*‘It is essential to reduce taxes on employment and wealth creation in order to enhance our economy’s competitiveness.’ David Cameron<sup>2</sup>*  
.....

The basic claim behind the ‘trickle down’ effect is that lowering tax rates for the wealthy, and for business leads to economic prosperity for all. It is a policy that successive governments have pursued with vigour.

The idea of the trickle down effect is commonly associated with ‘supply side economics’: a theory that sets out how economic benefits for all can be most effectively created by making it easier for businesses to produce (or supply) goods and services.

In fact, the term ‘trickle down’ began as a joke that was invented in the midst of the Great Depression of the 1930s by US vaudeville star Will Rogers. Rogers ironically pointed out in his stage show that ‘money was appropriated for the top in the hope that it would trickle down to the needy’.<sup>3</sup>



‘Horse-and-sparrow theory’, an early version of ‘trickle down’ appeared in the late 19th century. The idea openly promoted by the US government at the

Will Rogers, the music hall cowboy who is said to have coined the term ‘trickle down theory’ as an ironic joke

time was that ‘if you feed the horse enough oats, some will pass through to the road for the sparrows.’<sup>4</sup> The US economist and diplomat John Kenneth Galbraith has pointed out that policies based upon this idea caused economic havoc not prosperity, and ultimately caused the US stock market crash of 1896.<sup>5</sup>

### **A cruel joke**

More recently, prominent US economist Robert Reich has shown that ‘trickle down’ policies failed at the close of the 20th century:

.....  
*‘Ronald Reagan and George W. Bush both sliced taxes on the rich and what happened? Most Americans’ wages (measured by the real median wage) began flattening under Reagan and have dropped since George W. Bush. Trickle-down economics is a cruel joke.’<sup>6</sup>*  
.....

In the USA, the salaries of the average worker have remained at a constant for at least the past decade.<sup>7</sup>

Long-term data from the USA shows a clear pattern. The period in which taxes on the rich and on businesses were generally increased (the post-war boom) was a period in which the wealth of the poorest 40% increased in real terms. The period in which taxes on the rich and on business were reduced (from the Reagan government in 1980 to the present) was a period in which the wealth of the poorest 40% decreased in real terms.<sup>8</sup>

### **The tidal wave gushes up**

Although the idea may have lost all credibility in economics, ‘trickle down’ theory is still used widely in politics. Successive UK governments have used various ‘trickle down’ justifications to reduce the rate of corporation tax to one of the lowest in any leading economy. By 1st April 2015, the UK’s main rate of corporation tax was 20% compared to 33% in France, 30% in Germany and 40% in the USA.

Figure 1: **The decline and fall of corporation tax**<sup>9</sup>



This rate of corporation tax has been gradually pushed down by successive governments for over 40 years. Indeed, in the same period, the top rate of income tax in the UK has fallen from 75% to 40%.<sup>10</sup>

**If there is such a thing as a ‘trickle down’, it is being drowned in the tidal wave of wealth that flows in the opposite direction**

But there is no evidence that this strategy of reducing both corporation tax and top rate of tax for individuals has helped create wealth for the majority. As table 1 shows, if there is such a thing as a ‘trickle down’, it is being drowned in the tidal wave of wealth that flows in the opposite direction.

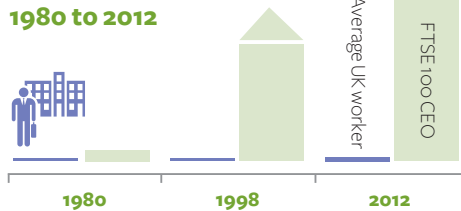
In fact, there are very few economists who have ever actually been stupid enough to advocate ‘trickle down’ economics, since there is virtually no evidence anywhere that can conclusively support ‘trickle down’ or supply-side economic theory, even when the research had been conducted by right-wing economists.<sup>12</sup> Recently, prominent right-wing economist Thomas Sowell, has even gone as far as denying that ‘trickle down’ theory has ever existed as a serious idea in economics!<sup>13</sup>

Table 1: **Top executive pay vs the average wage**<sup>11</sup>

Year	FTSE 100 CEO pay	Average UK worker	Pay ratio (FTSE 100 CEO:UK worker)
1980	£115,000	£6,500	18:1
1998	£1,000,000	£17,400	57:1
2012	£4,300,000	£26,500	162:1



**Changing pay ratios:  
1980 to 2012**



People are often told that if they work hard to help their companies prosper then eventually they will share in the rewards. But, across the economy, the trickle down theory has proved to be a trick. Over decades, employers and shareholders have grabbed an ever larger slice of the cake while the real value of workers' pay and pensions has shrunk. Fair shares haven't trickled down. On the contrary, wealth has been hoovered up - depressing demand, investment and productivity into the bargain.

*Frances O'Grady, General Secretary, TUC*



## Myth 2:

# ‘Red Tape’ is restricting business

.....  
*‘What is needed is a lot less red tape and bureaucracy... it is quite frankly ridiculous.’*

Graeme MacDonald, chief executive of JCB<sup>14</sup>

.....  
*‘European red tape is throttling business.’* David Cameron<sup>15</sup>

The claim that regulation or ‘red tape’ prevents business success, and therefore must be eradicated, has been at the heart of UK government policy since at least the mid 1980s.<sup>16</sup>

This claim has endured despite evidence that clearly shows how the reconfiguration of regulatory controls in the financial sector encouraged new forms of investment and unsustainable financial products that created the conditions leading to the 2008 crash.<sup>17</sup>

In fact, the UK government has a track record of making sure that regulation always favours business.

- The UK has relatively low levels of protection for workers. According to the OECD<sup>18</sup>, UK employment protections are amongst the weakest in the developed world; only the USA and Canada rank lower than the UK.<sup>19</sup>
- The UK has relatively lax rules protecting consumers. OECD evidence also shows that the UK has the second lowest product market regulation<sup>20</sup> in the world.<sup>21</sup>

### **Red Tape or social protection?**

Most of the rules and regulations that business organisations and government complain about and describe as ‘red tape’ are there to ensure that workers, consumers and communities are protected from the potentially harmful effects of business.

Consumer regulations are supposed to make sure that we don’t get horsemeat in our beef burgers, or that the food we buy is not going to make us ill.

Employment regulations are supposed to make sure that we are paid above a minimum level, that we are not pressurised into working long hours or that we do not have to do dangerous work.

Financial regulations are supposed to make sure we are not ripped off when we buy pensions or take out mortgages, or make sure our savings are secure when the bank goes into liquidation.

The effect of undermining ‘red tape’ is that business is not encouraged to reach the highest standards for its stakeholders, allowing companies to compete not by investing in their workforce and in research and development, but by cutting labour and production costs.

### **Cutting Red Tape or letting business off the hook?**

Yet there is evidence that consistent government attacks on red tape are undermining our ability to uphold basic protections. The enforcement of food safety and environmental health regulation by local authorities has been emasculated by public sector cuts. Local authority enforcement services have been ‘cut to the bone’. Trading Standards departments have experienced an average 40% cut in England and Wales since 2009.<sup>22</sup> The number of local authority inspectors in the UK has been cut by 50% in the same period.<sup>23</sup>

Prosecution for some of the most serious offences has been similarly emasculated.

- The number of offences prosecuted for health and safety violations that endanger and kill workers and members of the public has halved in the past 15 years.
- Despite there being more than enough cause to investigate and gather evidence about criminally deceptive and fraudulent practices in relation to the 2008 financial crash, no senior manager in any bank or finance company has been prosecuted for criminal offences.<sup>24</sup>
- Between 2010 and 2014, there were only two prosecutions of employers for breaching minimum wage law.<sup>25</sup>

Between 2010 and 2014, there were only two prosecutions of employers for breaching minimum wage law

What the government describes as the removal of red tape sends out a powerful message to business: that the government will not control anti-social business activities, no matter how socially damaging they are.

Britain is now at the forefront of a deregulating agenda at home, in the EU, and globally via promotion of fast track deregulatory treaties such as the EU-USA TTIP. We are in a race to the bottom serving up workers lives and health for a quick corporate profit. Another five years of Tory attacks and there will be no health, no safety and no justice at work.

*Hilda Palmer, National Hazards Campaign*



## Myth 3:

# Health and safety has ‘gone mad’

The most frequent complaints about ‘red tape’ have focused on regulations protecting workplace and public safety. Governments have frequently repeated the cliché that ‘health and safety has gone mad’, normally citing extreme examples from over-zealous local authorities and schools banning things because of the safety risks associated with them.

In fact, almost all of the widely reported newspaper stories about the banning of everything from conkers to royal wedding street parties have either been made up or are grossly distorted.<sup>26</sup>

Yet the argument that ‘health and safety has gone mad’ has been used to demand that regulators refrain from enforcing health and safety laws and has also been used to fast track planning laws and over-ride laws that protect the public.

### Compensation culture?

Part of this argument is based upon the claim that there is a compensation culture in the UK that enables workers and members of the public to claim compensation for their injuries at the drop of a hat.

In fact, there is no basis for this claim.

- When measured as a percentage of GDP, the UK has one of the lowest average compensation costs awarded in OECD countries.<sup>27</sup>

- The evidence shows that if anything, there is a downward trend in the number of such claims made against employers and against businesses in recent years in the UK.<sup>28</sup>

The popular perception that we have a compensation claim problem in the UK is fueled by rising number of door-to-door and telephone cold-callers from the largest law firms that contact us to inquire if you ‘have ever had an accident?’

The frequency of this cold calling is explained by the emergence of a very small but lucrative ‘no win, no fee’ legal market. Paradoxically, the emergence of this market was not caused by too much ‘red tape’, but by the *deregulation* of legal services.

### Reduced protection

Health and safety regulations are now barely enforced by regulatory authorities. Routine health and safety inspections have been withdrawn from the vast majority of UK businesses.<sup>29</sup>

Only workplaces deemed ‘high risk’ are now inspected regularly. Those include nuclear power stations, offshore oil installations and chemical factories. Workplaces deemed to be ‘low risk’ include most

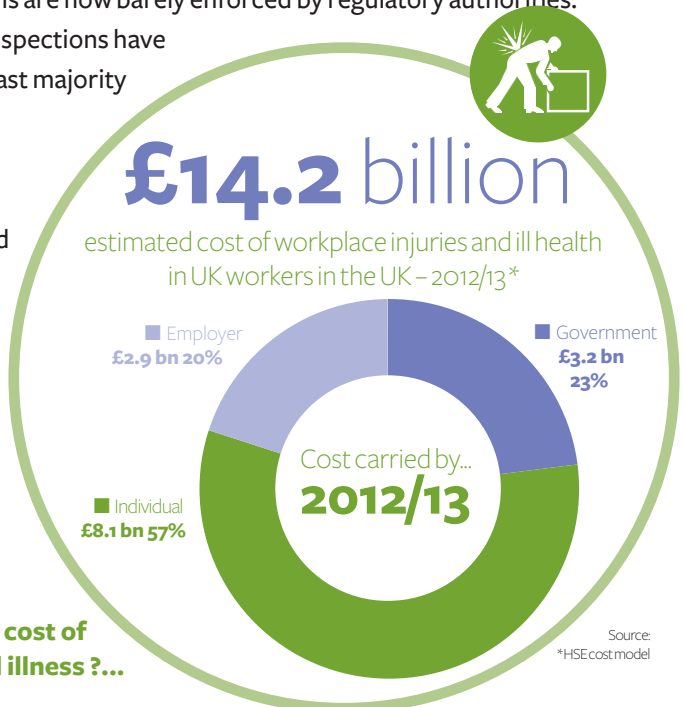


Figure 1: **Who is paying the cost of work-related injury and illness ?...**

manufacturing factories, docks and quarries. Those are the workplaces that are effectively left to self-regulate.<sup>30</sup>

A recent analysis showed that 53% of deaths in UK workplaces occur in industries deemed to be low risk.<sup>31</sup>

In other words, when it comes to the government ensuring workers are protected, it does not sound very much like health and safety has actually ‘gone mad.’



Figure 2: **Workplaces deemed low-risk and therefore exempt from routine HSE inspections<sup>31</sup>**



The rise in asbestos related deaths in schools shows that the Government’s definition of so called ‘low risk’ workplaces is a dangerous fallacy.

*Christine Blower, General Secretary, NUT*

## Myth 4:

# Regulation leads to capital flight

‘Capital flight’ is the term used to describe the migration of business from countries that regulate or tax them more than they would like. Capital flight can refer to the migration of finance capital, or the migration of real assets like factories or call centres.

‘Capital flight’, it is claimed, results from ‘regime shopping’, meaning that businesses will ‘shop’ across the world to find the weakest regulatory regime or the investment regime that offers the greatest immediate returns.

Some use the phrase ‘capital strike’<sup>32</sup> to describe the same phenomenon, since when ‘capital flight’ occurs, the wealthy class is effectively on strike against a tax measure or against regulation.

Debates on capital flight usually miss the crucial distinction between *productive* and *financial* capital.



**The finance capitalist considers moving...**

### **Productive capital**

Productive capital is investment that seeks to make profit from producing real goods and services. Flight of productive capital happens when a business closes part of its operation in order to invest in a similar operation abroad; for example, when a car firm re-locates to Germany or South Korea.

Productive capital in fact rarely repatriates, or changes its national allegiance entirely merely because of taxes or regulation. Businesses depend upon strong links with a 'home' state. Even businesses that claim to be 'transnational' and locate their headquarters in several different countries tend to invest profits in their 'home' country. A strong national identity can allow a business organisation to access diplomatic and logistical support, and provide access to international trade deals.<sup>33</sup>

If productive investment simply followed the lowest taxes and the most lax regulatory regimes, then cuts in the UK's corporation tax (see the previous section The 'Trickle Down' effect) should attract a rise in inward investment. In fact, the opposite has happened. Between 2012 and 2014, the period in which corporation tax fell by 3%, the United Kingdom experienced a 19% fall in Foreign Direct Investment (FDI) despite a 9% rise in global investment flows.<sup>34</sup>

### **Financial capital**

Financial capital is money, credit and equity that seeks purely financial returns from financial investments. Financial capital flight happens when money is repatriated from one country to another. The ease with which money can be moved around the global economy is often cited as a reason to warn against 'over' regulation and over-bearing capital controls.

In fact, financial capital flight is most likely in periods of severe financial collapse and crisis. This was apparent in Europe following the 2008 financial crises when there was a flight of money from the banks in countries that suffered the most in the crisis



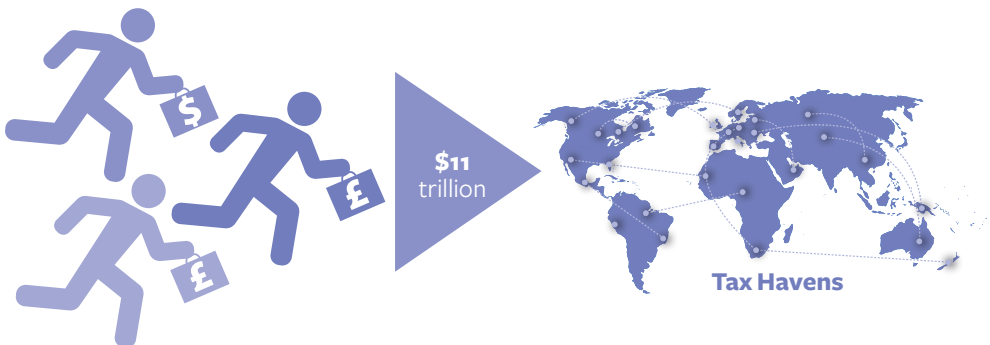
such as Spain, Italy and Greece. The Latin American, Russian and Asian financial crises of the mid-late 1990s were also accompanied by a sudden exodus of capital from those economies.<sup>35</sup>

Indeed many of the countries that suffered the most in the wake of the 2008 crisis had the most lax regulation and lowest taxes, such as Ireland and Iceland. In those cases, capital flight was not a result of over-regulation but was simply a result of the instability of the economy.

### **Tax havens: the real reason for capital flight**

A large proportion of global financial flows are made possible by a growing network of offshore tax havens, a network that is defined by its lack of regulation and favourable tax regimes. Around a quarter of all global wealth is held in offshore tax havens. The total value is most likely to exceed \$11 trillion. This money is expatriated from poor Global South countries by the wealthiest industrialists and investors as a means of avoiding taxation. The total tax take that is lost in the tax haven network is estimated at 2-3 times the total global aid budget.<sup>36</sup>

**It is the liberalisation of controls on flows of finance capital that encourages capital flight, rather than any measures that tax or regulate capital**<sup>37</sup>



### Capital controls

There are a number of examples of the successful use of capital controls to prevent flight. In response to the Asian financial crisis of the mid-1990s, the government of Malaysia refused the terms of the IMF's restructuring package, and instead forced all offshore currency to be repatriated and subject to government-fixed exchange rates. The Malaysian economy recovered much faster than its counterparts.<sup>38</sup> In fact, the IMF has recently concluded from a cross-country economic analysis that the Asian countries that responded to the crisis with stricter capital controls were able to recover more quickly.<sup>39</sup> In other words, this evidence turns the myth on its head: capital flight is in those circumstances encouraged by a *lack* of capital controls.

**the IMF has recently concluded from a cross-country economic analysis that the Asian countries that responded to the crisis with stricter capital controls were able to recover more quickly**



British manufacturing over the last 30 years is itself evidence of the consequences of light touch regulation and restrictive laws on trade unions. Look at the booming UK car industry where trade unions and industry work together to raise standards and productivity. Yet too often companies find themselves forced into a race to the bottom by irresponsible government policies.

*Len McCluskey, General Secretary, UNITE the Union*

## Myth 5:

# High taxes lead to executive migration

The term ‘brain drain’ refers to the loss of talented or technically skilled people through migration.<sup>40</sup> Just as in the case of ‘capital flight’, it is sometimes argued that corporate executives simply leave when taxes are too high, when executive pay curbs are introduced, or even when the risk of criminal penalties for white-collar offences is too high. They simply shut up shop, or go elsewhere to earn a much higher reward. This is called ‘executive brain drain.’

In fact, there is very little evidence that the most senior executives have much opportunity to simply move from country to country and maintain their social position.

### Where would they go?

The first question to ask is: where would they go? The UK now has the second highest average for chief executive pay in the world; second only to the USA. If UK executives were going to go anywhere, then the only place they could maintain a similar salary would be the USA.<sup>41</sup> Yet executive migration between the UK and the USA is currently very low.

Neither is there evidence of executive migration from any other country into the USA. One recent study of 142 North American corporations revealed that not one foreign CEO was hired from a business based in another country.<sup>42</sup>

**There is very little evidence that the most senior executives have much opportunity to simply move from country to country and maintain their social position**

There is therefore little evidence to suggest that a “global marketplace” for executives exists... In fact, the evidence points to the opposite. Only around 1% of CEOs in the world’s largest companies are ‘poached’ from other countries; and more than 80% of CEOs in these companies are promoted from within the same company.<sup>43</sup>

**there is little evidence to suggest that a “global marketplace” for executives exists. In fact, the evidence points to the opposite**

### **Tax exiles and ‘Official Residence’**

Even when there are opportunities for the rich to flee without disrupting their lifestyle or executive positions too much, they generally don’t.

Following the introduction of a 50% tax rate for high income earners in 2009, reports in the British press claimed large numbers of wealthy individuals were fleeing to Jersey, Guernsey or the Isle of Man to take advantage of much lower corporation and income tax rates. This led to a reported 18% rise in the number of company Directors registered as living in British Isles tax havens of Jersey, Guernsey and the Isle of Man.<sup>44</sup>

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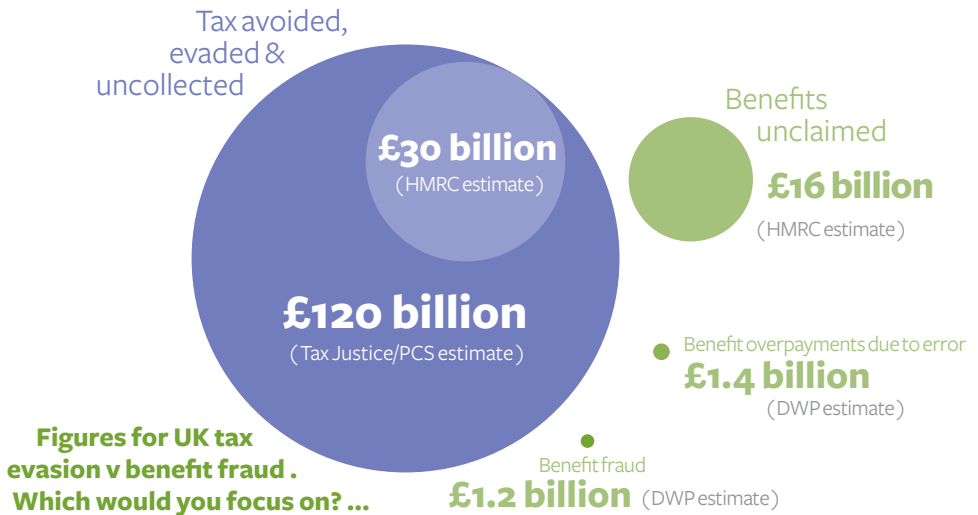
Yet few of those ‘fleeing’ actually left their jobs and homes. Rather, they had simply registered their ‘official’ or primary residence in a tax haven.

### **Evidence from the US**

A similar fear of internal migration is commonly promoted in US inter-state politics, because of major differences in tax levels across states. In fact, there has been no significant level of brain drain between states based on the relative size of taxes within US states.

A detailed study on the impact of high income tax increases in New Jersey in 2004 showed that the effect of the tax reforms was negligible; if anything, there was a net inflow of high earners into the state following the tax increase.<sup>45</sup>

The evidence from the US overwhelmingly shows that most people move not because of tax reasons, but because they have a new job, they find more affordable housing or they seek a better climate.<sup>46</sup>



If irresponsible and overpaid executives, who leave their workers at risk and under-paid, want to leave the country, then good riddance!



*Paul Kenny, General Secretary, GMB*

## Myth 6:

# Business is efficient

It has become received wisdom that providing services and selling things involves fewer 'transaction costs' when they are done by the private sector as opposed to the public sector. In other words, the costs of research and development, the costs of corporate security and the costs of managing workers are less when the costs of these things are kept low by market forces.

### Supporting the business infrastructure

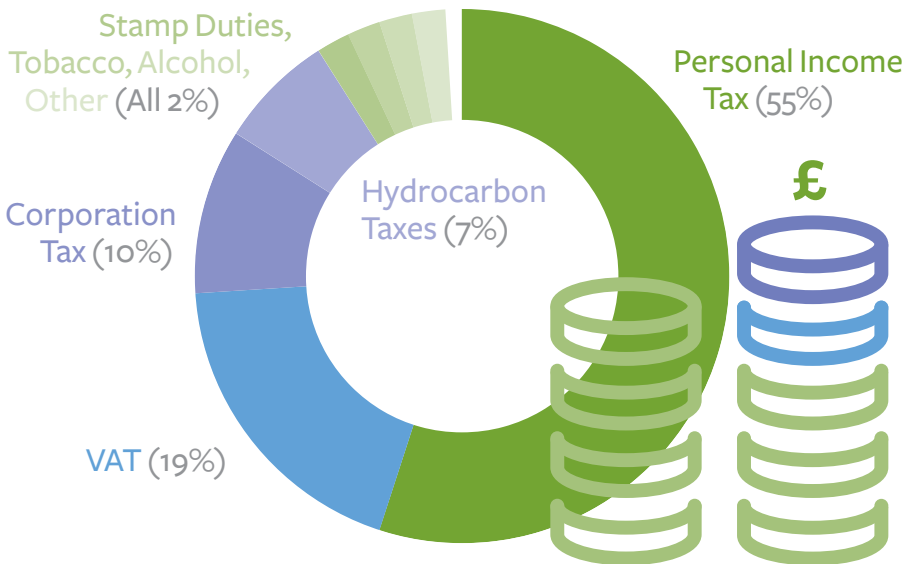
This argument ignores the fact that it is governments, acting on behalf of taxpayers, that pay for many of the largest costs of doing business. Governments establish the national infrastructure. This includes road, rail and air transport systems, and telecommunications and media systems. Governments fund and subsidise education systems that provide businesses with highly trained employees. Governments provide legal and regulatory structures that enable businesses to function. More than a third of all research and development expenditure comes from UK government funds.<sup>47</sup>

Of course, private companies play a major role in providing infrastructure, but ultimately this infrastructure is planned and put in place by government. Although companies pay taxes, the contribution that each company makes to public spending is minimal when compared to the value it derives from the total public investment in transport, health and education infrastructure and so on.<sup>48</sup>

## Taxpayers subsidise business

In other words, the infrastructure that subsidises corporate activities is paid for by all of us. The percentage of tax that we, as individuals, pay through individual taxation, VAT and other taxes, now adds up to around 8 times the total corporation tax take in the UK.

Figure 1: **Contribution by tax to total HMRC receipts, Average 2001 – 2012**<sup>49</sup>



The degree to which businesses rely on government support normally only becomes obvious in moments of crisis when governments are required to intervene and bail out vulnerable businesses or to underwrite whole markets. Most recently this process of ‘bailout’ occurred in the wake of the 2008 financial crash. In the UK alone, the immediate value of the bailout for the banks was £550 billion across 2008 and 2009. And this huge burden on the taxpayer continues, long after the ‘emergency’ bailout. In 2011 and 2012, UK government banking subsidies exceeded more than £30 billion.<sup>50</sup>

## Corporate welfare

Business subsidies are more common across all sectors of the economy than most of us realise.<sup>51</sup> Numerous sectors such as the care sector, health and pharmaceuticals, private security, the arms industry, educational suppliers and publishers etc. would be tiny by comparison without government contracts and the role of the public sector in stimulating the markets they profit from..

Many British companies operating abroad are granted export credit subsidies (which enable them to invest at low or no risk of exposure), diplomatic subsidies (where the government operates diplomatic services to promote or support business abroad) and military/security support subsidies (where the government provides physical security for businesses).

One study has estimated that ‘corporate welfare’ or the value of government handouts to business (including tax benefits, the value of cheap credit made available to business, government marketing support and public procurement from the private sector) adds up to a total of £85bn a year.<sup>52</sup>



Every single part of the business economy is subsidised in one way or another. And those rising levels of subsidy currently represent the largest single cost burden on the UK taxpayer.



## Social costs of business

Moreover, businesses are generally not required to pay the costs of the most damaging effects of their activities. Corporate balance sheets only reflect a narrow range of selective costs. Many of the costs associated with the long-term harms and damage caused by corporate activity (the costs needed to clean up pollution, the costs incurred by workers and their families due to work related injuries, or the costs to consumers when they are made ill by products) simply do not appear in corporate annual accounts. The fact that businesses don't pay the full social costs or 'externalities', as economists describe them, means that businesses are made to look much more efficient than they actually are.

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Indeed, when we contrast their earnings with their social contribution, business begins to look excessively inefficient. The earnings of the world's largest 44 corporations amount to 11% of global GDP, but the same corporations employ just 0.4% of the world's economically active population.<sup>53</sup>

**We need to challenge the pro business agenda which attacks workers rights and living standards but fails to address the huge subsidies to private businesses.**



*Matt Wrack, General Secretary, FBU*

# Myth 7:

## Privatisation works

.....  
*‘Privatisation shifted the balance away from the less efficient state to more efficient private business’ Margaret Thatcher<sup>54</sup>*  
.....

The privatisation of nationalised industries, services and utilities is justified on the basis that it improves efficiency. By relieving the ‘burden’ of the public sector on the taxpayer and by introducing ‘competition’ in the private sector, it is claimed that privatisation reduces the price we pay for utilities and other essential services and makes those industries more productive.

The facts tell a very different story.

Privatisation is expensive because a proportion of revenue goes towards paying shareholder dividends and higher executive salaries. The only way to pay for those costs is either:

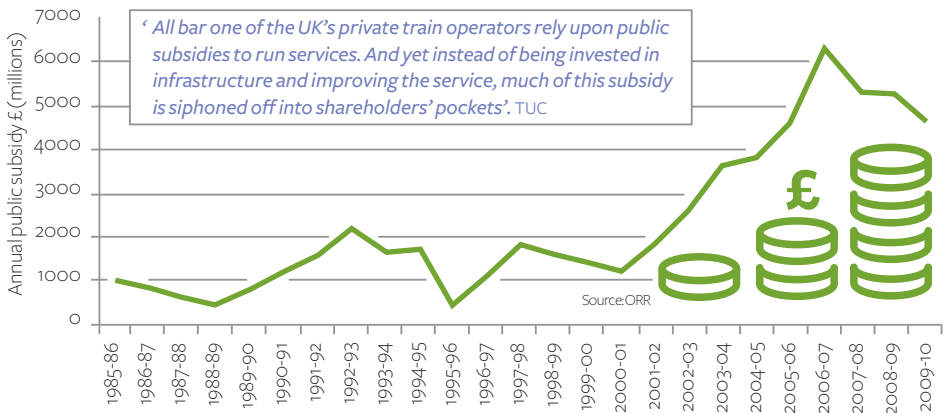
- a) by increasing prices for consumers;
- b) by cutting jobs or reducing wages for workers; or
- c) through public subsidies

### **The cost to customers**

Customers have been stung by recent rises in train fares. One study by the Independent newspaper shows that England now has the highest train fares in

Europe.<sup>55</sup> Another study, commissioned by the RMT trade union, shows that in comparison with similarly sized European countries (Germany, France, Spain and Italy) the UK rail system is less comfortable, slower, less efficient and less environmentally friendly.<sup>56</sup>

Figure 1: Annual public subsidies to rail: 1985-2009<sup>56</sup>



In the UK, the average energy bill has risen more than 50% in real terms over the past decade, even though consumption has fallen.<sup>57</sup> Ofgem, the energy regulator has noted that the annual profit per customer amounted to £8 in 2009 and £48 in 2013. The regulator has predicted that the big six energy supply firms will earn £105 per customer in 2015.<sup>58</sup>

Water customers have also seen their bills rise at a much steeper rate than average income or inflation in the past decade. Profits are now estimated at around £100 per customer per year.<sup>59</sup>

A survey in 2011 showed that 57% of local authorities said they had either brought outsourced public services back in-house or were considering it. The main reason, cited by 60% of those authorities, was the need to cut costs.<sup>60</sup>

### Cutting jobs, reducing wages, attacking rights

A large number of jobs in utilities have been lost across Europe since privatisation began. In the electricity supply industry, this amounts to between 22% and 33% of jobs; in the privatisation of postal services, between 8% and 20% across EU member states.

Privatisation has also led to the replacement of full time jobs with part time jobs, the replacement of permanent work with agency work and has had a detrimental impact on working conditions across Europe.<sup>61</sup> Wages have halved in some sectors, including the postal service.<sup>62</sup>

As part of the process of privatisation, trade union rights to bargaining have been diminished. One study of privatisation across Europe has concluded: 'As a general trend, sector-level bargaining has been replaced by company-level bargaining and in some cases even by negotiations with different groups of workers within the same company.'<sup>63</sup>

### Public subsidies

Many of the privatised industries make big profits only because the government has ultimately guaranteed or under-written their survival. Many privatised industries continue to benefit from major public subsidies.

**the UK government hugely subsidises the privatised energy sector - direct government subsidies are worth well over £10 billion a year**

UK train operators are dependent upon government subsidies. Similarly, the UK government hugely subsidises the privatised energy sector; direct government subsidies are worth well over £10 billion a year.<sup>64</sup>

The Private Finance Initiative (PFI) is based upon a contractual relationship that also subsidises construction firms, guaranteeing for those firms returns on investment that are often over 60%.<sup>65</sup>

Moving tenants into the private rented sector involves a major redistribution of wealth from the public to the private sector because tenants that were previously in public housing are now forced to rent privately. Between 2011 and 2015, around £35 billion of housing benefits will go straight to private landlords, on top of a public subsidy of £5 billion per year gifted to private landlords in tax relief.<sup>66</sup>

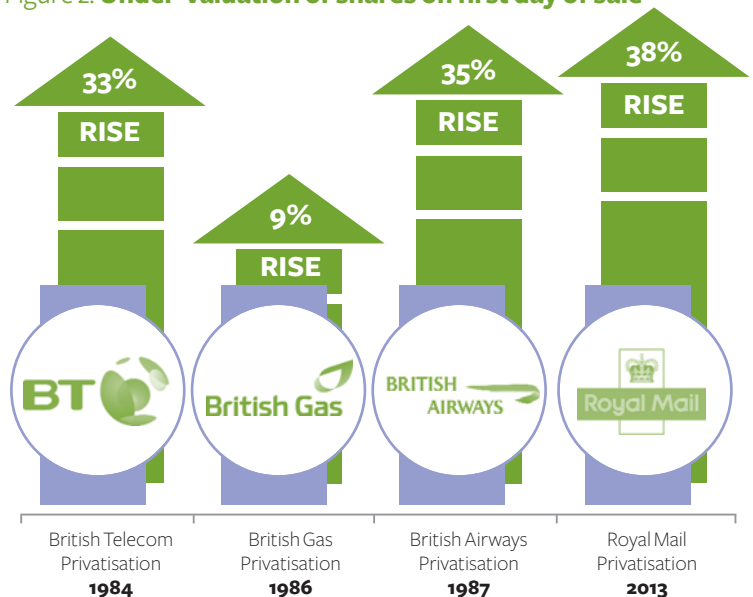
**Around £35 billion of housing benefits will go straight to private landlords, on top of a public subsidy of £5 billion per year gifted to private landlords in tax relief**

### Under-valuation for profit

The government's sale of the Post Office in 2013 was based upon a gross under-valuation of shares. Shares were sold off at between £2.60 and £3.30. On the first day of sale, the share price rose by 38% to £4.55, and at its highest point almost doubled the sale price to £ 6.18. Because it could have been sold for a higher price, the cost to the taxpayer of this under-valuation has been estimated by the National Audit Office at £750 million.<sup>67</sup>

Figure 2: Under-valuation of shares on first day of sale<sup>68</sup>

In fact, all of the privatised industries have immediately leapt in value, indicating that their sale was heavily subsidised by the taxpayer. Figure 2 reflects the rise in share prices on the first day of trading.<sup>68</sup>



### The private housing boom

It has been estimated that the value of the 2.5 million council houses sold off totaled £86 billion – more than all other privatisations combined.<sup>69</sup> Local authorities received just £45.38 billion for those houses.

This was because tenants qualified for an average 47% discount on the market value of their home. The average council house in Britain was worth just £15,528 at the end of 1979. In 2009, the average value of a former council house had risen to £101,917.

Rises in house prices of this magnitude cannot be attributed to ‘efficiency’, but are due almost entirely to the transformation of the housing market over the past 3 decades. The housing sell-off was one factor in this transformation, contributing to the real estate boom and ultimately to a property credit bubble. The planned sell-off of housing association homes, a Conservative manifesto pledge in 2015, would have exactly the same effect: to transfer social housing to private sector housing speculators, forcing prices up at a huge cost to the taxpayer and reducing the availability of social housing.

Taken together, the evidence shows that the claim that privatisation has made public services and utilities more efficient masks a reality of government subsidies, lower wages, worse working conditions, higher costs to customers and the systematic under-valuing of the sale price of public assets.

The legacy of privatisation in this country has been attacks on workers’ rights, the driving down of wages and a deterioration in the provision of services.

*Mick Cash, General Secretary, RMT*



## Myth 8:

# Capital owning democracy

In the 1980s, the Conservative government sell-off of publically owned assets was partly justified on the basis that it would create a ‘capital-owning democracy’.<sup>70</sup> The 1987 Conservative Party Manifesto noted:

.....  
*‘After eight years of Conservative Government, Britain is now at the forefront of a world wide revolution in extending ownership. One in every five British adults now owns shares compared to one in ten Frenchmen and one in twenty Japanese. Only the Americans, where a quarter of the people are shareholders, remain ahead - and the gap is narrowing.’*  
 .....

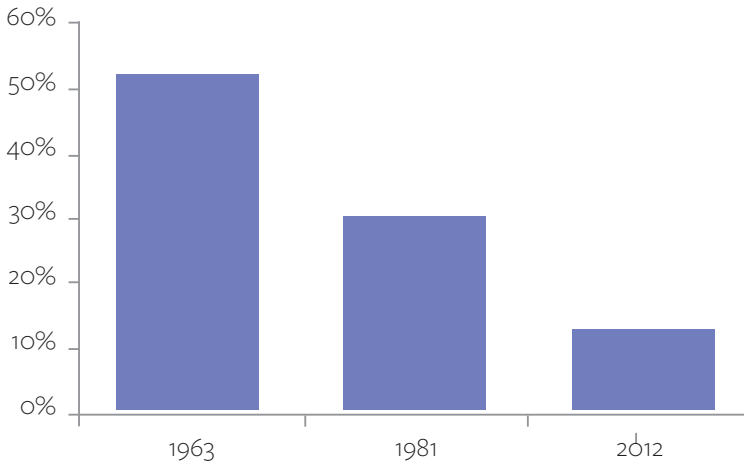
### Share-owning revolution?

Figure 1 shows that the privatisation project actually failed to interrupt a long-term trend which has seen the proportion of shares owned by individuals gradually diminish. In 1963, individuals owned 54% of shares in publically traded companies. By 2012, individuals owned just 11% of shares.<sup>71</sup>

Even in 1963, when there was a relatively high proportion of shares owned by individuals, they were not spread evenly but were mostly owned by the rich. Share-ownership has always been strongly concentrated in the most affluent 10% of the population.<sup>73</sup>

**share-ownership  
has always been  
strongly concentrated  
in the most affluent  
10% of the  
population**

Figure 1: **Percentage of total shares in UK owned by individuals**<sup>72</sup>



**individual share ownership has not spread across different types of companies and industries as the architects of privatisation suggested it would**

Moreover, individual share ownership has not spread across different types of companies and industries as the architects of privatisation suggested it would.

A large proportion of individual shareowners still only own shares in the privatised utilities and the demutualised building societies.<sup>74</sup>

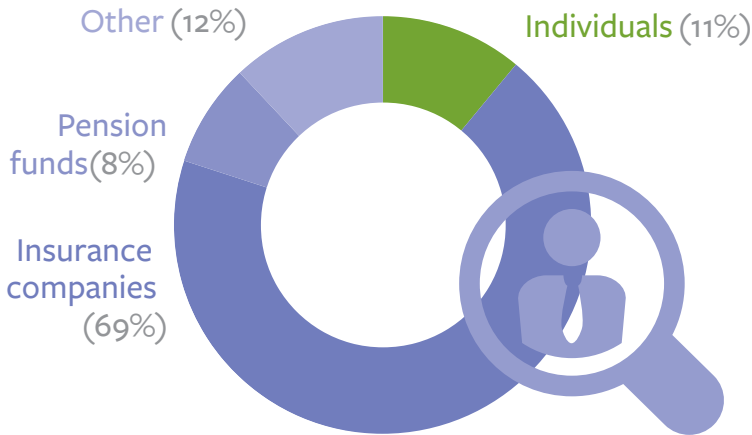
### **Institutional power**

The decline of individual shareholding shown in Figure 2 has been coupled to a steady rise in institutional shareholding (the ownership of shares by insurance and finance companies and pension funds).

In 1963, insurance companies and pension funds owned less than 17% of shares. Almost 50 years later, in 2012, insurance companies and pension funds owned more than 77%.



Figure 2: **Percentage of share ownership by owner type, 2012**



Because more than 45% of the UK population own shares indirectly through their pension funds, our personal wealth is more tied to the ups and downs of the stock-market than ever before. Yet pension fund holders have no direct control over how and where this money is invested. Rather than representing a share-owning democracy, this trend has given more leverage and power to large institutions and diminished the economic power that most of us have.<sup>75</sup>

Workers who have built up their pension pot throughout their working life, now watch it being gambled away by anonymous financial speculators getting rich quick.



*Neil Duncan Jordan, National Pensioners Convention*

## Myth 9:

# Businesses can be trusted to be responsible

The promotion of corporate social responsibility in the world of business is either based on the argument that businesses *can*, or that they *should* be socially responsible. Yet both of those arguments are based on claims that are difficult to sustain.

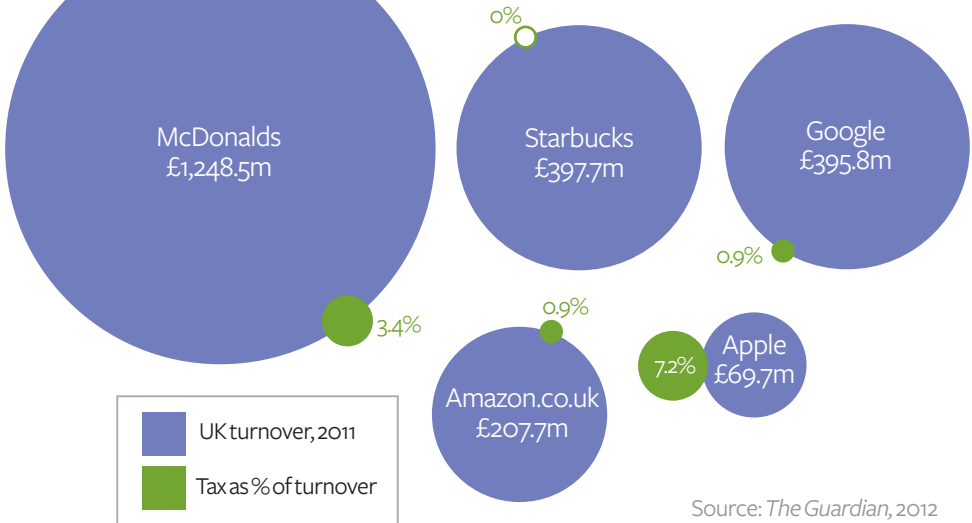
### **Businesses can be responsible**

The problem with the idea that ‘businesses can be responsible’ is that it is oversimplified. Of course, some businesses can show that they are, at times, more responsible than other businesses. But businesses are often very complex and incorporate very different cultures in different parts of the organisation. Business cultures vary over time, and some businesses may be regarded as responsible in one sphere of activity at the same time as the same company is socially harmful in other spheres of activity.

Indeed, if we examine the large corporations that have been most lauded for their corporate responsibility, it is very often the case that they are the same companies that have been implicated in some very socially destructive practices.

Walt Disney and Google were ranked joint first as the ‘world’s most reputable companies’ reported in *Forbes Magazine* in 2014. Yet this was a year in which both companies were publically exposed for failing to pay taxes. Disney was named as the worst tax-avoiding company in an analysis of toy manufacturers<sup>76</sup>. Google has been similarly disgraced for its use of creative accounting and tax havens.<sup>77</sup>

Figure 1: **Turnover against tax, major companies 2011**



The idea that corporations can behave, as some put it, as ‘good corporate citizens’, is based upon the idea that it is only a minority of bad apples in the barrel that spoil the reputation of the majority.

If tax avoidance is arguably legal, businesses are not always too concerned about being law-abiding. Research studies have consistently found that businesses regularly ignore the law in pursuit of profit. This body of evidence has shown that there are very few, if any, major corporations that do not regularly engage in criminal exploitation or unlawful harm in some way.<sup>78</sup>

Indeed, the scale of this criminality is huge. Businesses kill more people, maim more people and steal from more people many times over than individual criminals.<sup>79</sup>

**Businesses kill more people, maim more people and steal from more people many times over than individual criminals**

### **Businesses should be responsible**

Some of the most pro-business commentators recognise that there is nothing that compels business to be responsible. Milton Friedman, for example, argued in the 1970s that ‘the only responsibility of business is to increase its profits.’<sup>80</sup> In fact, there are a number of pre-conditions that prevent businesses putting their social responsibility before their profits, even if they wanted to.

- Directors are obliged to promote the economic success of the business.

**Business organisations ... are generally in competition with each other and seek narrow competitive advantages above more general social contributions**

Even if Directors would rather be responsible, they are bound by law to pursue the success of the company and its members. There is an ongoing debate about the extent to which the law demands that Directors and Senior Managers act in the interests of owners and shareholders. However, one legal principle is clear from case law: the success of the company is principally measured in economic terms; success in terms of Directors’ obligations always translates as the long-term profitability and/or economic viability of the company.

- When shareholders do insist on corporate responsibility, it is generally only when it will also promote the economic success of the business.

In 2010 both BP and Shell faced shareholder rebellions over their plans to extract oil from Canadian tar sands.<sup>81</sup> Shareholder objections were made firstly on the basis that this activity was likely to be fiercely opposed by climate protestors and NGOs, and would therefore involve significant reputational damage to the company. Secondly, shareholders objected because the companies had not shown that this tar sands extraction could actually be profitable. On this basis, it is difficult to disentangle a concept of ‘responsibility’ from the principle of maximising profits.<sup>82</sup>

- The narrowly competitive and profit-oriented nature of business organisations means they can never prioritise broader social goals.

Business organisations are narrowly focused on their own survival and growth. They are generally in competition with each other and therefore seek narrow competitive advantages above more general social contributions. When they are not in competition (as in the case of markets characterised by monopoly and oligopoly), they remain narrowly concerned with profit accumulation.

This is the reason why businesses can never be trusted to deliver human-centred outcomes and is the reason that the major problems of our time (climate change, widening inequalities, food, water and energy shortages, or ecological biodiversity) will not be solved by corporate social responsibility strategies.

**The major problems  
of our time ... will not be  
solved by corporate  
social responsibility  
strategies**

Image of Mark Serwotka by Karen Robenson, 2015

For too long, impunity has been granted to irresponsible businesses at the expense of workers and their communities. By prioritising profit above all else, company law creates behaviour that see workers as a burden and our environment as an externality to be exploited.



*Mark Serwotka, General Secretary, PCS*

## Myth 10:

# Shareholders can hold executives to account

.....  
*‘The market for top people isn’t working, it needs to be sorted out. Let’s empower the shareholders by having a straight, shareholder vote on top paid packages.’*

David Cameron<sup>83</sup>

.....

The principle attempt by the last government to curb corporate power was the introduction of a series of measures that boost the ‘democratic’ power of shareholders. Those powers, which include giving shareholders a binding vote on executive pay, are aimed at bolstering ‘shareholders’ democracy’.

Shareholder activism is also seen by some as a means of encouraging a more socially responsible capitalism.<sup>84</sup> Yet recent experience tells us that there is little reason to be optimistic about this prospect.

**recent experience tells us that there is little reason to be optimistic about this prospect**

### **The Shareholder Spring: business as usual**

The so-called ‘shareholder spring’ took place in early 2012. By May 2012, executive pay reports had been rejected by shareholders at four UK-quoted companies (Aviva, Pendragon, Central Rand Gold, and Cairn Energy) and three executives had resigned over opposition to pay reports.

In fact, there is very little evidence that this shareholders' rebellion against executive pay had any impact at all. The pay received by the average FTSE 100 chief executive increased by 15% between 2012 and 2013, the year of the so-called shareholder spring.<sup>85</sup>

One study found that only a tiny proportion (3.8%) of votes opposing board member re-election during early 2012 got more than 20% support.<sup>86</sup>

In each of the 4 high profile cases of rejections, the executives that resigned had been re-elected to the board by landslide shareholders' votes.<sup>87</sup>

By July 2014, the *Financial Times*, the newspaper that invented the term, had declared the 'shareholders' spring' crushed because of universal agreement of pay packages across the FTSE 100 companies.<sup>88</sup>

Since the financial crisis of 2008, shareholders have objected to less than 1% of executive pay claims in the FTSE 350 companies.<sup>89</sup>

**The pay received by the average FTSE 100 chief executive increased by 15% between 2012 and 2013, the year of the so-called shareholder spring**

# Conclusion

When politicians tell us that we have no alternative but to put the interests of business first, they are very rarely questioned. Yet, as we have seen, it is difficult to substantiate any of the myths that are typically used by politicians, government departments and local authorities to justify pro-business policies. Indeed, some, such the ‘trickle down effect’, are so ridiculous and lacking in evidence that they are not defended by even the most dogmatic of right-wing economists. Yet, most of our politicians simply accept them as gospel truths.

The myths that have been set out in this pamphlet are zombie myths – even though they have no substance, they sustain an anti-human politics. These myths are living dead ideas that seek to render lifeless any alternatives to the unprecedented concentrations of wealth and poverty that we are currently experiencing.

They have one purpose: to sustain corporate greed at the expense of the rest of us. If we are to create a better, fairer and more sustainable society, then we need to stop believing business propaganda, and just as importantly, get our politicians to stop believing in the zombie myths that continue to stalk them.



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# IER Recent Publications



**Reconstruction after the crisis: a manifesto for collective bargaining**  
– K D Ewing and John Hendy QC

*£10 for trade unions and students, £40 for others*

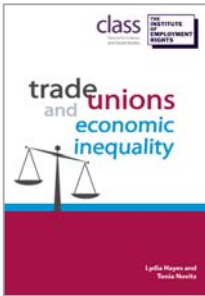
The authors trace the historical background to the current economic crisis – including the dismantling of trade union rights – and set out a viable alternative for economic growth based on international law and best European practices. The end result is a considered and fully evidence-based policy recommendation summed up in a succinct ten-point manifesto for collective bargaining.



**Re-regulating Zero Hours Contracts**  
– Zoe Adams and Simon Deakin

*£10 for trade unions and £40 for others*

Zero Hour Contracts are highly profitable for employers, but lead to insecurity of income and low pay for workers. The authors point to rigidities in employment law and the operation of the tax-benefit system as being responsible for the rise in zero hours contracting.

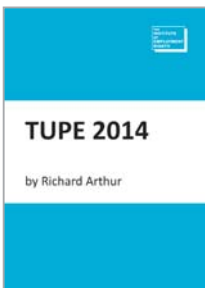


### Trade Unions and economic inequality

– Lydia Hayes and Tonia Novitz

*£10 for trade unions and £40 for others*

According to the report, as reflected in many of the statistics and graphs provided, there is an historic link between strong trade unionism and more equal societies. Without trade unions, the realities of working life mean that individual workers are under pressure to simply accept the pay and conditions that an employer presents to them. To do otherwise risks missing out on the chance of a job or being dismissed. The bargaining power of trade unions has the potential to defend existing employment conditions, so that new workers are not brought in on lower rates of pay or forced to accept other terms which are inferior.



### TUPE 2014

– Richard Arthur

*£10 for trade unions and students, £40 for others*

TUPE has traditionally provided essential protections for workers. Richard Arthur notes that government plans to further weaken TUPE protections in the updated 2014 Regulations were thwarted, but expresses concern at recent European court decisions. The intention of the original Directive was ‘unilaterally the protection of workers’, but recent interpretations by the Court of Justice focus on the need for a ‘fair balance’ between workers’ and employers’ interests, suggesting that social rights are being subordinated to economic rights.

**THE  
INSTITUTE  
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Centre for Labour  
and Social Studies

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£6 each

IER, 4th Floor, Jack Jones House, 1 Islington, Liverpool L3 8EG

E: [office@ier.org.uk](mailto:office@ier.org.uk) P: 0151 207 5265 W: [www.ier.org.uk](http://www.ier.org.uk)

Class, 128 Theobalds Road, London WC1X 8TN

E: [info@classonline.org.uk](mailto:info@classonline.org.uk) P: 020 7611 2569 W: [www.classonline.org.uk](http://www.classonline.org.uk)

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