London: The rich get so much richer under Blair

Keith Lee
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The last ten years of a Labour government has seen a significant increase in the number of billionaires living in London. According to *Forbes* magazine, London is home to 23 of the 54 billionaires that are resident in Britain, 11 of whom are foreigners.

Paul Maidment, a journalist for the magazine, said London “still attracts the elite of the world’s rich and successful. And it can lay claim unchallenged to one title, it is the magnet for the world’s billionaires.”

There are many reasons London has become a magnet for the wealthy, among them the role of English as a global language and easier immigration compared to the United States. More important, however, is the fact that tax regulations are so lax.

London has the highest number of non-domiciled rich residents anywhere in the world, whose combined wealth comes close to £45 billion ($88 billion). When it came to power the Labour government promised to close the loophole used by billionaires, whereby “non-domicile” status is offered to foreigners or those with foreign-born parents living in the UK.

This get-out clause enables wealthy individuals to claim they are “domiciled” abroad, even though they may carry British passports and have lived in the country for decades. Those afforded such privileged terms are free to locate their assets in offshore tax havens and liable only to pay tax on those sums they choose to bring to Britain.

Accountancy firm Grant Thornton has calculated that the UK’s 54 billionaires paid a miserable £14.7 million ($28.3 million) to the Inland Revenue last year.

Far from closing this loophole, Labour has maintained most of the tax loopholes inherited from the previous Conservative government and added some of their own.

Media commentators and government ministers have argued that at least some of the wealth is being spread around, finding its way into charitable work and job creation in the so-called “trickle down” effect. However, London is hardly a thriving place for charity. The most generous places for charitable donations are Motherwell in Scotland and Sunderland in northern England, not the rich London boroughs of Chelsea or Kensington. Nationally, the average money giver donates 1.2 percent of income in a year, but for “high-level” givers the figure is just 0.8 percent.

More important still, the argument that rich people create jobs is disputed by Richard Murphy of the Tax Justice Network, who says “the ‘rich people create jobs’ argument doesn’t stack up. Attracting wealthy individuals to pounce on swanky flats is not the same thing as encouraging corporations to set themselves up in the UK.”

Murphy adds, “The super-rich are drawn to live in the UK—regardless of where their business is located—by its unusual ‘non-domicile’ tax rules, which allow foreign-born wealthy individuals to live here, but avoid paying income tax. They’re here in no small part because they’re not paying tax.”

The increase in the number of billionaires has coincided with reports that London is seriously challenging New York as the world’s favourite financial centre. One factor is the extremely liberal regulatory framework, which makes huge transactions possible with little interference from bodies such as the Financial Services Authority. According to the *Wall Street Journal*, Europe now has the largest share of global derivatives revenues and London is the main trading centre. London has also taken over from New York in the hedge fund market, with assets increasing at a yearly rate of 63 percent compared to 13 percent in the US. Of the 50 largest hedge funds, 18 are based in London.

An explosion of takeovers and mergers in the city of London has fuelled a surge in spending by the super-rich. Last year financial workers in the City were given over £7.5 billion in bonuses. The US investment bank Goldman Sachs gave a record £8.8 billion ($17 billion) in Christmas bonuses last year to staff whose base pay averages £319,000 per employee, up by 40 percent on 2005. Around 5,000 of Goldman’s 26,467 staff work in London, and virtually all of them received bonuses far larger than their nominal salaries. Senior executives, traders and dealmakers could expect £10 million or more each, with hundreds of others receiving £1 million or more.

Russian oligarch and Chelsea football club owner Roman Abramovich and other super-wealthy individuals are spending their money because of what *Forbes* magazine refers to as London’s “ecosystem” of tax breaks, discreet financial markets and swathes of hyper-expensive real estate.

This new wealthy elite have no qualms of spending and flaunting their wealth. According to the *Independent*, the auction houses in London have never had it so good. Sales from art works in the two main auction houses in London, Sotheby's and Christie's are expected to reach a record £400 million ($785 million) in February. Prices for contemporary art have quadrupled, with Richard Polsky, an American dealer, saying that things had got to "the point of absurdity."

Sotheby's set a record on February 5 for its single biggest auction when its modern art sale realised £95 million ($186.5 million).

The new Russian elite have been an important contributor to Sotheby's sales. On February 16, the company announced that its auction of Russian Art had fetched £2.6 million ($5.2 million). Jo Vickery, head of Sotheby's Russian department in London, said the Russians outbid everyone. Sotheby's total Russian art sales in 2006 rose 43 percent, to £78 million ($153 million).

Clearly not all those involved in such purchases are domiciled in London, but the many Russian millionaires and billionaires who are have earned the capital the nickname "Little Moscow."

Large numbers of Russia's nouveaux riches are spending their money on property in London. Recently, Britain's most expensive apartments went on sale there. Four penthouses close to Hyde Park reportedly had an asking price of £84 million ($165 million) each. Ed Lewis, of estate agents Savills, said the company was "very pleased" by the initial sales. "The London market is sensational," he said. "It is awash with money both from the City and those who have benefited from the UK's success, but also international money. As well as strong demand there is a supply shortage, which means exceptional properties like this can expect to achieve good prices."

This takes place under conditions where overall house prices in the capital have skyrocketed to over twice the national average of £200,000 in many boroughs and where many first-time buyers cannot afford to get their foot on the property ladder.

One phenomenon arising out of the influx of wealth is the growth of magazines and businesses, which help the rich protect and spend their money. One such firm, Velvet Rope run by Ayo Johnson, can organise any sort of entertainment the wealthy desire. "I've done everything from booking football tickets to a three-day party in Marrakesh put on by a bank for its client," said Johnson. "Business is booming."

While London has become a global playground of an international oligarchy whose wealth has assumed unprecedented levels, social inequality has reached obscene levels with hundreds of thousands in extreme poverty and heavily in debt.

Dermot Finch, director of the Centre for Cities, part of the Institute for Public Policy Research think tank, confirmed this phenomenon, saying, "We have got a dual economy in London. On the one hand we have the über-wealthy who are doing very well, but you have almost a third of those of working age who are not getting jobs."

According to a recent report by the London Child Poverty Commission, two in five children in London, some 700,000, live in poverty—the highest proportion of deprived children in the UK. The figures for inner London are even worse, with over half of all children living below the poverty line compared to a national average of three in ten. The report stated that many families are surviving on less than £150 per week.

A number of charities commented on the commission's report. Kate Green, chief executive of the Child Poverty Action Group, said, "It is shocking that in such a rich city we have two in five children in poverty. Too many of our families are not sharing in London's wealth—they can't get a decent job, they live in poor quality housing, and there is a lack of parks and swimming pools to take children to in the capital."

Hilary Fisher, director of End Child Poverty, said, "What is concerning is that out of the number of children taken out of poverty in 2004/2005, there was no significant movement in the inner London area. There are 26 constituencies in the UK with 40 percent of children or more living in families on benefits, and 11 of these are in London."

To once more put this in perspective, PricewaterhouseCoopers (PWC) has reported that London is set to overtake Paris and Chicago as the fourth largest economy among world cities by 2020. Only Tokyo, New York and Los Angeles will rank ahead of London by 2020, when income generated by its 8.5 million citizens should have risen from $452 billion in 2005 to $708 billion.

PwC head of macroeconomics John Hawksworth said that London had been "a centre of excellence ranging back centuries, combining trust with a fairly liberalised regulatory regime. We continue to assume that regulatory bodies and Government will continue to sustain this so that they do not frighten people away."