Britain: Multimillionaire warns poverty threatens “violent reactions”—but don’t tax the rich!

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One of Britain’s richest men, venture capitalist and Commission on Unclaimed Assets Chairman Sir Ronald Cohen, warned recently that the gap between rich and poor is now so deep that it threatens to provoke “violent reaction” in society.

Speaking before an audience of Treasury officials and key players in UK charities at a meeting in London, Cohen was asked whether the huge wealth and bonuses going to the City of London elite and their entourage were disfiguring society. He indicated he believed that was the case, adding, “I think we’re at the top of the cycle. I think the pendulum has swung too far.”

“The result,” he continued, “is the gap between rich and poor...gets bigger and bigger and it leads to violent reaction from those left behind.”

Cohen’s statement is extraordinarily candid. And, with an estimated personal fortune of £250 million, it comes from one who knows very well the chasm that has opened up between a narrow layer of the super-rich at the top of the social order and the millions struggling to survive at the bottom. That he chose to be so forthright was in part because he felt himself to be amongst friends. And he did so to make an argument against any moves to tax the rich in order to alleviate poverty and the social ills it produces.

Cohen, whose statement grabbed the headline in that Sunday’s *Observer*, is tasked with developing the Labour government’s proposal to establish a Social Investment Bank (SIB)—an initiative that champions charitable institutions and an attendant appeal to the supposed altruism of the rich as an alternative to welfare provision by the state.

Before championing the initiative, Cohen made clear its motives.

First, he explicitly repudiated any redistributive role for government, saying that governments are “just not powerful enough to maintain social cohesion.”

What government must avoid at all costs is any shift in its policy of constantly lowering the level of taxation on the major corporations and investment houses— “tax relief to encourage entrepreneurship,” in Cohen’s words. Instead, government should seek to expand the not-for-profit “third sector,” and enable it “to grow and meet its goal of supporting marginalised communities in a way that neither the state nor the private sector can.”

At the heart of this grand scheme to promote what Cohen calls “social entrepreneurship” is the establishment of the SIB, which will recycle some of the money left unclaimed in bank accounts—variously estimated at anything between £400 million and £4 billion and currently used by the banks to flatter profits—to the not-for-profit sector. Later, the SIB could turn to unclaimed life insurance policies and even unclaimed Premium Bond prizes. The new bank would not compete with existing sources of credit for the sector, but would act as a “wholesaler of capital” working through intermediaries.

To put this into perspective, the amount of money the SIB will in fact commandeer as founding capital is an exceedingly modest £250 million, providing an annual income stream of just £20 million a year. This would provide a return of 3 percent interest to the bank. Because this is slightly below the “mainstream rates of return,” it would help encourage people to invest in social projects. But the plan also provides that, to encourage banks to lend to the SIB, they should be given further tax cuts!

Cohen recommended that “tax incentives should be used more broadly to encourage the flow of capital into social investment.” The system of Community Investment Tax Relief (CITR), which reduces the investor’s income tax or corporation tax liability, should be expanded.

Social entrepreneurship would then sweep the world and transform society for the good—just as, supposedly, private equity had done! “Social entrepreneurs are motivated to do this,” Cohen said.

Such grandiose claims for charities spearheading a new era of social enterprise are primarily an ideological justification for slashing state welfare spending.

Cohen’s own Commission on Unclaimed Assets recognises that charities are not “fit for purpose,” in government-speak, being grossly underfunded and suffering from uneven and insecure revenue streams.

Just consider their total income. At £26 billion, this may sound large. But 70 percent of this figure is concentrated in the hands of just a few large organisations, with most of the 160,000 or so charities having an income of less than £10,000.

The £26 billion figure, moreover, takes no account of the charities’ overhead and administration costs. They employ the full-time equivalent of nearly half a million people and rely on 20.2 million volunteers.

Some £12 billion of their funds comes from donations—the vast bulk of it from working people, not altruistic millionaires. And much of this is for international disasters and appeals.

Another £14 billion comes from earned income, including retail shops and, increasingly, short-term contracts from the state. But, as the commission makes clear, the charities are shortchanged on many of these contracts and having to cross-subsidise them with their own money and unpaid volunteers.

It is impossible to organise efficient, professional and comprehensive services on the basis of such small organisations, much less so with uncertain, inadequate and short-term funding and voluntary labour, however well meaning.

Nevertheless, the commission argues that with greater access to loans from institutions such as the Social Inclusion Bank, charities can expand and serve the community. "In the absence of a thriving third sector, the burdens on the state will continue to rise," a report issued by the commission states.

And crucially, so too might the now minimal taxation leveled on the wealthy. Writing in the *Observer*, Ruth Sunderland noted, for example, "the ultra-low tax paid by private equity panjandrums [VIPs] on their performance fees. The fees are classed as capital gains, not income, so the tax rate can be cut using 'taper relief' to just 10 percent after two years, or even lower with clever accountancy. Simply put, it means millionaire private equity executives are paying a lower tax rate on these earnings than teachers, nurses and doctors."

The GMB and other trade unions have been running a campaign alleging bad practices by private equity firms, prompted by job losses at the AA and Birds Eye following takeovers by venture capitalists. That is why the former venture capitalist Cohen waxes lyrical about how the super-rich are using their wealth for charitable purposes.

He has demanded that campaigners who criticise the rich for hiding their wealth offshore remember the £60 billion of money in charitable trusts in the UK. "What a lot of successful entrepreneurs are saying to themselves now," he claimed, "is, 'You know what, rather than give 40 percent of my money to the government and let it deal with [social] issues, I'd rather give 100 percent—not just the tax break, but the capital as well.' "

Thus, the alleviation of social problems is no longer a function of the state, but of charity. But it is charity refashioned for the twenty-first century, providing a new source of profits and tax deductions for the financial elite through the SIB, while at the same time riding on the back of unclaimed monies. Under the guise of philanthropy, the Blair government is thus preparing a new mechanism to enrich the financial oligarchy.

Sir Ronald is the ideal representative of the social layer on whose support Labour relies and in whose interests it governs. Only this month, it was revealed that Cohen and two other venture capitalists, Nigel Doughty and Jonathan Aisbitt, gave £250,000 each to the Labour Party during the final quarter of 2006, more than a third of the £2 million the party received over the period.

Known as the godfather of private equity and venture capital in Britain, Cohen was the co-founder in 1972 of Apax Partners, the most powerful private equity firm in Britain, from which he amassed his personal fortune by buying up undervalued companies and driving down costs, before stepping down as chairman in 2005. Thus, he and his firm have played a key role in the ever-more ruthless exploitation of the working class and the creation of the very social inequality that he fears may generate a violent reaction.

Close to Gordon Brown, the chancellor of the exchequer, Cohen has given the Labour Party about £1.5 million over the past 10 years. There were even reports before Christmas that Brown had nominated him for a peerage, but the cash-for-honours scandal put paid to that. A seat in the House of Lords would have eliminated the need to seek election before being offered a ministerial post, a well-worn path for other generous backers of the two main parties.

Cohen is one of a number of super-wealthy businessmen and businesswomen recruited by Labour to chair so-called "independent reviews" and "commissions of inquiry" that devise policies for the government. His views reflect the very core of Labour's thinking. The government now insists that the welfare state that Labour governments brought into being must go, and go now.

Only last Monday, Jim Murphy, the employment and welfare minister, said that work, and not welfare, was the answer to poverty—and even that was not assured. He told an international conference on welfare reform in London, "Benefits do not lift people out of poverty in this country, and it never has been the case that they do. Work is the only way out of poverty. It may not yet be a guarantee out of poverty—though it should be—but it is the only route out."

The benefits system would "never pay, of itself" the £220 or more a week needed to lift a lone parent with two young children above the government's poverty line of 60 percent of median earnings, he said, and "I don't think it should." Conceding that his words might "sound callous and heartless," he said that the welfare state had never been designed to deliver that level of benefit, and the UK—meaning Labour's big business backers—did not want to provide that level of support.

Thus the promotion of charity as a vehicle for alleviating destitution goes hand in hand with the further transfer of social wealth and social power from the public sector to the financial elite.

Moreover, if, as Cohen says, governments are "just not powerful enough [i.e., unwilling] to maintain social cohesion" by reformist measures, then that can only mean ultimately a turn towards police-state measures to suppress the "violent reaction" this refusal will provoke.

The resolution of social inequality can be achieved only by making deep inroads into the vast reserves of private wealth held by a few through a system of progressive taxation aimed at promoting social equality. Taxes should be reduced for the vast majority of the population and sharply increased for the major corporations and the super-rich.

This can be realised only through the political mobilisation of working people in the struggle for socialism. The Socialist Equality Party's intervention in next month's elections is a vital step towards this end, seeking to raise the political consciousness of workers, students and youth and lay the necessary foundations for the building of a mass socialist party. We urge all those who support the fight for social equality to contact the Socialist Equality Party and participate in our election campaign.