

## Britain's New Poor -- the Middle Class

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Today, British society has an emerging new poor; it's the middle class. It has been decapitalized and its children can no longer attain the life-style of their parents. Anyone wondering why almost alone in Europe the British center right is out of power would do well to look at this phenomenon.

To grasp the problem it is not a bad idea to look at it through the framework of Douglas Coupland's zeitgeisty novel, "Generation X." It was supposed to be about America at the dawn of the 1990s, but it captures the dilemma of today's British society.

Back in 1991 when Generation X was published, America was going through an economic downturn and plenty of angst. And the novel summed up the principal fear of the new middle class generation: that they would be poorer than their parents.

The new generation had followed their baby boomer parents and were the numerically inferior baby busters. They had missed out on the boom years of the 80s and were destined to be downskilled into dead-end service sector McJobs. Generation X was lucky in the end and was saved from this future by U.S. Fed Chairman Alan Greenspan, the tech boom, the crash in oil prices and stellar stockmarket returns.

Mr. Coupland's pessimistic outlook for 20-somethings would be a lot closer to the mark in today's Britain.

Despite all the Cool Britannia hype, the UK never did as well as America in the 90s. There was no marked increase in productivity or average growth. And Britain's population is also aging much faster. In fact, in 2025 there will be over five million more people over the age of 60, according to government projections, a huge increase for a country of 59 million. Mr. Coupland set in Palm Springs his futuristic world where there would be a ruling class of old people and no middle class. This could be Britain tomorrow, without the California climate. How did we get there?

A quick look at statistics from the two past decades shows what is really going on; economic growth has been 149%; inflation has gone up by 231%; average earnings by 308%; school fees by 345%; the nationwide property index by 388%; and the Footsie All Share index 768%. In other words, earnings have not kept pace with the property market and school fees.

As the statistics suggest, Britons might have done decently had they owned shares. But, unlike the American middle classes, we have not been sufficiently invested in stocks. In the light of recent market turmoil, lucky for them you might say. But not over a lifetime. Add to this the new challenges the middle class faces: the ending of lifetime employment in large firms with their final salary pensions; university fees, which were inexistent before; private

after school tutoring; spiraling mortgages; and the progressive withdrawal of universal social security benefits.

The scandal is that Britain's bourgeoisie are now paying for public services twice over: Once through tax and then again from disposable income when the services prove to be unacceptable or, increasingly, non-available. Britain's middle classes are income statement rich, but increasingly balance sheet poor. The prevailing tax system has much to do with it.

Although the burden of taxation has risen only steadily on the middle class over the last half century, the complexity of the system has grown inexorably. As a government report into the long-term retail savings industry noted, "the sheer complexity of the tax regime for savings products as it has evolved over the decades adds greatly to the need for consumers to seek expensive advice." And that can be multiplied by the other taxes on the government's books. If lawyers are a tax on low-trust society, accountants are an extra tax for a fiscally inefficient one.

Add to this the cumulative hit of inheritance tax, stamp duty and capital gains tax. What we are looking at is a middle class that has been progressively decapitalized for decades. The odd thing is how this has gone unlamented by British politicians, if only because middle class voting intentions are well correlated to electoral results.

In Britain we classify the classes alphabetically from A to E. A would be typically a high flying corporate executive or senior doctor and E would be an unskilled laborer. The top half of that, or roughly 51% of the voting population, gave the Conservatives between 54% and 59% support from 1974 to 1992. In 1997 the Tories share of the middle class vote suddenly slumped to 39% and Labour's rose to 34%. In 2001 the Middle Class escape from the Tory party was complete when Labour actually received 37% to the Tories' 34%. It's astonishing to think that Britain's party of capitalism has actually lost its capitalists, who've gone over to a party named "Labour."

If politically the middle classes vote Labour, financially they deposit their investment with property. And what few care to admit is that the root cause of their impoverishment has been the failure by government to control property inflation in the past 30 years. Property inflation has sucked up a lot of capital that might have been used more effectively on education, private health care, private investments, business start-ups and pensions.

Perhaps then it's no surprise that the middle class are abandoning the Tories. Increased taxes and its rising cost of compliance, the emergence of a high-cost, high-regulation economy, and hitherto new charges are pricing them out of a status and lifestyle that used to be theirs. The Tories just don't seem to push the policies to reverse this, so Labour doesn't need to either.

It appears obvious then that the existing middle class is in urgent need of recapitalization. As it stands, there just isn't enough capital in the system to make it grow faster than the ordinary trend rate of 2.5%, compared to America's 3.5%. A permanent injection of fresh capital is needed. And it must go to the middle classes, historically the only people who know how to use it.

How? The elimination of the Inheritance tax and Stamp Duty would be a start, and could be paid for by one year's growth. The further elimination of the tax on savings and of the capital gains tax would be offset by another year's growth. A future government should also consider

a small-business exemption from regulation, which America enjoys. The risks are much higher these days in working for someone else. Why not level them by starting your own business?

In Generation X, "the only time worth living in is the past and the only time that may ever be interesting again is the future." As it turned out, Generation X's travails were postponed by freak economic circumstances. But Britain's middle class can only be saved now by government tax cuts, tax elimination and deregulation.

For too long, it hasn't been smart to draw attention to the waning opportunities and living standards of Britain's middle classes. They have become the new poor. British politicians take note; they are tomorrow's new radical constituency.

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