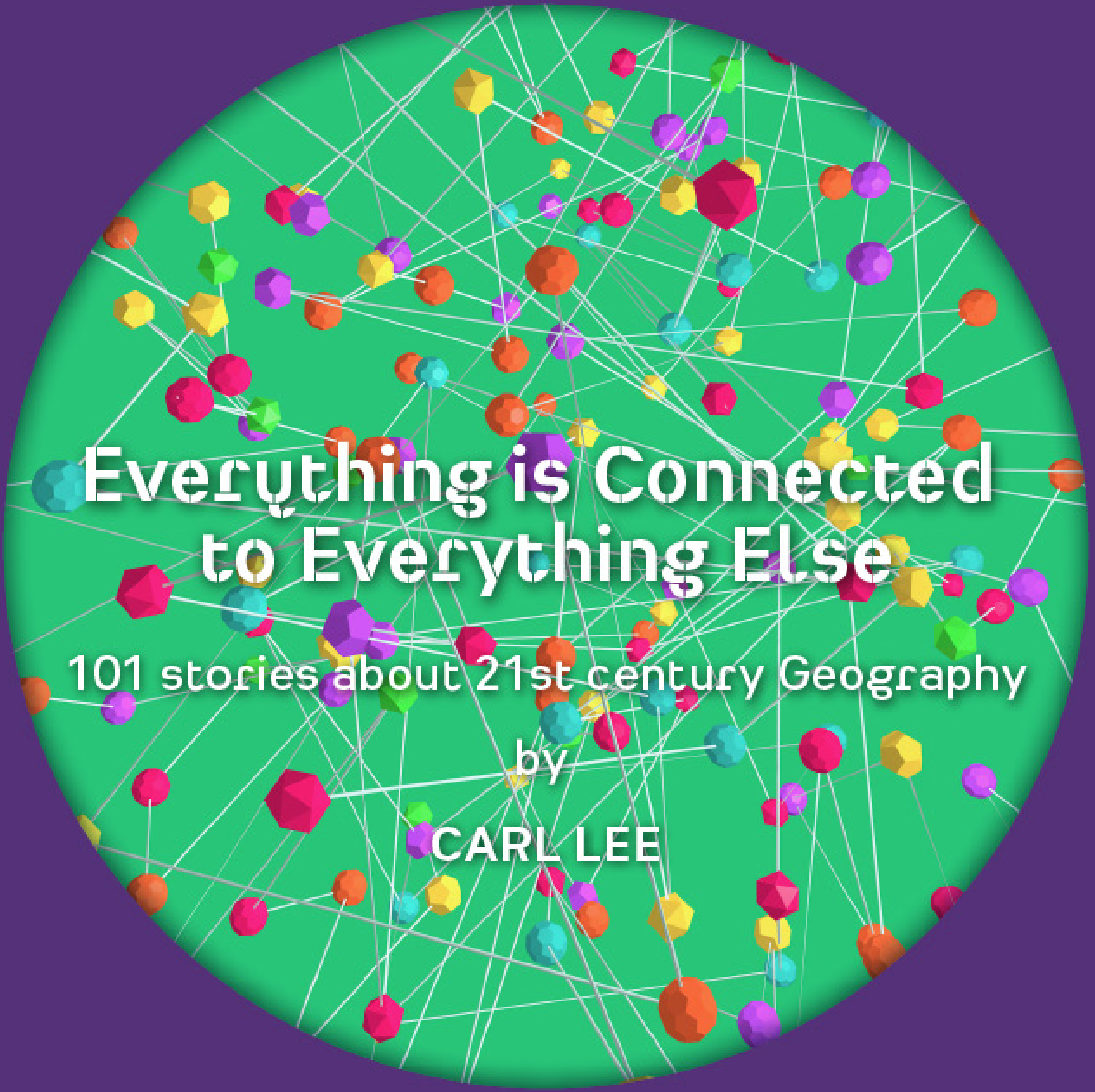

Everything is Connected to Everything Else

101 stories about 21st century Geography

by

CARL LEE

CHAPTER 7

CAPITAL VOLUME 4.

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How did I get here?

"And you may find yourself living in a shotgun shack.
And you may find yourself in another part of the world.
And you may find yourself behind the wheel of a large automobile.
And you may find yourself in a beautiful house, with a beautiful wife.
And you may ask yourself – Well...how did I get here?"
Talking Heads 'Once in a Lifetime' (1979)

Well how did you get here? It depends where you are.

I was born relatively lucky – in Britain in 1962 – to parents who increased their prosperity throughout their lifetime. My father always worked even though his last job was sweeping the floor of a factory in Milton Keynes. I went to a comprehensive school and got a solid education, one that made me inquisitive; the best sort of education. I have never been caught up in a war zone, afflicted by drought or ruinous flooding. I have never gone hungry for more than a day and I have benefited from a wrap around health care system that I can call on demand. Boy – am I lucky!

Issac was born in Mozambique in 1962. He was lucky to survive his birth as he was dreadfully underweight and as he struggled to grow up in his remote village he remained chronically undernourished. There was no school and Issac never learnt to read and write properly, but he knew how to count. From the age of seven he looked after a herd of goats so they were not attacked by wild animals. He counted them back every evening. He had to be careful because there were armed men who sometimes took one of his father's goats. Sometimes they were white men from Portugal; sometimes they were the communist guerrilla group the Front for the Liberation of Mozambique. His father was less angry with them.

Issac remembered the celebrations in 1975 when Mozambique became independent but it was a sad year as well as his father died and he became the main breadwinner of the family aged 13. He had three younger sisters and a brother to look after.

The year Issac became a father himself at the age of 19 a terrible drought swept across Mozambique. His crops failed and his first-born child died in his arms. There was no medical help as the local clinic had been burnt down by anti-communist guerrillas who were trying to seize control of the country.

Life was always hard but eventually Issac had 4 children who survived early childhood, the last called Mary after his wife who died giving birth to her. There was no midwife.

Issac was a resourceful farmer and he fed his children well. His son and his youngest daughter went to school, she was very studious and eventually became a schoolteacher in the local school. His son got a job as a cleaner at a 5 star hotel in the capital city Maputo. Issac died last year of an aids-related carcinoma. His children inherited his 'shot-gun shack' and a lifetime of toil.

It depends where you start from as to where you get.

Benedict was born in St Mary's Hospital, Paddington, in London in 1962. This was the hospital where Alexander Fleming discovered penicillin in 1928 and where generations of British royalty had come into the world. It is an NHS hospital. Benedict's family were wealthy but in the early 1960s they feared that a Labour Government 'hell-bent on communism' – as Benedict's father Charles often declaimed – would result in them being driven from the country. They were patriots. Charles's great grandfather had lost his life in the 'Great War' and with all these foreigners' coming in it wasn't like it was before. When Britain was truly great.

Charles 'did something' in the city but weekends were spent away from their Kensington townhouse in their 'family home' outside Witney, Oxfordshire. Benedict went to Westminster School in London and then onto his father's college in Oxford. Right by the river, very old. Benedict got a second and the college got some sound financial advice.

When Benedict left university it was an exciting time to be young. Opportunity was everywhere. He followed his father into the city but didn't get into Eurobonds like his father had in the 1960s – soaking up excess US dollars into lower taxed pieces of paper that could be literally stuffed under cautious investors mattresses beyond the grasp of the government. No, what he had learnt from his geography degree at Oxford was all about globalisation, he was wise to the possibilities, his father's business had shown him that. He got into offshore private banking. The beauty of it was that he didn't even have to live elsewhere. He could stay in London. After all who wanted to live in Jersey, or that place his American clients had their bank accounts, 'the Cayman Islands'; sort of British so must be OK, but even so it wasn't London.

Benedict worked hard – you could with all that 'Bolivian marching powder' – and played hard too. Benedict made his first million by the time he was 25. Then the 'Big Bang' deregulation of 1986 came and Benedict could make some serious money. He did. I will not explain how he did that; you wouldn't understand, very few do. He did understand it, just, and that is why people paid him so much. Oh and Benedict bought up a lot of property. All over the place really but Dubai was a favourite. His house in Kensington, bigger than his parent's house, is owned by one of his Cayman Islands companies but shhh, that is a secret.

Recently the hedge fund that Benedict runs and in which he is the largest shareholder have taken an increasing interest in global commodities. They trade in all sorts of things, squeezing 'value' out of every asset; but commodities will be big, there isn't an infinite amount of them. He had read in the Financial Times a few years back that Mozambique was going to be the next big thing in natural gas. So here he was waiting at Heathrow for a flight to, where was it, Maputo, to have a look on the ground at the gas field in which they held a controlling share. Benedict wondered what the locals were like; nobody wanted to do business in a country where you weren't appreciated. Now what was that five star hotel in Maputo called? He hoped it was clean.

Stand up economic man.

Lucky as I am… I am not entirely rational: I do things that do not optimize my chances of living a long and healthy life. I know this but yet I fail to do the right things. I smoke, I probably drink too much and I fail to eat five portions of fruit and vegetables everyday. I certainly drink more coffee than is probably good for me and the last time I went to a gym…humm.

Then there is the fact that I knew that if I borrowed some of that easily available and relatively cheap money in the early 2000s and I used it to buy, without fear, on a rapidly rising housing market I might not now have to ply my trade at the whiteboard face of further education. I knew I could make money but I didn't do it. It was not rational economic behaviour.

One day in 2001 in Barcelona I was a beer away from buying a chic two bedroomed flat over-looking the city from Montjiuc Hill for £70,000. I could have raised the 10% deposit on my credit card. Those were the days. My friend Donald (who was my partner in real estate dreams) and I sat in bar and talked each other out of it. What would we say to our respective wives when we got home? "The fourth floor and no lift. Are you mad?"

Even today, after a major fall in property prices starting in 2008, such a property in Barcelona is worth up to £200,000. Although sensibly the Spanish have an 18% capital gains tax to dampen such speculative ardor.

The underpinning theories that are the main driving force of the modern global economy suggest I am an aberration. I am not 'economic man' and 'economic man' the all rational, all knowing, satisfaction seeking, utility maximizing, economic actor that is always looking to accumulate and optimise is the philosophical backbone of modern capitalism.

I guess I'm just a little sub-optimal, and thus entirely normal unlike much that passes for economics today.

As the story of economic man is a bit of a philosophical tale it is best to begin way back with the British economic philosopher Adam Smith. You've seen him. It is Adam Smith whose likeness adorns the British twenty-pound note.

Smith was born in Kirkcaldy, Scotland, in 1723. His greatest and most influential achievement was the publication of 'An Inquiry into the Nature and Causes of the Wealth of Nations' in 1776. This was a time and place book. It was published four months before the United States' declaration of Independence and at the very beginning of the industrial revolution in Britain. This groundbreaking work argued for free trade, unencumbered by government restriction, at a time when protectionist mercantilism was the more commonly aspired to goal within nations. Beneath all of the theorising was the assertion that individual self-interest was the backbone of economics. As Smith most famously put it:

"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest."[1]

It is therefore self-interest that is the great motivator, the drive that enables the market to operate as an efficient allocator of scarce resources. Smith coined the phrase 'the hidden hand' as a metaphor for how, he asserted, the market was self-regulating through the price mechanism (the interplay between supply and demand that sets the prices of goods and services). The final key aspect of Smith's broad argument is that as a consequence of self-interest and competition, socially desirable outcomes for the whole of society would be derived. So, self-interest is not only good for individuals but society as a whole. Of course there is a fine line between the idea of self-interest and that of greed. On the other hand *The Economist* magazine suggests:

"There is a world of difference between greed and self interest. The first, even if it were not self-defeating, would still be a gross perversion of the second. Failing to see this distinction, and thus concluding without further thought that private enterprise is tainted, is a kind of ethical stupidity."[2]

Such has been the influence of Adam Smith's thinking that it is said that Prime Minister Margaret Thatcher carried a copy of 'The Wealth of Nations' in her handbag at all times.[3] The Adam Smith Institute (ADI), a right-wing libertarian think tank based in London has been one of the most influential forces on public policy in the UK over the past 40 years. Internal markets in the NHS, contracting out local government services and the abolishment of fixed school catchment areas are all examples of ADI 'free-market ideas' that have been translated into public policy in recent years.

The idea of neo-liberal economics, drawn from the intellectual tradition set in motion by Adam Smith, has become, for many, the default setting of the global economy. Markets good: the state bad, if you want to reduce it to its most basic expression. Furthermore, such a position is asserted with a scientific confidence. Rational 'economic man' can be measured and modeled. If this happens then it will follow that this will happen.

Economics likes to think of itself as a science. In fact one of the Nobel Prizes awarded every year is for 'economic sciences'. Of course even winners of such a prize have a sense of the limitations of such scientific certainties. Here the 2013 Nobel Prize winner for Economics, Robert Shiller, Professor of Economics at Yale University, USA, sets out his thoughts:

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[1] Smith A (1776) 'An Inquiry into the Nature and Causes of the Wealth of Nations'. London Metheun. You can access the complete text of this work at http://www.econlib.org/library/Smith/smWN1.html

[2] The Economist. 20.01.2005. 'Special Report: corporate social responsibility: Profit and the public good.'

[3] Smith D (2003) 'Free Lunch: easily Digestible Economics.' Profile London. Page 43.

"My belief is that economics is somewhat more vulnerable than the physical sciences to models whose validity will never be clear, because the necessity for approximation is much stronger than in the physical sciences, especially given that the models describe people rather than magnetic resonances or fundamental particles. People can just change their minds and behave completely differently. They even have neuroses and identity problems, complex phenomena that the field of behavioral economics is finding relevant to understanding economic outcomes."[4]

So much so obvious. People behave with a high degree of complexity and ideas such as co-operation and altruism are at least as important as competition and the maximization of utility as motivations for humans.

If we look outside of our developed world certainties, where increasingly we are conditioned into believing that we are ultimately defined by our patterns of consumption, then different perspectives are revealed. Those multi-disciplinary academics at the Santa Fe Institute in Arizona, USA, have had a go at examining the idea of 'economic man' within a wide range of cultures across the world (remember when they were attempting to mathematize the city in chapter 6). They did this by engaging different social groups – mainly tribally focused – in a range of 'games' that tested their range of cooperation, competition, altruism or individual optimality.[5] They basically tested the 'scientific' validity of 'economic man' across cultures. What did they deduce? That the 'canonical selfishness based model fails in all of the societies studied.' Further that:

"...differences in economic organization and the structure of social interactions explain a substantial portion of behavioral variation across societies."[6]

So although the thinking of Adam Smith was given further resonance with the economic philosophies of 19th century stalwarts such as John Stuart Mill, David Ricardo and Thomas Malthus and thus became the dominant economic paradigm of our distinctly 'Anglo-Saxon' take on capitalism, it is anything but nailed down as the unflinching reality that advocates of 'the market' oft claim of it. Economic man is illusory, an abstraction with very little basis in the real world. How people 'read' their world is shaped by the economic structures and the underpinning culture that is dominant, or as Marxist's might say 'what is hegemonic.'[7] Therefore the philosophical backbone of the economic models that assert the misplaced notion that economics is a science per se rather than a societal discipline (that engages with scientific methods) is that which dominates the debate about how the global economy operates. How many

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[4] Shiller R (2013) 'Is Economics a Science'. Project Syndicate. 06.11.2013. Access at http://www.project-syndicate.org/commentary/robert-j--shilleron-whether-he-is-a-scientist#2c1HyrRSKibk8FVR.99

[5] Heinrich J et al (2005) 'Economic Man' in Cross-cultural Perspective: Behavioral Experiments in 15 Small-scale Societies'. Behavioural and Brain Sciences Vol 28 Issue 06 pp795-815

[6] Op cit.

[7] Hegemony refers to the dominant 'type' of leadership in terms of culture, economy and political authority. Control is a central facet of hegemonic ideologies.

times are the assertions “it is what the market demands” or “the market tells us that” rolled out as if this is an absolute, unerring truth?

In the end we have free will to choose. And sometimes, often in fact, we are not optimal, not entirely rational but human instead. We can make human choices. They are harder to factor into the models based around ‘economic man’.

All hail the market.

The moment was November 9th 1989. Gunter Schabowski, a leading member of the East German government was addressing the world’s press in Berlin. For months East Germany had been in flux as many citizens besieged foreign embassies to try and secure free passage from this satellite client state of the Soviet Union’s expansionist communist political system. Schabowski is stumbling and unsure of himself but his words are explosive. At the time I watched it in disbelief on BBC TV News.

“We have made the decision today to institute a regulation which permits every resident of East Germany to depart the country through any border crossing of the GDR… It is now…immediately.”[8]

Unsurprisingly the reaction was immediate. Crowds flocked to the border crossings between East and West Berlin. As they surged towards the border guards, humanity kicked in, guns weren’t raised instead gates were opened. A massive party begun.

Nobody who was in Berlin in November 1989 will ever forget those heady weeks. The ‘West’ had won. In the following 20 months up until the dissolution of the Soviet Communist Party in August 1991 the complete geographical architecture of the cold war was dismantled before our very eyes.

[8] Cumbrowski C (2008). Text of film of filmed press conference. Film accessed on Youtube at http://www.youtube.com/watch?v=MM2qq5J5A1s

Some were so swept up in their sense of victory that they claimed that this was 'the end of history' whereby western liberal democracy and its under-pinning neo-liberal economics were the end point of humanity's socio-cultural evolution.[9] Today we fret about Eastern European economic migrants 'invading' Britain. Back then we would have welcomed them as validation of our superior economic system.

And why do they come? Is everything not hunky-dory in Romania now that central planning and the dictatorial proclivities of Nicolae Ceausescu were brutally terminated in the global public glare on Christmas Day 1989? Clearly not. Average net wages in Romania in January 2014 are approximately £290 a month.[10] A three bedroomed city centre flat in Sofia will be around £357.00 a month to rent. You can see the problem.

In the UK a 35-hour week being paid the minimum wage will put about £210 in your back pocket.[11] So even the most basic full-time wage in the UK is 200% higher than the median wage in Romania. What does neo-liberal economic theory tell us? Rational human beings will move in order to derive maximum personal economic benefit. Then the 'hidden hand' of the market will drive down wages in the country where migrants have moved to (of course a minimum wage is a direct intervention into the market mechanism and so will set a floor on this, at least within the regulated economy).

Cambridge University Economist Ha-Joon Chang makes this point in his work '23 Things They Don't Tell You About Capitalism':

"…the living standards of the huge majority of people in rich countries critically depend on the existence of the most draconian control over their labour markets – immigration control."[12]

Of course there is the irony quite often those political parties that are most hostile to immigration that are also the political parties in thrall to neo-liberal economics, UKIP for example. You want a harsh truth? Most of the UK workforce is probably over-paid if we let 'economic man' rule our lives. A significant amount of employment in the UK labour market could and would be done cheaper by in-coming migrants if only we would let them in without restriction. They would all of course be tax paying and national insurance contributing citizens, or not as the case may be.

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[9] Fukuyama F (1992). 'The End of History and the Last Man'. Free Press New York.

[10] The excellent Numbeo website has a good and perennially up to date cost of living index for most major countries in Europe.

[11] After National Insurance deductions and a small amount of income tax – approximately £15 of deductions in all - possibly less depending on circumstances

[12] Chang H-J (2010) '23 Things They Don't Tell You About Capitalism.' Allen Lane London p26

This scenario is not going to happen, immigration control is going to remain with us for some time although we may get more flexible in encouraging migration of those who it is felt will bring economic and cultural dynamism to our society. It is the low-skilled, low-wage migrants we worry about simply because we have more than enough of a low-skilled, low-waged labour force already in the UK. A reserve army of labour is always good for go-ahead capitalists: it can keep labour market costs down and profit margins up.

For the working class migration is about wage and job competition. For the upper-middle classes it is about cheap Polish plumbers and affordable childcare courtesy of Tatinia from Latvia.

What we will not be doing is following the logic of the free-marketers who would, if intellectually consistent, be tearing down any border controls at a global level. The hidden hand of the market would then determine how much you are worth. Even bankers are paid less in other countries than they are in the UK, although interestingly politicians in UK are relatively poorly paid by international standards. What would the market decide?

The reality as Ha-Joon Chang asserts is:

"The free market doesn't exist. Every market has some rules and boundaries that restrict freedom of choice… Overcoming the myth that there is such a thing as an objectively defined 'free market' is the first step towards understanding capitalism."[13]

Taken one step further understanding capitalism is essential in understanding geography in the 21st century. It permeates all that is studied: even physical geography – that many think is untainted by such contested ideas as politics and economics – is framed within a world system dominated by humans and their constant push and shove in their attempts to achieve better lives. There is no escape from capital; it has us all in thrall.

[13] Op cit p1

Too big to fail.

At the beginning of August 1914 Britain went to war. On the streets of Salford the impact was felt immediately. People started to panic buy.

"Soon we heard loud protests from people returning laden from the shops – 'stuck up folk', (the middle class) they reported, were coming from the suburbs with horse and trap, bassinettes and even carts, buying up sugar and flour by the half sack. Near-riots took place: shop windows were broken and the police called in. Within two days both sugar and flour had doubled in price."[14]

In September 2008 we almost found ourselves in a far worse position although with hardly anybody in Britain really realising it. What would have happened if the British government had not stepped in to support the hugely indebted British banking sector and instead let the banks fail? Now there's a question.

Most people who have pondered this question have concerned themselves with the impacts upon the wider macro-economy but I err with Richard Murphy, the campaigning global tax specialist, who observed about those who supported no government intervention in 2008.

"…be explicit that you are seeking to bring down the entire economy and in all likelihood democracy with it."[15]

We can but speculate but we would only be speculating about variations of chaos. Your bank account would be frozen; service tills would stop spewing cash: debit and credit cards non-functional. As for your mortgage, well in principle the bank might recall it in order to pay off its creditors, who might be you anyhow. Not that anybody would be buying houses.

So how much cash have you got on you? Because for some time that is all you are going to see. I predict extreme shopping. I have joked with my students my first port of call is Waitrose, possibly with a large van and a lot of attitude. I'd probably have to get in the queue behind the 4x4s from the more up market parts of the city. Desperation would convey new forms of equality. Suddenly drug dealers would be the new banks, the only people with a ready supply of folding. We'd all be equally 'fucked'.

So how long until the army is on the street? You know the level of chaos that can unfold rapidly, remember the 2011 riots in Tottenham and Croydon. Cobra would be convened, daily.[16]

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[14] Roberts R (1971) 'The Classic Slum: Salford Life in the First Quarter of the Century' University of Manchester Press. Page 186-187.

[15] Murphy R (2011) 'If you ask for the banks to fail please realize that you are asking to bring down the whole of the economy and democracy with it.' Tax Research UK. 09.10.2011. Access at http://www.taxresearch.org.uk/Blog/2011/10/09/if-you-ask-for-banks-to-fail-please-realise-you-are-asking-to-bring-down-the-whole-economy-and-democracy-with-it/

[16] Cobra stands for Cabinet Office briefing room a and is convened by the Prime Minister in Downing Street in times of national emergency.

Would you still go to work knowing you wouldn't be paid? What about doctors, nurses, teachers, street cleaners, water engineers and police officers? I guess with public employees most would get paid, something, some time – but the private sector? It probably depends on how much of an economic domino effect kicked in. 'Bad banks' bringing down 'good banks'.

A few weeks in what would the government be doing? Martial law, rule by decree and the barrel of a gun? You only have to look to Egypt, Syria, Thailand, Ukraine and Libya in 2014 to see what happens when societies unravel. Of course that might be a little too far, the Soviet Union survived its transition to Russia and eventually we picked ourselves up and dusted ourselves down after the great depression of the 1930s but both of these events had seen a basically working system of finance still in operation and importantly far more cash existed in both of those scenarios. Today the vast majority of money is digital code and thus far easier to lose, and of course create.

The banking and finance system has now become the totem in whom we trust. We hate them but need them. We can't live without them but wish we could.

The 2008 economic crash was our wake-up call to the all encompassing, too big to fail, global financial system. It was the moment that informed people realised that the economy was not quite what it seemed. Transparency, trust and fairness, once the hallmarks of 'gentlemanly' capitalism were but another faded myth that we had clung onto. Early 21st century global capitalism was awash with the 'animal spirits' of acquisition hidden behind secrecy and digital technology. A complete 'shadow economy' beyond comprehension and regulation has distorted and defiled the legitimate economy. Yet in 2008 that shadow economy wasn't just the global $1.8 trillion 'traditional' black market of counterfeit goods, drugs, prostitution and copyright piracy[17] but a massive market of collateralised debt obligations, credit default swaps and short selling. Activities that even the people and organisations involved in them barely understood and often lying outside of traditional regulatory structures. The scale of all this at a global level is breath-taking.

When Lehman Brothers, one of the largest investment banks in the world, was allowed to go bankrupt in 2008 it left behind the biggest debts in US bankruptcy history, $613 billion, around three-quarters of the UK government's annual expenditure at that time.

When the contagion of the US 'sub-prime' debt crisis reached across the pond and £37 billion was immediately pledged to prop up ailing British banks we were but a hair's breadth away from complete financial collapse. Don't take my word for it read what the then Chancellor of the Exchequer Alistair Darling said on reflection.

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[17] Havocscope Global Market Information gives a relatively reliable source of the scale of 'traditional 'black market activities' Access at http://www.havocscope.com/black-market/

"The risk I have always seen is that people forget just how close we came to a complete collapse and the thing about a collapse of the banks is that it wouldn't just have been the banks in ruins, it would have been complete economic and therefore social collapse. People without money can do nothing – you can't buy your petrol, you can't buy your food, anything. It was rather like a nuclear war, you know you think it will never happen. And then someone tells you that a missile's been launched. It was very scary."[19]

For something so scary, the unfolding crisis in Britain was for many people yet more political tittle-tattle that jumped out of the TV news. The harsh realities that could have been unleashed were way beyond their immediate comprehension. But there we were, hours from collapse and chaos. Are you confident it will not happen again?

The global money-go-round.

A whisker shy of $85 trillion. That is the value of all the economic activity in the world in 2012 according to the US government.[20] $22 trillion of that is global trade with just over $4 trillion in services but $18 trillion in merchandise – stuff.[21] The size of the global economy has grown by 100% since 1985. In that same period global population has risen by 2.3 billion or by 48%. We are better off and it is trade that has played a large part in achieving this.

For all those individuals and companies across the world who want to be part of this growing economic market-place just having a good idea, energy, enthusiasm and entrepreneurial zeal is not sufficient. To make money you need money. This is what we know as capital.

Back in the late 1780s even Richard Arkwright, the entrepreneurial innovator who created the first factory system harnessing power, machinery and labour needed capital to get it all going. He turned to bankers in the city of Nottingham for the injection of capital he needed to get his ideas off the ground.

In the first age of capitalism, from Arkwright and Adam Smith onwards, capital was very much an indigenous thing with any cross border capital transfers being driven by imperial

[19] Watkins S. (2013) 'Interview with Alistair Darling'. The Mail on Sunday 07.11.2013. re-printed at accessed at http://www.thisismoney.co.uk/money/news/article-2415003/ALISTAIR-DARLING-INTERVIEW-Britain-hours-away-total-social-collapse--Former-Chancellor-crisis-erupted-FIVE-years-ago-week.html#ixzz2rG8WrByE

[20] CIA Worldfactbook 2013 Access at https://www.cia.gov/library/publications/the-world-factbook/

[21] World Trade Organisation Press release 680. 10.04.2013. Access at http://www.wto.org/english/news_e/pres13_e/pr688_e.htm

ambitions such as the investments made by the East India Company to bring India under their economic yoke.

At the end of the Second World War the rules of trade for the modern age were set in motion by the Bretton Woods agreements of 1944. Out of these structures, created to accelerate trade after the ruinous Second World War, came the World Bank, the International Monetary Fund and, via the General Agreement of Trade and Tariffs, the World Trade Organisation. Broadly these areas of the global economy are regulated like the banks that facilitate the trillions of dollars of global trade between and within countries. Capital controls existed and currencies were tied to a 'gold standard dollar'. A very important consideration due to the vast amount of dollars that were – from the 1950s onwards – finding their way outside of the USA as a result of the country sucking in imports and exporting 'free-market democracy' through programmes such as the Marshall Plan.

All that 'nation building' – or perhaps more aptly 'nation destroying' – came to ahead in the USA in 1971 when the punitive cost of waging war in Vietnam and maintaining a huge military presence worldwide persuaded the then US President, Richard Nixon, to uncouple the set value of the US dollar to gold ($35 per troy ounce had been the standard). This was the moment when capital really started to get globally mobile. Accelerating this trend was the huge dollar deposits that were finding their way into the coffers of oil exporting nations after the 1973 oil price hike by OPEC. A growing trade in Eurobonds, pieces of paper which are essentially "ultra high value dollar bills" which had no record of ownership and were thus ideal for tax evasion and hyper global instant liquidity – tied as they were to the relatively stable US dollar – meant that capital was starting to decouple itself from the national state and become effectively stateless in chasing the greatest utility or rate of return.[22]

'Money is like Muck' said the 17th century English philosopher Francis Bacon. It only works if you spread it around and huge amounts of those 1970s 'petro-dollars' found their way into the accounts of newly independent ex-colonial countries. This was the start of what became known as the third world debt crisis.

However it was the rise of neo-liberal economics from the 1980s onwards that really released capital from its geographically specific locales: that and the rise of micro-electronic communications and computer technology.

When, in 1979,the British government removed capital controls, the key impediment to moving capital overseas to realise more productive outcomes and this became the first whole-hearted embrace of economic neo-liberalism in the UK. Sure Eurobonds had already allowed US investors to use London as an offshore tax haven for years but the principle had not yet been extended to sterling.

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[22] Shawson N (2011) 'Treasure islands: Tax Havens And The Men That Stole The World.' The Bodley Head London p91.

A decade on from Margaret Thatcher's election as British Prime Minister, 'The Big Bang' deregulation, the privatisation of many areas of government economic activity, liberalisation of labour markets and the computerisation of banking reducing money to so much digital code has completely changed the economic terrain. There is no turning back it has been a complete revolution.

At the start of the 1980s if I wanted to secure a mortgage I would have had to develop a long-term relationship with my lender involving a history of saving and the accumulation of a substantial deposit. By the end of the decade, three pay cheques, a temporary 12 month contract and not a penny of savings got me a 100% mortgage at what today would be considered an eye watering rate of interest. I got into the housing market due to an increasingly less risk averse attitude to lending underpinned by a growing store of 'hot capital'.

Neo-liberal economics and globalisation have now created such an intense global money-go-round that we find ourselves in a world where the value of financial assets is now far greater than the value of the 'real' economy.[23] Currency exchanges that underpin all global trade between countries (apart from those countries within the Eurozone) are currently running at $5.3 trillion a day. A day! Of those currency exchanges 84.9% involve the US$.[24]

The global economy today has a complexity that would dazzle the pioneers of capitalism. It is driven by an all-encompassing market logic that measures, models and asserts 'truths' as self-evident. And this is only the part of the global economy we can see.

[23] Mason P (2009) 'Meltdown: The End of the Age of Greed'. London Verso.

[24] Bank for International Settlements. (2013). 'Triennial Central Bank Survey. Foreign exchange turnover in April 2013.' Access at http://www.bis.org/publ/rpfx13fx.pdf

Trickle up theory.

Sitting alongside the ‘real’ economy, that part of globalisation that most of us can just about grasp, another economy has evolved. This economy is hidden from view, far from transparent and largely un-regulated. This is the ‘shadow economy’, a global phenomenon whose antics lay at the heart of the 2008 global economic crisis.

This ‘shadow economy’ has a number of components that are weaved together with a complexity so bewildering that even its participants rarely grasp exactly what is going on. First there are the global investment banks, sometimes referred to as the Leviathans who now bestride the world of capital.[25] Then there are ‘Hedge Funds’, a type of organisation that manages the pooled resources of investors (more often than not borrowing huge amounts against their equity to ‘leverage’ up the scale of financial dealing that they instigate).[26]

What Hedge Funds ‘do’ is hard for a mere geographer like me to explain but centralised debt obligations, derivatives and off-balance sheet trading are all part of the complexities that Hedge Funds employ. They are the high risk, high return element of global capitalism. Then there is the more geographically graspable subject of off-shore banking, those places in the world where money can be hidden from regulation, taxation and law enforcement. These three elements have created a world which barely anybody is aware of but one that controls all of our lives. This is the ‘shadow’ global money-go-round. This secret world has been essential in enriching the world’s wealthiest. It is where inequality is fashioned.

Here is a fact to ponder. In 2010 the value of Global GDP was $63.7 trillion but the global value of major financial asset market transactions (including currency trading) was $600 trillion.[27] I know I can’t really explain it either. There must be an inordinately large sector of the global economy that is just concerned with making money out of money - the transactional economy.

Try this for size. The global market in derivatives in 2010 was worth $1.2 quadrillion (a quadrillion is one thousand trillion).[28] This is a notional figure based upon the asset value being traded. Even if the trader can secure a return of just 1% on these contracts that adds up to $17 trillion or about one quarter of global GDP. The derivative contract could be betting on anything that might happen in a financial market; shares up or down, currency, commodity prices, you name it. This is how you get really rich. A bit like Paddy Power only with much bigger sums of money.

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[25] Augur P (2005) ‘The Greed Merchants: How the Investment Banks Played the Free Market Game’. London page 29

[26] Leverage just means borrowing.

[27] Bain and Company (2012) ‘A World Awash In Money: capital Trends through to 2020’. Access at http://www.bain.com/Images/BAIN_REPORT_A_world_awash_in_money.pdf

[28] Cohen P (2010) ‘Big Risk: $1.2 Quadrillion Derivatives Market Dwarfs World GDP’. Daily Finance. Access at http://www.dailyfinance.com/2010/06/09/risk-quadrillion-derivatives-market-gdp/

And haven't the rich got rich? In January 2014 Oxfam produced a report on global wealth in response to the annual gathering of the world's political and economic elite at Davos, Switzerland, (remember we looked at their 2013 predictions in Chapter 1). The 2014 Davos Conference highlighted the fact that inequality was considered the 2nd greatest risk globally with it "impacting social stability within countries and threatening security on a global scale."[29] Oxfam retorted that the richest 85 people in the world held the same level of wealth as the 3.5 billion poorest global citizens. They also demonstrated that in the OECD country with the greatest growth in inequality – the USA – that 90% of economic growth since the 2008 crash had been accrued by the top 1% wealthiest of the population.

I note looking at the diagram produced by Credit Suisse bank (Figure 7.1) upon which the Oxfam report is largely based that I, although about at the median point of wealth distribution in the UK,[30] am part of the global elite, the 8.1% of the global adult population who hold 82.4% of global wealth. Wow, it doesn't feel like it. None of my wealth is leveraged, another one of my sub-optimal traits.

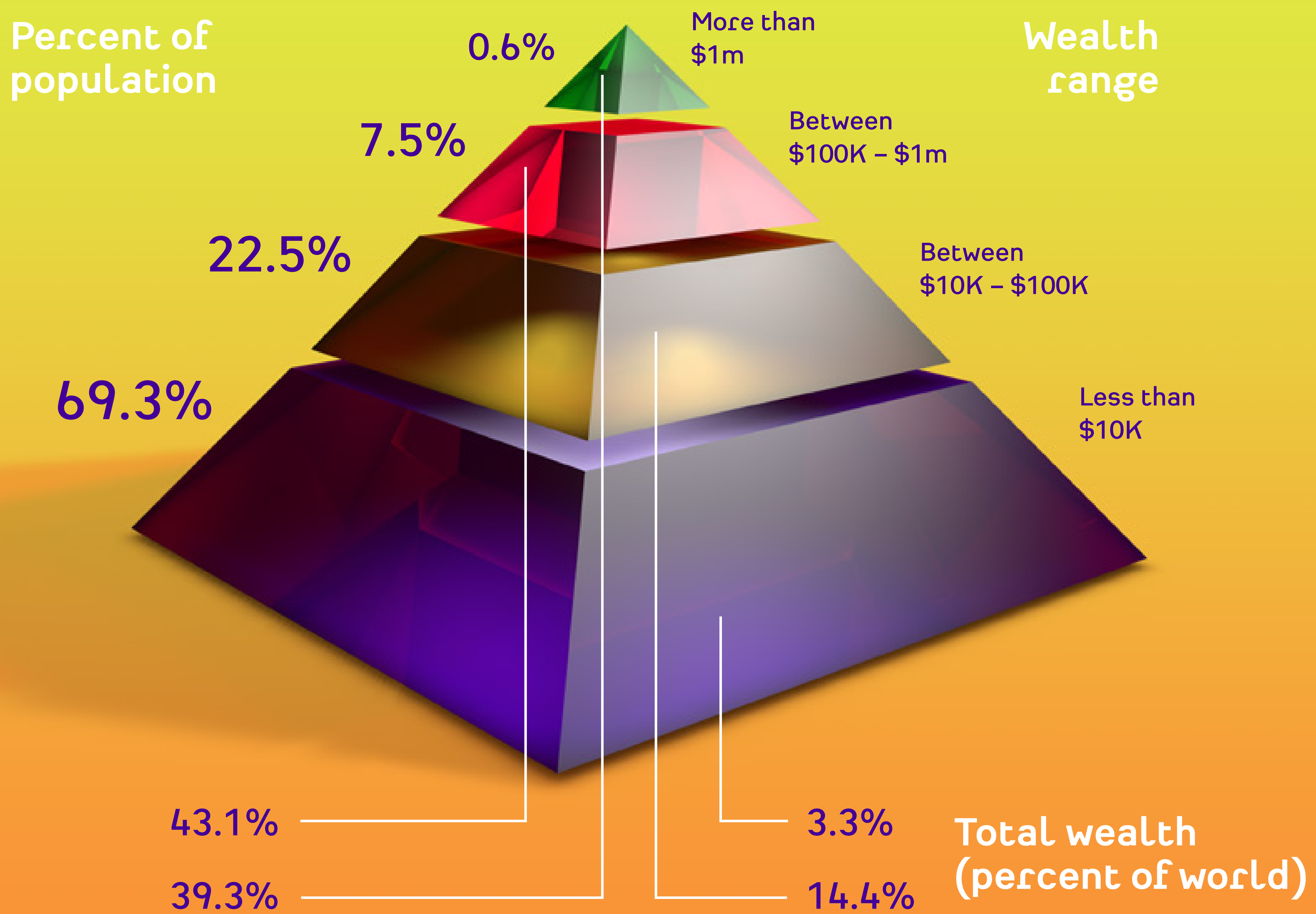
In defence of neo-liberal attempts to reduce the taxation of the rich and to apportion to them greater wealth a long-term argument used is the idea of the 'trickle down effect'. This theory stipulates that as the rich get richer their wealth trickles down to those less rich as well. All people become better off, or as some have commented, 'all boats float on a rising tide'. The evidence does not support this thinking. We live in a 'trickle up world' where the wealth of the ordinary person is increasingly appropriated by the super-rich.

[29] 178 Oxfam Briefing Paper (2014) 'Working For The Few'. Access at http://www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequality-200114-summ-en.pdf

[30] Research by Professor John Hills of the LSE has come up with the figure of £232,400 as median household wealth in the UK. My best guess of my households 'suitcase money' – that is if we liquidised every asset of value we owned and deducted our debt my household is probably worth around £240,00. Divide that in half- two adults live in this household and you get £120,000 or $198,000. Putting me in the 2nd tier of global wealth. Information about UK wealth accessed from Winch J (2013) 'One in ten UK households are asset millionaires'. The Daily Telegraph. 22.05.2013. Access at http://www.telegraph.co.uk/financepersonalfinance/10073033/One-in-ten-UK-households-are-asset-millionaires.html

Figure 7.1

THE GLOBAL WEALTH PYRAMID



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2012

OK still don't believe me? In 2013 the Trade Union Congress (TUC) produced a report that demonstrated how progressively over time the proportion of UK GDP that went to citizens as wages has declined and at the same time the proportion that was held as profits has risen.[31]

Now this wouldn't be a huge problem if that additional profit had been re-invested into the productive economy maybe through more research and development or into expanding productive capacity through capital investments in machinery or skills development. In fact investment fell by 25% over that same time period. Where was all that money going? Offshore would be a good bet and away from the grasping hand of the taxman it might also be assumed. It certainly wasn't being increasingly re-invested in the UK economy, unlike the vast majority of wages.

So how come between 1977 and 2008 most people in Britain have become wealthier? Well, firstly the economic pie we are dividing up has got bigger but we have also got more into debt. Currently the average debt for a UK citizen is £28,489 (total including secured mortgage debt) of which about £3,000 is unsecured debt (credit-card/store-card/overdraft/Wonga).[32] Much of this borrowing confidence to engage in consumption is fuelled by citizens leveraging their housing asset (home) – or to put it in plain speak re-mortgaging against the value of your home.

Where is the real wealth going? It is trickling up.

[31] Between 1977 and 2008 the proportion of UK GDP that was wages fell from 59% to 53% and the proportion that was paid in profits rose from 25% to 29% over the same period. Reed H and Mohun-Himmelweit J (2013) 'Where Have All the Wages Gone?' Touchstone Extras TUC. Access at http://www.tuc.org.uk/sites/default/files/tucfiles/where_have_all_the_wages_gone_touchstone_extras_2012.pdf

[32] BBC Business 'UK household debt hits record high' 29.11.2013. Access at http://www.bbc.co.uk/news/business-25152556

Lets invade Jersey.

In 1961 the government of Jersey enacted legislation that repealed ancient statutes that had restricted the maximum rate of interest charged by the island's few local banks to 5%. By the end of that year the first major international bank, Hill Samuel, had set up shop in St Hellier, Jersey's main and only town. By the 1970s the number of such international banks operating out of Jersey topped 60.[33] Today some 33,272 companies are domiciled in Jersey with $1.8 trillion of capital 'sheltered' from inquisitive eyes.[34]

Jersey and it's smaller partner island Guernsey are Crown dependencies, not part of the United Kingdom, nor the European Union as such, but self-governing territories that have had fiscal independence from the UK for centuries. They play by their own rules although they buy into certain arrangements which suit their purpose, like being part of the 1981 UK Nationality Act and thus have the benefits of being EU citizens without being part of the EU – I know its called having your cake and eating it. They also subscribe to free movement of goods within the customs union of the EU but not the parts of legislation concerning capital or financial services.

Jersey was a trailblazer in the global industry of low-tax, or no-tax havens where, and increasingly, large amount of the world's wealth is stored away from the preying eyes of regulators, revenue departments and sometimes criminal investigators. Every sizeable drug baron, brutal dictator and corrupt politician will have an account (probably just numbered) in some tax haven or other. The scale is staggering. Of course the complexity and geography of such a 'shadow' world can be bewildering. As James Henry from the Tax Justice Network, in his 2012 report revealing the scale and scope of global tax avoidance, states

"Grade-school geography conditions us to think of offshore as a physical location. Indeed, some residential havens like Singapore and Switzerland do specialize in providing secure low-tax physical residences to the worlds wealthiest people, along with expensive private schools, hospitals, and resorts to enhance the family dynasties human capital; and highly secure storage facilities for private collections of art, gold, jewels, classic cars, yachts, planes, weapons and other trinkets."[35]

Henry goes on to explain that in reality 'off shore' is as much a digital place as real. Brass plaques on the doors of a legal office in some far flung island can be the ultimate home of major corporations but all the 'real business' will be done here, right under our eyes, in London and its affiliate cities in the global tax avoidance business, the world's biggest and most unproductive economic activity.

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[33] Cook G (2011) 'Jersey: the key milestones in the fifty year history of an international financial centre' Financial Centres International. Access at http://www.financialcentresinternational.com/article.php?i=11229

[34] McGrath-Goodman L (2014) 'Inside the World's Top Offshore Tax Shelter'. Newsweek 16.01.2014. For each of Jersey's 44 square miles 2200 people live, 740 companies exist and $40 billion of wealth is sheltered.

[35] Henry J (2012) 'The Price of Offshore Revisted' Tax Justice Network. Access at http://www.taxjustice.net/cms/upload/pdf/Price_of_Offshore_Revisited_120722.pdf

The organization that John Henry is affiliated to is the Tax Justice Network (TJN). Set up in 2002 by a disparate group of campaigners, tax accountants and social activists, the TJN's Director is John Christensen and he is a man who knows what he is talking about. For most of the 1990s Jersey born Christensen was an economic advisor to the Jersey government. Being persona non grata in his Jersey homeland today, Christensen now lives in England where his organization carries out the most forensic of investigations into global tax avoidance.[36] The TJN are more up-front and call it tax evasion although I am reminded of the quip about the gap between tax avoidance and tax evasion being the thickness of a prison wall.[37]

In November 2011 the TJN published a briefing paper on the cost of tax evasion worldwide.[38] I remain at a loss why this missive was not shouted from the media rooftops but it was not and it probably has something to do with the tax efficient ownership structures that characterize the privately owned media in the UK.

The TJN calculate – and I stress they are predominantly tax accountants and I thus assume that they know a thing or two about how to do this – that in 2010 tax evasion amounted to $3.132 trillion worldwide, or approximately 5% of global GDP.[39] In a welter of data they estimate that the UK lost £65 billion to the shadow economy of offshore banking and investments. Globally more than $1 in every $6 in the world is hidden from tax authorities. The TJN boldly assert that this is "a crime against society and a crime against democracy". I happen to agree, strongly.

On the other hand the democratically elected leader of my country, David Cameron, is singing off a different song sheet. In a speech to the Federation of Small Business' conference in January 2014 he said, "frankly I don't like any taxes", adding that the UK needed a change of culture whereby we would "celebrate entrepreneurs buccaneering style".[40]

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[36] van der Zee B (2011) 'Holly cow taxman! Featherweight activist battles the dodgers' The Guardian 07.07.2011. Access at http://www.theguardian.com/business/2011/jul/07/interview-john-christensen-tax-justice-network

[37] Apparently attributed to the ex-Labour Chancellor of the Exchequer Denis Healey.

[38] The Tax Justice Network (2011) 'The Cost of Tax Abuse'. Access at http://www.tackletaxhavens.com/Cost_of_Tax_Abuse_TJN_Research_23rd_Nov_2011.pdf

[39] Op cit P3

[40] Bennett A (2014). 'David Cameron Avoids Backing Boris Johnson's 40p Tax Rate Call'. The Huffington Post. 27.01.2014. Access at http://www.huffingtonpost.co.uk/2014/01/27/david-cameron-business_n_4672243.html

Well at least it is now plain why Mr. Cameron is not that keen on public services, he doesn't want to pay for them with tax. Let's consider his approach. Take health. In the USA average annual health insurance for a family in 2009 was £8,025. For a single person it was £2,894, or £241 a month.[41] My income tax last month was £604.15 (including National Insurance which is an income tax in all but name) some £64 less than the cost of average health insurance in the USA for a family of four (and this is average coverage, it will not cover a whole load of stuff like top end cancer treatment as Walt discovered in *'Breaking Bad'*). I support the direct funding of health care through taxation: I'd be stupid not to and so would the vast majority of Britain's population.

We could go on: transport, education, defence, policing, local government, welfare coverage, environmental protection, it all costs.

One of my ambitions is to pay as much tax as possible, 50% no problem because then I would be a very wealthy person. I have no objection to Wayne Rooney being paid £300,000 a week; he will pay approximately £140,000 in tax and national insurance contributions a week assuming he hasn't employed some 'fancy tax efficiency scheme.'[42] His tax contributions should cover the cost of a large secondary school.

Of course if I were 'properly wealthy' I'd almost certainly be spending a small fortune on lawyers, accountants and private banks to ensure that those grasping folk at the Inland Revenue don't get their hands on my money. It's mine, precious.[43]

The real wealthy do not worry about whether the government puts up the top tax rate to 50% they pay far lower rates than that. They almost certainly pay a lower percentage than their cleaners.

One of the most intriguing stories to raise its head at the beginning of 2014 was the revelation that increasingly large numbers of Chinese citizens were turning to 'off-shore' banking to minimize their tax liabilities to the Chinese state and to keep prying eyes from seeing how much they make.[44] This story saw The Guardian's website blocked in China. However I am sure well-connected Chinese could still *'baidu'*[45] Jersey because there, in that bucolic part of the British Isles, awaits a rapacious-banking sector that just loves to say 'yes' without prying too much about where the money comes from.

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[41] Kaiser Family Foundation. '2013 Employer Health Benefits Survey'. Access at http://kff.org/private-insurance/report/2013-employer-health-benefits/

[42] Rose G (2014) 'Wayne Rooney: Manchester United's forward's £70m deal.' BBC Sport 21.02.2014. Access at http://www.bbc.co.uk/sport/0/football/26246939

[43] Footballers have been at the forefront of tax efficiency in the UK. In Chapter 6 of Richard Brooks' 'The Great Tax Robbery' (2013) a great deal of light is shone on the how 'image rights' are often used to reduce tax liabilities of UK based footballers. It is suggested that (by The Sunday Times) Rooney employs an image rights company and this will obviously be charged at a lower rate of Corporation Tax – assuming if it is on-shore. Offshore any footballer can avoid any tax on this part of his income.

[44] Great coverage on the report by the International Consortium of Investigative Journalists can be found at The Guardian. Ball J (2014) 'Chinese oil giants make use of offshore shell companies in Caribbean.' The Guardian 22.01.2014. Access at http://www.theguardian.com/world/ng-interactive/2014/jan/21/china-british-virgin-islands-wealth-offshore-havens

[45] Baidu is the Chinese equivalent of Google.

I say let's invade Jersey (and the Isle of Man while we are at it). It will be straight forward compared to Iraq and it should pay for itself ten times over and more. The only problem is it would not work. By the time Her Majesties loyalist reached St Hellier the money would be long gone. Spirited away at the click of a mouse to new lands where everything can be kept just shhh and an army of lawyers can fend off even the most aggressive investigator.

Cheats on the high street.

The main shopping street in Sheffield is called Fargate. This is where premium rents are paid that reflect the pedestrianised street's footfall, the highest in Sheffield city centre. Many of Britain's biggest retail names have a presence on Fargate. There is Top Shop and Dorothy Perkins from Philip Green's Arcadia retail empire; all the big network phone companies are there including Britain's largest – Vodafone - and at the bottom of Fargate where it meets the High Street is Boots.

Boots the chemist has been part of Britain's retail landscape for well over a century, a staple of the high street. The founding of this company remains a source of pride for the city of Nottingham where in 1849 John Boot set up a herbal remedy shop for the city's poor. His son Jesse turned the business into a national chain with 550 stores by 1914. By then they specialised in health and pharmacy rather than herbal remedies. This was a family company who saw business as having wider societal goals rather than just turning a profit. In 1938 Jesse's son John, who was then chairman or the company, commented:

"When we build factories in which it is a joy to work, when we establish pension funds which relieve our workers of fears for their old age, when we reduce the number of working days in the week, or give long holidays with pay to our retail assistant, we are setting a standard which Governments in due time will be able to make universal"[46]

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[46] Quote from Boots History found on the company website. Access at http://www.boots-uk.com/About_Boots/Boots_Heritage/Boots_History.aspx

Times have changed. Boots is now part of $22billion multinational Alliance Boots.[47] The company is domiciled in Switzerland but is effectively owned by a Gibraltar holding company and a series of offshore funds.[48] The principle shareholders in this intertwined global edifice of prescriptions and paracetemol are first the US private equity company Kohlberg Kravis Roberts (KKR), whose global brand ambassador is General David Petraeus, ex-Head of the Central Intelligence Agency (CIA). Then there is Monaco resident Stefano Pessina and finally the largest shareholder is the biggest drug retailer in the USA, Walgreens. Like Boots Walgreens started as a family based pharmacy company, in Chicago in 1901.

Now I am not a forensic accountant but even I can spot the interesting trend in the latest set of accounts from Alliance Boots. Revenues, at £22.4 billion, are down 2.6% however profits are up 6.1% to £1.246 billion. So much so much good management, costs are clearly down and margins are higher. However I can't help noticing that realisable post tax profits are up 25% to £741m[49] and furthermore that this profit was boosted by £83 million of tax credits (presumably from the UK government).

I'm not alone in thinking that the tax efficiencies of Alliance Boots are drawing significant money away from the UK economy. Tax fraud investigator and Private Eye journalist Richard Brooks points out that the company paid £154 million in corporation tax to the UK government in 2000 but for the three years from 2010 to 2012 Alliance Boots paid a total of £156 million in tax (in all countries not just the UK but probably mostly in the UK) which is an effective tax rate of under 9% on profits of £1.8 billion. Now that is what I would call buccaneering entrepreneurship.

The tools of the trade of modern global capitalism are; leveraged buyouts in which debt can be off-set against tax – the transfer of personal wealth into companies whose geographical provenance and ownership structure is opaque, and the use of transfer pricing to move tax liabilities to a low tax area at the expense of the country the good or service is sold in (think Amazon and Google). I'd guess Alliance Boots engage in all these practices, and none of this is illegal: it is entirely normal for the businesses that we frequent on a regular basis.

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[47] Latest company accounts for Alliance Boots are for 2012-13. Access at http://annualreport2012-13.allianceboots.com

[48] Brooks R (2013) 'The Great Tax Robbery.' OneWorld London. Page 137

[49] Op cit Alliance Boots Accounts

There is the Philip Green owned Arcadia group portfolio of British Home Stores, Topshop, Dorothy Perkins and others. Or rather I should say the Tina Green owned business, as it is Monaco resident and Philip's wife Tina who is the ultimate owner for obvious reasons. Or then there is Vodafone who ducked a £6.75 billion tax bill from its purchase of German telecommunications giant Mannesmann in 2000 and who will doubtless bodyswerve the taxman when repatriating their profits from the sale of their US business to Verizon Communications for £84 billion at the end of 2013. Of course this is facilitated by the fact that Vodafone's US business was owned by a Netherlands based holding company.[50] Corporation tax in the Netherlands is so low that even third world debt campaigner Bono bases his business interests there. Nice one Bono!

The shadow economy of the offshore world leaves no aspect of our lives untouched. As Nicholas Shaxson, author of 'Treasure Islands: Tax Havens And The Men Who Stole The World', puts it:

"Offshore connects the criminal underworld with the financial elite, the diplomatic and intelligence establishments with multi-national companies."[51]

Shaxson could have gone even further by saying it connects everyone of us to a global financial system of deliberate complexity and opacity which is then played out in the tangible economy – that part of the economy that provides us with the goods and services that are the backbone to our consumerism.

It is still common for students to ascribe underdevelopment in African nations to endemic corruption that acts as a drag on the productive economy. Pah! They are but amateurs. In the 'developed world' we are way ahead of Africa and market leader amongst the pigs with their snouts in the trough is us – the UK – courtesy of the *City of London* and its friendly offshore neighbours in Jersey, Guernsey and the Isle of Man and a network of far flung crown protectorates such as the British Virgin Islands and the Cayman Islands.

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[50] Grice A (2013) 'Vodafone's £84bn tax avoidance: Nothing for taxpayers in Verizon deal while bankers share £500m in fees.' The Independent 02.09.2013. Access at http://www.independent.co.uk/news/business/news/vodafones-84bn-tax-avoidance-bonanza-nothing-for-taxpayers-in-verizon-deal-while-bankers-share-500m-in-fees-8794169.html

[51] Shaxson N (2011) 'Treasure Islands: Tax Havens And The Men Who Stole The World'. Bodley Head London p7

It doesn't add up.

There is an increasingly strong argument that modern neo-liberal capitalism with its endless global churn of 'rent seeking' capital is dysfunctional even by the standards of capitalism's earliest proponents such as Adam Smith and David Ricardo. The 'hidden hand of the market' is not an effective setter of prices if information is not open and shared. This was a key element of the 2008 crash. No bank trusted any other bank because nobody knew what their level of exposure to bad debts was. Some of the banks didn't even know how badly they were exposed to bad debts themselves.

Many of the key critics of neo-liberalism such as Nobel prize winning Economists Joseph Stiglitz and Paul Krugman have articulated a range of responses to the financial crisis of modern capitalism by reformulating it with a far greater degree of regulation, capital and currency control and a greater emphasis on the productive economy underpinned by a fairer distribution of the proceeds of economic activity throughout society. Theirs is a cogent appeal for a more equitable world and increasingly empirical evidence strongly suggests that inequality reduces levels of sustainable growth. As economists from the IMF asserted in early 2014:

"...inequality can undermine progress in health and education, cause investment-reducing political and economic instability, and undercut the social consensus required to adjust in the face of shocks, and thus that it tends to reduce the pace and durability of growth."[52]

Stiglitz has his supporters in the world of business such as Bill Gates, Azim Premji and Warren Buffett, three of the world's richest individuals. It was Buffett who famously pointed out that he, the 4th richest man in the world worth $53.5 billion according to Forbes rich list in 2013, pays the lowest tax rate of anybody working in his office.[53]

However at the heart of this challenge to the neo-liberal economic world of global capital is the acceptance that the market remains the most effective method of allocating scarce goods and services, it just needs to be regulated more effectively, especially financial markets.

Environmental economists tend to accept that individuals make decisions in response to incentives and in order to maximize their utility, just as Adam Smith argued. However they differ from more conventional thinking by also accepting that environmental goods are not free and need to be factored into the 'real' price of everything. For instance Nicholas Stern in his report on climate change argued that the impact of rising carbon dioxide on climate was so great that only through

[52] Ostry J, Berg A and Tsargarides C (2014) 'Redistribution, Inequality and Growth'. IMF research Department. Access at http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf
[53] Isidore C (2013) 'Buffett says he's still paying lower tax rate than his secretary.' CNN Money 04.03.2013. Access at http://money.cnn.com/2013/03/04/news/economy/buffett-secretary-taxes/

monetizing pollution impacts through carbon pricing, taxation, regulation and trading could the problem be addressed within our current economic system. Before Stern, in 1989, Professor David Pearce had published *'Blueprint for a Green Economy'*, which was probably the first widely read book espousing what became known as Environmental Economics.[54]

A central tenant of Environmental Economics is that the issue of scarcity of environmental goods and services will be addressed, with the right incentives, by technological developments or by alternative resources becoming available (substitution). So a shortage of lets say timber will, as a consequence of a rising market price, be addressed by substitutes for timber being brought to the market.

I think you might see where this is going. There is a problem. For humans to continue to 'grow' economically, to become ever wealthier there is a fundamental requirement for more and more natural resources to be consumed. More land to be farmed, more minerals hewn from the earth, more energy captured and put to work. There are limits. No really there are limits. Have you not heard of the 2nd law of thermodynamics?

OK a quick recap from your Physics lessons. In general the amount of organised energy available to do work is always declining. Thus all energy systems have a tendency to increase their entropy (or degree of disorder). So every time we burn a fossil fuel we convert it into heat energy and new chemical compounds such as carbon dioxide – none of this can be reversed, it cannot be recaptured, it becomes disorganised, or as physicists would say entropy increases. Now think about that idea and place it within the context of the fundamental premise of classical and neo-classical economics that we can constantly grow our economy by the constant capture and utilisation of natural resources and by using organised energy to do work for us. The two ideas do not fit.

So you might ask shall we go for the idea underpinned by the fundamental scientific laws of the universe or something that applies the ideas of mathematics to economic phenomena in order to assert its scientific credentials whilst conveniently forgetting the very laws that underpin all existence? In these matters I am quite a traditional scientist in head and heart.

I have not drawn my thinking about the physical limitations to uninterrupted economic growth out of thin air. Back in 1971 Nicholas Georgescu-Roegen, a Romanian-American mathematician and economist published 'The Entropy Law and the Economic Process' a book I can't help thinking Karl Marx would of dearly loved to have read because it would have changed a lot of his ideas and thinking. The bottom line is the economic process cannot detach itself from the 2nd law of thermodynamics.[55]

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[54] For a full discussion on Environmental Economics and Ecological Economics a recommended read is, Scott Cato. M (2011) 'Environment and Economy'. Routledge. London

[55] Georgescu-Roegen N (1971) 'The Entropy Law and the Economic Process' Harvard University Press: Cambridge, Massachusetts. His ideas have been carried on by Hermann Daly, an ex-World Bank economist

What does it mean? Well however far environmental economists like Nicholas Stern assert that the market remains at the heart of any solution – and this may be inherently true in the short to medium term – in the long term a market based system predicated on ever increasing consumption is a high entropy outcome, and thus has within it the seeds of its own destruction. Simply put modern economics doesn't add up and neo-liberal economics encourages a quicker transformation to a high entropy world quicker than any other 'brand' of capitalism.

Furthermore the financial world of the offshore economy where money is alchemically fashioned out of thin air to sweat rent wherever the least resistance is found in the world is also a high entropy model. Increasingly financial capital drawn from the mainstream economy loses its utility as it gets buried in the secret world of the offshore financial system. It becomes disorganised, dispersed and thus increases its entropy and becomes less productive.

Why the poor always pay the price.

Over the quarter of a century that I have taught geography I have worked at trying to understand global development and to communicate that understanding to students. It sits four square on all the A level syllabi. Never have I seen a part of the curriculum, a text book, a briefing paper or an in-service training course that even remotely addresses the central role of the offshore financial industry in the systematic impoverishment of the world's poorest citizens – the 70% of adults who have less than $10,000 of wealth. The talk is of aid vs trade, the debt burden, the limitations of corrupt developing country elites and perhaps – if we want to get a little racy – vulture capitalists milking traded debt obligations. Geographers might have been barking up the wrong tree.

In 2011 the Global South lost nearly $1 trillion in illicit outflows of capital via crime, corruption and tax evasion. This figure is some 10 times greater than the global total of overseas development aid (ODA) and on average 5.7% of the GDP of Africa nations.[56] It is estimated that this figure has been growing by approximately 10% per annum. The US organisation that made these calculations, Global Financial Integrity has erred on the conservative side in their calculations. If this wealth had been kept within the economies of the Global South many of the challenges of global poverty and underdevelopment could

[56] Global Financial Integrity (2013) 'Illicit Financial Flows from Developing Countries: 2002-2011.' Access at http://iff.gfintegrity.org/iff2013/2013report.html

have been more successfully addressed. There would have been less of a pressing requirement for an ODA budget and a far greater degree of international stability could have been moved towards.

Where does this money flowing out of the Global South go? It goes offshore, the more untransparent the better. More often than not it ends up being managed via complex paper trails stretched across a multitude of offshore jurisdictions by the pillars of on-shore banking, venture capital, hedge funds and their ilk whose real domicile is the City of London, the island of Manhattan or the sedate environs of Switzerland but hide - at a plausible deniability length – their more unsavoury business clients. It is worth remembering that British bank HSBC have accepted a $1.9billion fine from the US government for money laundering drug money in Mexico. They were also indicted on illegal money transfers from Iran and Saudi Arabia.[57]

An interesting example is the Democratic Republic of Congo (DRC), the world's second poorest country but potentially one of the richest due to its potential mineral and energy wealth. For several years I have guided students through the excellent investigation of the impact of Chinese investment in copper and cobalt mining in the DRC produced by BBC reporter Tim Whewell in 2008.[58] It was a controversial deal much weighted in favour of the Chinese but at least the Chinese invested substantially in roads, railways, schools and hospitals to the tune of $6billion as well as paying for their raw materials. More recently a report by the Africa Progress Panel, whose members include Bob Geldolf and Garca Machel, stated that minerals deals in the Democratic Republic of Congo between 2010 and 2012 with just five western companies led to the loss of $1.3billion in revenue through the undervaluation of assets. They go on to observe:

"It is unconscionable that some companies, often supported by dishonest officials, use unethical tax avoidance, transfer pricing and anonymous company ownership to maximise profits, while millions of Africans go without adequate nutrition, health and education."[59]

Whilst it is true that 'corrupt' individuals have robbed their nations of huge amounts of wealth, for example it is estimated that ex-Egyptian President Hosni Mubarack has salted away about $70 billion, there can also be no doubt that it is the offshore system of the shadow economy that facilitates such behaviour, often with no or few questions asked. This is with the connivance of our government because it refuses to act upon the offshore system of tax havens many of which come under United Kingdom jurisdiction.

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[56] Global Financial Integrity (2013) 'Illicit Financial Flows from Developing Countries: 2002-2011.' Access at http://iff.gfintegrity.org/iff2013/2013report.html
[57] BBC Business (2012) 'HSBC money laundering report: Key findings.' 11.12.2012. Access at http://www.bbc.co.uk/news/business-18880269
[58] Whewell T (2008) 'China to seal $9bn DR Congo Deal.' BBC Newsnight 14.04.2008 Access at http://news.bbc.co.uk/1/hi/programmes/newsnight/7343060.stm
[59] Tran M (2013) 'Tax evasion still crippling Africa as rich countries fail to deliver support.' The Guardian 10.05.2013. http://www.theguardian.com/global-development/2013/may/10/tax-evasion-africa-rich-countries

Not only is this global 'shadow economy' systematically impoverishing the world's poorest countries but even within the wealthiest nations the burden of taxation is increasingly falling upon the least well off as the 'beggar my neighbour' race to the bottom of global personal and corporate taxation reduces the contribution made by the most wealthy. Squeezed tax receipts result in a reduction in public services, welfare and environmental protection. Look around Britain in 2014 and it is plain to see the level of political and economic support for such regressive thinking. Boris Johnson, the Mayor of London, has laid his cards on the table by describing the super rich as "a put-upon minority like homeless people and Irish travellers and should be protected from any further bullying from the public."[60] Boris is just defending his city, the City: it lies at the very core of the offshore world.

Now I am sure educationalists would like me to offer a bit more balance. So although the phenomena of hyper-mobile rent-seeking capital, operating within a 'shadow economy' lying outside of the structures of democratic accountability, has led to the increasing concentration of a higher and higher proportion of the world's scarce resources being in the hands of a smaller and smaller proportion of the worlds population, this has happened at the same time that a record number of people have become broadly better fed, lived longer lives and have increased general wellbeing.

Indisputably huge numbers of people have risen out of absolute poverty at a global scale over the past 30 years as globalisation has swept across the world. In China in 1981, the year it started to flirt with export processing zones 84% of the countries population lived on less than $1.25. In 2005 15.9% of China's population were living on less than $1.25 a day. A smaller but still significant decline has taken place in South Asia (59.4% to 40.3%).[61] Yet we live in an increasingly unequal world where the 1% global elite draw increasingly large amounts of mobile capital into their world.

Inequality is at its most insidious when the wealthiest pass on their environmental externalities onto the poor without any compensatory or redistributive measure. This they do with a remorselessness today that few people appreciate.

The wealthy, disporting themselves globally via yachts, private jets and high-end cars between one luxury enclave and another, undoubtedly do not tred lightly either in respect to carbon emissions or their wider ecological footprint. That is hardly a revelation.

However the scale of tax avoidance both at a corporate and an individual level deprives governments from the capital resources that they could apply to raising both the living standards of the majority but also in defending the environment that we are all dependent upon.

[60] Bienkov A (2013) 'Boris Johnson: Super-rich an oppressed minority like homeless people.' Politics.co.uk. Access at http://www.politics.co.uk/news/2013/11/18/boris-johnson-super-rich-an-oppressed-minority-like-homeless
[61] Chen and Ravaillon (2008) 'World Poverty figures by region 1981-2005.' World Bank Table 7 pp33-34.

The industrial scale of tax avoidance led by the City of London, whose survival in 2008 was underwritten by the ordinary taxpayers of the United Kingdom, is depriving national governments globally of $280 billion in taxation revenues per year. This is a conservative estimate.[62] It is now quite common for high net worth individuals to pay far lower rates of taxation than ordinary citizens. The scale of the bailout of the UK banking system is estimated to have cost the UK government £123.9 billion (although exposure to potential costs as high as £1.2 trillion has also occurred) and banks are paying back monies lent by the government at a lower rate of interest than the government is borrowing at. Clearly the UK taxpayer has made significant sacrifices to support the 'oppressed' super rich.[63] Wherever you are in the world it is the poor who are paying the price. Dig deep little people.

Everything really is connected to everything else.

It is widely reported that it was Vladimir Ilych Lenin who is first attributed with saying "everything is connected to everything else". It was then picked up the American environmental activist Barry Commoner who used it as his first law of ecology. Commoner devised four laws in all, the others were: "everything must go somewhere", "nature knows best" and "there is no such thing as a free lunch". With this as his core manifesto he ran for the 1980 US Presidential election and secured 0.27% of the mandate.

I guess to some people such a seemingly glib philosophical statement comes across as rather 'new age'. I first came across its usage in the 1980s political sitcom 'Yes Minister' when it is used by Permanent Secretary Sir Humphrey Appleby to describe the workings of government to his hapless civil service sidekick Bernard Wolley.

I have since polished the homily down and used it remorselessly over the past two decades to underpin any explanation I make about the interaction between humans and the environment. Wherever we look: biodiversity, water, land, pollution, energy, consumption, the intertwining linkages are what constantly arise.

[62] Henry J (2012) 'The Price of Offshore Revisited' Tax Justice Network. Access at http://www.taxjustice.net/2014/01/17/price-offshore-revisited/

[63] Curtis P (2011) 'Reality Check; How much did the banking crisis cost the taxpayers?' The Guardian 12.09.2011. Access at http://www.theguardian.com/politics/reality-check-with-polly-curtis/2011/sep/12/reality-check-banking-bailout

This thinking is increasingly reaching mainstream debate although in environmental thinking it has been around for years, sometimes in a quasi-spiritual way such as with James Lovelock's Gaia Theory[64] and sometimes in a more materialistic, scientific analysis of human environment interactions.

In February 2013 the Guardian newspaper hosted a debate to spread the word about 'nexus thinking'. This is the idea that understanding an issue such as water must also encompass an understanding of issues around food and also those pertaining to energy. These three key issues were interwoven into one debate about environmental management.

Led by Guardian Executive Editor Joe Confino the on-line discussion was, as expected, wide-ranging, with such luminaries as Sir Gordan Conway of Imperial College and SABMiller's Andy Wales, *Senior Vice President for Sustainable Development*. In fact the debate is the property of SABMiller, a London based global brewing multinational who are, according to their website tagline, 'Making a difference through beer'. They are the corporate sponsors of the Guardian Water-Food-Energy Nexus Live Debates. It was a fascinating discussion however it only goes so far because they had not made all the connections.[65]

SAB Miller is an integral part of a hidden debate that is also an integral part of any nexus thinking. Neo-liberal economics and hyper-mobile global capital. The Guardian would not have had to look far for some background on this – their own paper. They reported on 29th November 2010 that

"The world's second-largest beer company, SABMiller, is avoiding millions of pounds of tax in India and the African countries where it makes and sells beer by routing profits through a web of tax-haven subsidiaries, according to a report published by ActionAid today."[66 67]

The report that informed the Guardian was partly researched by Richard Brooks, a tax specialist who contributes extensively to the Guardian. His 2013 book 'The Great Tax Robbery' sets out in forensic detail the tax planning architecture that enables a London based company through a Dutch subsidiary to licence brand names to a Ghanaian brewery that it runs at a loss to avoid paying corporation tax. To be fair, between 2007 and 2010 – the period Brooks investigates – they did pay £200,000 in corporation tax to the Ghanaian government, from a turnover of £63 million. Tax efficiency is the nomenclature of such global financial sleights of hand. The SABMiller website declares that:

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[64] Lovelock, J. ; Margulis, L (1974). 'Atmospheric homeostasis by and for the biosphere: the Gaia hypothesis'. Tellus. Series A (Stockholm: International Meteorological Institute) 26 (1–2): 2–10.
[65] All of the debates are posted on-line to listen to at http://www.theguardian.com/sustainable-business/water-food-energy-nexus-debates-live
[66] Lawrence, F (2010) 'Brewer accused of depriving poor countries of millions in revenue'. The Guardian 29.11.2010. Access at http://www.theguardian.com/business/2010/nov/29/sabmiller-india-africa-actionaid-report
[67] The original Action Aid report can be accessed at http://www.actionaid.org.uk/102031/sabmiller_tax_dodging___a_users_guide.html

"Sustainable development is integral to the way we do business."

In a country where average the weekly income is $63, such as Ghana, Brooks observes:

"The result is a serious dent in developing countries' revenues and their efforts to move out of aid dependency."[68]

Of course SAB Miller is drawn, as they state in the nexus debate, to driving "inefficiencies out of the value chain". Here they are talking about wasteful use of natural resources that can impact upon their 'bottom line'. They forget to mention their aversion to the inefficient paying of tax.

And you can go further if you really want to grasp the maxim of Detective Lester Freaman in cult US crime drama *The Wire*: 'follow the money'. Who owns SABMiller? Their major shareholder is the Altria Group, one of the world's largest tobacco companies; you probably know them by their former name Phillip Morris, holders of the Marlboro brand. This is the company that yet another Guardian journalist, George Monbiot, exposed as being behind some of the funding of climate change sceptic lobby groups in the USA.

You see it is all connected, it is a web. I've even just realised that a couple of bottles of wine I own are produced by SABMiller owned vineyards. When did they buy Villa Antinori, that historic estate in the Tuscan hills and maker of fine Chianti? The connections are as much about economics as the environment. The connections entwine all that is around us: what we drink, what we eat, what we wear, where we live, what is work, where we go, how we get there, what technology we use, what we think and who taught us to think like that?

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[68] Brooks, R. (2013) 'The Great Tax Robbery'. OneWorld London Page 228.

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