A tale of two classes

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Sometimes the real character of social relations in the United States manages to find its way into pages of the American press. Such was the case in Tuesday's edition of the *Wall Street Journal*. The front page of the newspaper's Marketplace section featured two articles, which when combined give a sense of the class division that cuts across American society.

In "Keeping Up is Hard to Do," Kris Maher tells the story of Mark and Donna Bellini, a typical working class couple from Pennsylvania. The Bellinis, who have two teenage sons, have a combined income of about $60,000 a year, which is roughly the median annual income for married couples. Indeed, the Bellinis are in many ways a very typical American family. However, this does not by any means guarantee them a stable living, and the Bellinis live under constant financial strains and the burden of debt.

Maher notes that over the past several years, Mark Bellini's pay has stagnated: "Mr. Bellini, a 51-year-old line technician for Comcast Corp., hasn't received a pay increase in three years, since 2002. His wages have been stuck at $19.10 an hour while overall consumer prices have risen 8%." The cost of basic necessities, particularly food and gasoline, has risen at a higher rate, and gas prices alone have jumped 55 percent since 2002.

The case of Mr. Bellini highlights an important fact: despite all the talk of an economic recovery and a resumption of growth, the conditions faced by most workers, even those who have not been laid off, have grown progressively worse. "Despite an economy growing at roughly 4%, healthy corporate profits and low unemployment levels, annual wages of workers in nonmanagerial positions—representing about 80% of the US work force—rose 2.7% in June from a year ago," Maher writes. These increases have been entirely wiped out by inflation. In the most recent period, real wages have actually fallen.

As a consequence, fewer workers are able to amass any significant savings or put money away for retirement. Instead, they have been forced deeper and deeper into debt. For the Bellinis, more worrisome than the different life changes they have had to make to cut back on costs is the fact that "the couple counts almost no savings, and they haven't, as once planned, been able to start a college fund for their two teenage sons. 'The sense of security is gone,' Mrs. Bellini says."

In order to get by, both Donna and Mark work full-time jobs, with Donna recently increasing her weekly hours from 24 to 38, at $10 an hour. After income and payroll taxes, the couple takes home about $3,200 a month, all of which is consumed by various expenses—utilities, a mortgage, property taxes, food and insurance, gasoline, clothing and other costs.

Their credit card debts amount to $6,000, or the equivalent of nearly two months of take-home pay. Like so many American families, the couple lives "from paycheck to paycheck." As Maher writes, Mr. Bellini "admits he doesn't have a single dollar in his wallet and won't until he receives his paycheck two days later."

What will happen if something unexpected happens—a layoff, a health problem or a car accident? When considering the problems faced by the Bellinis, one understands the sudden surge in bankruptcy filings in recent years.

How is it possible to prepare for the future—including college costs and retirement funds—when current pay just barely covers current costs? Like many workers, Mr. Bellini has been forced to take loans against his 401(k) retirement account in order to pay bills. This, combined with a declining stock market, means that the Bellinis have less than $60,000 saved for retirement, the equivalent of only one year of their current income.

On the same page of the newspaper, Carol Hymowitz entitles her column: "To Rein in CEOs' Pay, Why Not Consider Outsourcing the Post?" She begins by pointing out that while corporations have done everything they can to cut labor costs, including the outsourcing of jobs to countries around the world, pay for American CEOs has continued to rise, reaching levels far in excess of pay for executives anywhere else.

CEO pay—including salaries, bonuses and stock options—at major corporations routinely reaches into the tens of millions of dollars, hundreds of times more than the average worker at these same companies.

These pay packages are often justified on the grounds that they are necessary to retain top-quality executives. “What is galling,” Hymowitz responds, “is how rarely, even in a time of heightened governance sensitivity, compensation is linked to performance. Newly named CEOs are guaranteed a trough of money before they’ve done any work. When they fail and are dismissed, they are handed even more money.”

Poking fun at government attempts at price controls during the Depression, Joseph Heller, in his novel *Catch-22*, described a character whose specialty was not growing alfalfa. “The government paid him well for every bushel of alfalfa he did not grow... He invested in land wisely and soon was not growing more alfalfa than any other man in the country.”

Taking the example of Heller’s character to a higher level, there are today executives who make most of their money by not being executives. Carly Fiorina, who had no trouble with poverty while CEO of Hewlett-Packard, nevertheless really hit the jackpot when she got pushed out earlier this year. Hymowitz notes that her severance package is $14 million, plus a $7 million cash bonus and $23.4 million in stocks and a pension.

Former Morgan Stanley CEO Phil Purcell received a severance and retirement package valued at more than $100 million when he got kicked out. “Former [Morgan Stanley] Co-President Steve Crawford is walking away with two years of severance estimated at $32 million after 3½ months on that job,” Hymowitz writes.

Purcell’s package amounts to nearly 2,000 times the amount of money the Bellinis have in their combined retirement accounts.

While wages for workers like the Bellinis have stagnated, the median salary and bonus for CEOs rose nearly 15 percent last year. Even the president should be jealous. Citing Rakes Khurana, a Harvard Business School professor, Hymowitz notes, “In 1960, CEOs earned an average of two times as much as the president of the US; today they earn an average of 62 times as much as the president.”

While Hymowitz points to these figures, she is at a complete loss to explain why something so irrational—such as the handing out of massive severance packages to failed CEOs—should be so prevalent. Reflecting the general bewilderment of the media establishment and a section of the ruling elite itself, she can only make an appeal at the end of her column for corporate boards that are more responsible.

In fact, the difficult situation of the Bellinis and the extreme wealth of the Purcells and the Fiorinas are inextricably linked. They are two facets of the same underlying process. On the one hand, the ruling elite in the US has responded to the crisis of American capitalism by furiously escalating attacks on workers, driving down wages, downsizing and outsourcing. On the other hand, under conditions in which the position of American manufacturing has plunged and profitable production has become more and more problematic, the corporate elite has increasingly resorted to outright theft.

Whatever surplus is generated by workers is transferred directly into the pockets of a tiny group of individuals. Corporate boards go along with such deals because they are composed of people who assume, when their time comes along, that they will be treated in the same way.

The enormous and ever-growing compensation packages have become completely disconnected from any connection to the development of the productive forces, or to performance or merit. A position as an executive at a major company is now largely a license to plunder. Here it is not simply a matter of greed, a quality that is not new in American society. Rather, it is a question of the social conditions in which this greed, unconstrained by any functioning labor movement, has been stoked to the point of bordering on the pathological.

The American aristocracy senses that now is its opportunity, perhaps its last opportunity, to realize its dreams. The environment in the top echelons of the American corporations takes on a distinctly hedonistic character.

In his novel, *A Tale of Two Cities*, Dickens begins, “It was the best of the times; it was the worst of times.” In drawing out the enormous contradictions of society in Europe before the French Revolution, he showed how these conditions were leading inevitably to great upheavals.

A similar situation prevails today. The American ruling elite, which in many ways bears resemblance to the decadent aristocracy of pre-revolutionary France, responds to the crisis of American capitalism in ways that only exacerbate the underlying problems. On the one hand, it acts to increase inequality and intensify social tensions. On the other hand, the looting of corporate assets further undermines the health of the American economy. Such conditions are not sustainable.