Financial Times columnist warns about social inequality in US

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24 February 2006

The *Financial Times* columnist Samuel Brittan, one of the first monetarist economists in Britain, has issued a warning that the United States cannot allow the gap between the pay of top executives and the rest of society to continue to grow on the present scale. He calls for redistributive taxation to redress the situation. [1]

"Republicans," he warns, "will not be able for ever to divert attention to religious and 'moral' issues." They "would be wise not to tempt fate by insisting on making permanent the tax cuts at the top of the scale." He expresses his fear that the alternative to some modest increases in taxation on the very wealthy may well be a more aggressive soak-the-rich campaign.

Brittan advocates "forms of redistribution that do not inhibit economic performance." He argues that this was the problem in the UK in the 1970s when the top marginal income tax rates were over 90 percent. He suggests that land and wealth taxes accompanied by more shareholder activism against high CEO salaries would be a better way of ensuring that inequality is reduced.

It is not exactly a damascene conversion, or even a return to the Keynesianism in which he was trained, but Brittan's warning is a sign that highly experienced figures with a background in economics and politics are increasingly concerned about the direction of the US economy and the political impact it may have if social inequalities continue to grow.

Brittan's warning follows a recent study from the US that shows that between 1966 and 2001 only the richest 10 percent enjoyed a growth rate in their real wages and salaries that was equal to or above the average rate of growth in productivity. [2]

The study finds that "Growth in median real wage and salary income barely grew at all while average wage and salary income kept pace with productivity growth, because half of the income gains went to the top 10 percent of the income distribution, leaving little left over for the bottom 90 percent."

It has always been a standard argument in conventional economics that if all incomes were equal, it would benefit most people very little. UK Prime Minister Tony Blair has argued that he is not concerned about the income of few super-rich people like footballer David Beckham, but about raising the living standards of the poor. What this new study shows is that so much wealth has now accrued to the super-wealthy that it does indeed affect how much is left for everyone else.

Another common argument is that the growing gap between the rich and poor is the result of a skills deficit. As smokestack industries have declined, workers who lack the skills required in the new computer industries are said to have suffered a decline in their living standards. Education and training, it is argued, are the answer to this problem.

This study shows that the gap between the top 10 percent and the rest of society began to widen before new technology was widely introduced. What is more, it shows that while the pay of CEOs increased by 100 percent in the period 1989-1997, the pay of workers in occupations that required skills in mathematics and computing only increased by 4.8 percent. Engineers' pay actually decreased by 1.4 percent over the same period.

The study shows that "most of the shift in the income distribution has been from the bottom 90 percent to the top 5 percent, and especially to the top 1 percent." If such a thin layer benefits from the increase in productivity, it cannot be the result of their new skills, the authors argue, but results from "increasing income premia being paid to 'superstars.' "

At a pinch, this might go some way to explaining why top sports people and performers in other fields are paid so highly. Their pay is to some degree related to the number of people that watch them live and on television. But it does not explain why top corporate executives

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should be so highly paid.

The ratio of CEO pay to that of the average US worker increased from 27 to 1 in 1973 to 300 to 1 by 2000. When payments in both cash and shares are considered, top executives' pay increased between 1989 and 2000 by 342 percent, while median hourly wages increased by only 5.8 percent.

Previous studies have looked at the difference between the top 10 percent and the rest of the population, but this study examines the differences within the top 10 percent in some detail. It finds that "the top-one tenth of one percent of the income distribution earned as much as the real 1997-2001 gain in wage and salary income *as the bottom 50 percent*" (emphasis in original).

Or to put their figures another way: half of the increased inequality between the top 10 percent of society and the other 90 percent is due to the increased incomes of the top 0.1 percent.

The figures are striking, but the authors of the report cannot offer a convincing explanation of why this dramatic redistribution of wealth to an extremely thin layer of the already wealthy has taken place.

For all his experience, Brittan can neither explain the phenomenon nor offer a remedy. The solution he offers—a slight increase in wealth taxes—is unconvincing. He clearly has no confidence in a return to the Keynesian policies of the postwar period. Nor, however, does he see an alternative to the monetarism he adopted in the 1970s, even when he sees the dangerous results of those policies spelled out for him in this report.

The findings of the report are in fact a powerful confirmation of the fundamental analysis of the capitalist system made by Karl Marx over a century ago. Marx showed that "in proportion as capital accumulates, the lot of the labourer, be his payment high or low, must grow worse.... Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil slavery, ignorance, brutality, mental degradation, at the opposite pole." [3]

It is worth putting the term "immiserisation of the working class" into an Internet search engine. The majority of results will be links to sites where it is explained that this theory has been thoroughly discredited, is entirely outdated and has been incontrovertibly disproved by the improvement in the condition of the working class in the advanced industrial countries since World War II.

This study demonstrates in dry figures and tables that this process identified by Marx more than 100 years ago is in fact taking place. The improvement in the conditions of workers is shown to be an entirely conjunctural effect that has now been dissipated by the underlying trend towards an increase in wealth at one pole and increasing impoverishment at the other.

The authors puzzle over two questions—"not only why inequality rose after the mid-1970s but why it declined from 1929 to the mid-1970s"—but leave them unanswered. They are capable of tracing the process of social polarisation in the income data, but they cannot understand that polarisation declined because the fear of revolution forced the ruling elite to make concessions immediately before World War II and in the decades after the war.

Doubtless, Samuel Brittan learned enough about Marxism in his student days at Cambridge to recognise the process of immiserisation and to understand that its political implications are extremely serious for capitalism. It points to major social upheavals in the US. But he cannot recommend that the ruling elite make similar concessions to those they were obliged to make under the New Deal or in the postwar period because US capitalism then enjoyed an unrivalled position, which it no longer possesses.

Notes:

1. Samuel Brittan, "Superstars snap up US growth," *Financial Times*, February 9, 2006
2. Ian Dew Becker and Robert J. Gordon, *Where did the Productivity Growth Go?* (National Bureau of Economic Research, Cambridge, Massachusetts, 2005)
3. Karl Marx, *Capital, I*, Chapter 25, section 4 www.marxists.org/archive/marx/works/1867-c1/ch25.htm

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