

# US Federal Reserve chairman issues warning on social inequality

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In a speech to the Greater Omaha Chamber of Commerce Tuesday, Federal Reserve Chairman Ben Bernanke, America's central banker and one of the most powerful figures in the country, became the latest member of the US establishment to issue a caution about the growth of social inequality.

In his comments, Bernanke identified an obvious social reality and attempted, at the same time, to conceal both the true dimensions and causes of inequality in the US. Nevertheless, his remarks possess a certain political significance. A growing nervousness exists within the ruling elite about the consequences of a quarter century of its own policies, which have created extraordinary levels of social polarization. Sooner or later, such prominent figures recognize, this will have explosive consequences.

The federal reserve chairman's comments broke no new ground. On the contrary, he repeated all the nostrums that the American elite repeats to itself and those who will listen about the essentially sound state of the US economy and the benefits it bestows on nearly everyone.

Bernanke began by paying tribute to what he claimed was a "bedrock American principle," that "all individuals should have the opportunity to succeed on the basis of their own effort, skill, and ingenuity. Equality of economic opportunity appeals to our sense of fairness, certainly, but it also strengthens our economy. If each person is free to develop and apply his or her talents to the greatest extent possible, then both the individual and the economy benefit."

He quickly added, however, "Although we Americans strive to provide equality of economic opportunity, we do not guarantee equality of economic outcomes, nor should we. Indeed, without the possibility of unequal outcomes tied to differences in effort and skill, the economic incentive for productive behavior would be eliminated, and our market-based economy—which encourages productive activity primarily through the promise of financial reward—would function far less effectively."

This is the standard argument offered by apologists for capitalism—that inequality is good because the pursuit of financial gain is the only motivation that drives individual and social progress.

Bernanke then changed direction again, adding, "we also believe that no one should be allowed to slip too far down the economic ladder, especially for reasons beyond his or her control."

After paying tribute to the supposed flexibility and adaptability of America's "market economy," Bernanke touched on his central political theme, that the economy's "very dynamism sometimes creates painful dislocations, as when a shift in consumer demand, the advent of new technology, or new competition leads to the closing of a factory or causes a worker's skills to become obsolete. If we did not place some limits on the downside risks to individuals affected by economic change, *the public at large might become less willing to accept the dynamism that is so essential to economic progress.*" [Emphasis added]

In extremely muted and diplomatic language, this was a warning about the possibility of social upheaval. Throughout his speech, Bernanke, as he did in an address last August on globalization, associated opposition to

inequality only with Luddite resistance to a 'more open' economy and its global integration.

What the fed chairman proposed in his Omaha speech was modest indeed, merely that "people should receive some insurance against the most adverse economic outcomes, especially those arising from events largely outside the person's control."

He asserted that while "the average standard of living in this country has improved considerably over time . . . by many measures, inequality in economic outcomes has increased over time as well, albeit at varying rates."

Bernanke proceeded to discuss some of the figures on social inequality in the US.

He noted that wages at the 50th percentile ("the median wage") had risen approximately 11.5 percent between 1979 and 2006, while wages at the 10th percentile ("near the bottom of the wage distribution") had climbed just 4 percent and earnings at the 90th percentile ("close to the top of the distribution") had jumped 34 percent. Bernanke pointed out that the worker at the 90th percentile now earned 4.7 times as much as the worker at the 10th percentile, compared to a ratio of 3.7 in 1979.

The federal reserve chairman went on to say that greater inequality was also evident in other measures of financial well-being, such as real household income. Figures showed, he said, that the share of the national income received by households in the top fifth of the income distribution rose from 42 percent in 1979 to 50 percent in 2004 (a 19 percent increase), while the share of the bottom 20 percent of households had declined from 7 to 5 percent (a 29 percent decline). He took note of the fact that the wealthiest 1 percent of households had seen its share of after-tax income increase from 8 percent in 1979 to 14 percent in 2004 (a 57 percent jump).

Except in regard to this last figure, Bernanke chose not to mention the extent to which enhanced wealth and social position has accrued not primarily to the top 20, 10 or even 5 percent, but, above all, to the richest 1 percent, and within that, to the *top 0.1 percent* of the population (about 300,000 people), a group that now receives some 9 percent of the entire income paid out every year in the US. These truly astonishing levels of social inequality did not come in for scrutiny in Bernanke's address. However, his figures were damning enough.

Bernanke then outlined what he took to be the "underlying sources" of this glaring inequality. Arguing that increases in living standards and the growth rate of productivity were linked, he attributed the growing gap between the incomes of high school graduates and those workers with bachelor's degree (or higher) to "improvements in information and communications technologies ... [that] have raised the productivity of high-skilled workers much more than that of low-skilled workers."

The gap between the median weekly earnings of the more highly educated worker and those of the less educated has approximately doubled since 1979 (according to Bernanke's own statistics). That hardly explains, however, why the average CEO in the US in 1978 earned 35 times an average worker's wage, whereas in 2005 he or she earned 262 times the

pay of the average worker (\$10,982,000 compared with \$41,861), i.e., nearly a 750 percent increase (a fact not mentioned by the federal reserve chairman). In other words, in 2005 the average American CEO earned more in one work-day (there are 260 in a year) than an average worker earned in 52 weeks.

Bernanke suggested that technological changes, “such as those that have swept the communications industry,” had contributed to the rise of a category of “super-stars” in the sports and entertainment worlds. He illustrated this by referring to the salary of the Boston Red Sox’s Manny Ramirez, who earned \$22.5 million last season.

No doubt there is something distorted and even disturbing about the sums paid out to athletes, actors, models and such. However, first, it should be noted that the companies for which such individuals work are making massive profits off their efforts; second, that their high-earning years are often extremely limited; and, third, that these figures pale anyway when compared to the amounts being paid out to corporate CEOs and such.

One only has to recall the \$44 billion paid out in Wall Street bonuses this Christmas, to a few thousand traders and speculators—\$16 billion by investment banker Goldman Sachs alone. Moreover, the average pay of the top 100 hedge fund managers in 2005, according to *Alpha* magazine, was \$363 million.

Bernanke chose to draw a veil over figures like that. When it came to the issue of executive compensation, he preferred to speak in generalities. No salary figures were mentioned. He blandly commented that some commentators “note that substantial increases in the size and scope of the largest corporations have raised the economic value of skilled corporate leadership. However, critics have responded that increases in CEO pay may have been amplified by poor corporate governance, including the substantial influence that some CEOs appear to have had over their own pay. This debate will no doubt continue.”

He suggested that another source of the growing inequality was the increased “flow of people across borders” as part of the general process of global economic integration. “In recent decades, most immigrants to the United States have arrived with relatively low levels of skills. By itself, this pattern of immigration increases measured inequality because it leads to an increase in the relative size of the low-wage work force. Standard economic reasoning also suggests that the immigration of such workers should reduce the relative wages of less-skilled domestic workers.” In other words, a pool of super-exploited immigrant labor is used to drive down living standards of a substantial section of the working class.

Bernanke also pointed to the decline in union membership. “The sources of the decline in union membership are much debated, and certainly long-run structural changes in the economy, such as the decline in manufacturing employment, have played a role. Whatever the precise mechanism through which lower rates of unionization affected the wage structure, the available research suggests that it can explain between 10 percent and 20 percent of the rise in wage inequality among men during the 1970s and 1980s.”

Turning to the policy implications of the growing social inequality, Bernanke referred to the need to establish “the right tradeoff between allowing strong market-based incentives and providing social insurance against economic risks.” He rejected approaches that “would inhibit the dynamism and flexibility of our labor and capital markets or erect barriers to international trade and investment.”

He proposed instead to allow “growth-enhancing forces to work,” but to try and cushion the most severe blows and “resulting dislocations” by helping workers retrain and search for new work, as well as improving the portability of health and pension benefits. Bernanke also urged increased investment in education, arguing that “that workers with more education are better positioned to adapt to changing demands in the workplace.”

No one who follows American politics will have confidence that a

single one of Bernanke’s extremely limited social proposals will be acted upon. At every level of government, spending on education and worker or youth job training is under the budgetary axe.

In a speech delivered in New York January 31, George W. Bush made similar comments. He declared, “I know some of our citizens worry about the fact that our dynamic economy is leaving working people behind. We have an obligation to help ensure that every citizen shares in this country’s future. The fact is that income inequality is real; it’s been rising for more than 25 years.” He attributed the gap to an economy that “increasingly rewards education, and skills because of that education.” He added, “The key to rising in this economy is skills—and the government’s job is to make sure we have an education system that delivers them.” No one takes such remarks seriously.

While the extreme right, embodied in the editorial pages of the *Wall Street Journal* and various think-tanks like the Cato Institute, continues to pretend that the growth in social inequality has either been exaggerated or not taken place at all, wide layers of the population consider it a pressing matter. According to a *Bloomberg/Los Angeles Times* poll conducted in December, three-quarters of the population considers inequality a major issue.

*Bloomberg* reports that among those “earning less than \$40,000 a year, 84 percent called the gap a serious problem, with more than half saying it’s ‘very serious.’ Among those earning more than \$100,000, more than three in five said it’s a serious concern. Those in the middle-income group making between \$40,000 and \$60,000 were almost as concerned as the least wealthy.”

Contrary to the claims of Bernanke and other establishment representatives, the massive growth in social inequality is not the result of inevitable global economic trends. The social chasm opened up over the past quarter-century is the result of definite policies and political processes. Ruling elites throughout the world, taking advantage of the national-based labor organizations, which have proved worthless in the face of a globalized economy, and the demise of the Soviet Union, which also collapsed ultimately as the result of the national policies of the Stalinist bureaucracy, have declared war on the living standards, jobs and rights of the working population.

In the US, Republican and Democratic administrations alike have presided over a social transformation, making sure that enormous wealth has continued to flow unhindered into the hands of a tiny elite, whose wealth is now simply unimaginable. The financial oligarchy that has been consolidated has no intention of giving up a penny of its ill-gotten gains without a struggle.



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