

The pay gap is putting democracy in danger

Surprisingly, Left and Right agree the growing chasm between the rich and the rest risks a breakdown in social order

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What is the greatest threat to our way of life and democracy in the years ahead? A double-dip recession, the burden of government debt or the war in Afghanistan?

None of these according to two of the most perceptive and original thinkers on the Left and the Right who agree emphatically on one point: inequality, especially the widening gap between the very rich and everybody else, now threatens the social consensus and political stability, not only in Britain but also in America and Europe, to a degree not seen since the terrible era before the two world wars.

When Boris Johnson, the Tory Mayor of London, warns that housing benefit reform would turn London into a no-go area for the poor, inequality certainly seems worth discussing. And with Goldman Sachs and other leading investment banks about to announce a return to pre-crisis bonus levels, the debate will surely intensify.

Even so, I am amazed by the convergence between Right and Left on this. I listened at the weekend to Michael Portillo ominously describe democracy as “an unproven

experiment” that might not survive the “unfolding disaster” of inequality. I have also been reading Will Hutton’s powerful new book, *Them and Us*, which argues that the root cause of the financial crisis has been the neglect of “fairness” as a guiding principle in financial regulation, economic management and social policy.

Mr Portillo, speaking in Santander at an annual British-Spanish gathering of politicians, business leaders and journalists, admitted his bitter disillusionment with the greedy, irresponsible behaviour of Britain’s wealthy financial and managerial elite.

The chief executives of middle-sized financial companies receive average salaries of £2 million and continue to vote themselves pay increases, at a

Portillo admitted bitter disillusionment with the greedy elite

time when ordinary workers face cuts in their pay and pensions. Such disparities could prove incompatible with democracy, according to Mr Portillo. Would people accept democracy as a “fair deal” if they had the right to vote for a new government only once every five years, while their bosses, earning 100 times as much, had the right to vote themselves a pay increase every year?

The former Tory Cabinet minister said that Conservatives had expected social responsibility, for the rich as well

as the poor, to be restored as individual enterprise was freed and the State limited. “But this did not work out. Conservatives are very disappointed. I am disappointed and I believe that Margaret Thatcher would be disappointed. David Cameron, like me, was a romantic Thatcherite and I’m sure that he is disappointed.”

Perhaps this is why Mr Cameron asked Mr Hutton, a lifelong Labour supporter and passionate campaigner for social equality, to chair a Fair Pay Review. Mr Hutton suggests that extreme inequality, as well as being morally repugnant, imposes huge economic losses on society. Far from encouraging wealth creation and innovation, he argues that it undermines entrepreneurship by offering enormous rewards for zero-sum games that simply shuffle existing assets. When finance is as absurdly lucrative as it is in modern America and Britain, enterprise and talent are inevitably diverted from the creation of genuine new wealth.

And to those who claim that enormous pay disparities are a natural consequence of the need to motivate managerial performance, especially in the financial sector, Mr Hutton has a striking reply: J. P. Morgan, arguably the most successful banker in history, “decreed that his chief executives should not be paid more than 20 times the wage of the lowest workers in his enterprises”. He would, therefore, be sceptical about offering anyone 81 times the pay of ordinary workers — the average differential between chief executives and ordinary workers in

Britain, never mind the multiple of 300 times that is typical in the US today. Heaven only knows what Morgan would have made of another shocking statistic quoted by Mr Portillo: inequality has now become so extreme that America’s 74 richest citizens receive more income than the bottom 19 million combined.

But here we come to a paradox as striking as the increase in inequality itself. Politics around the world, far from moving in favour of greater

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equality and more redistribution, has shifted rightwards in the past decade. And in the West’s most unequal society, America, support for egalitarian policies has dwindled as a result of the financial crisis.

At the same time, America’s position as a leader in technology, entrepreneurship, higher education and knowledge-based industries has advanced in the era of widening inequality, even though its general economic performance has arguably declined. So people who believe, like Mr Hutton, that advanced industrial societies will have to become more egalitarian because inequality is economically inefficient may be engaging in wishful thinking.

Far from ushering in a new era of “fairness”, the financial crisis and the

coalition Government seem to be moving Britain in the opposite direction, as shown by the strong recovery of bonuses and the regressive nature of the cuts. Why is politics moving against redistributive policies, even as public anxiety about inequality escalates? Perhaps the key to this lies in the social classes that resent inequality most. When the poor suffer from falling incomes, inequality can genuinely threaten social stability and force politics to swing to the Left.

When the burgeoning wealth of the rich is the main cause of inequality, the impact is felt not by the poor, but by the middle classes. They are priced out of desirable neighbourhoods and cannot enjoy the comforts their parents took for granted, from good schools to eating at the best restaurants.

This type of inequality leads to resentment of redistributive policies that mainly favour the poor at the expense of the middle class. This is the situation today in Britain and the US. Popular opposition to redistributive policies in Britain is likely to intensify as the coalition Government’s reforms — abolishing child benefit, trebling university fees, pay and pension cuts in the public sector — start to hit middle-class living standards hard.

But if Britain’s middle class become ever more resentful of redistribution, what is the answer to the ever-widening inequality in British society? I can do no better than return to Mr Portillo’s comments in Spain: “This inequality is an unfolding disaster; but we don’t always have an answer to unfolding disasters.”