**THE BAD SOCIETY**

By Robert Skidelsky 20 July 2012

How much inequality is acceptable? Judging by pre-recession standards, a great deal of it, especially in the United States and Britain. New Labour's Peter Mandelson voiced the spirit of the past 30 years when he remarked that he felt intensely 'relaxed' about people getting 'filthy' rich. Getting rich was what the 'new economy' was all about. And the newly rich kept an increasing part of what they got, as taxes were slashed to encourage them to get still richer, and efforts to divide up the pie more fairly were abandoned.

The results were predictable. In 1970, the pre-tax pay of a top American CEO was about 30 times higher than that of the average worker; today it is 263 times higher. In Britain, the basic pay (without bonuses) of a top CEO was 47 times the average worker's in 1970; in 2010, it was 81 times more. Since the late 1970s, the post-tax income of the richest fifth has increased five times as fast as the poorest fifth in the US, and four times as fast in the UK. Even more important has been the growing gap between average (mean) and median income: that is, the proportion of the population living on half or less of the average income in the US and Britain has been growing.

Although some countries have resisted the trend, inequality has been increasing over the last 30-40 years in the world as a whole. Inequality within countries has increased, and inequality between countries increased sharply after 1980, before levelling off in the late 1990s and finally falling back after 2000, as catch-up growth in developing countries accelerated.

The growth of inequality leaves ideological defenders of capitalism unfazed. In a competitive market system, people are said to be paid what they are worth: so top CEOs add 263 times more value to the American economy than the workers they employ. But the poor, it is claimed, are still better off than they would have been had the gap been artificially narrowed by trade unions or governments. The only secure way to get 'trickle-down' wealth to trickle faster is by cutting marginal tax rates still further, or, alternatively, by improving the 'human capital' of the poor, so that they become worth more to their employers.

This is a method of economic reasoning that is calculated to appeal to those at the top of the income pyramid. After all, there is no way whatsoever to calculate the marginal products of different individuals in cooperative productive activities. Top pay rates are simply fixed by comparing them to other top pay rates in similar jobs.

In the past, pay differentials were settled by reference to what seemed fair and reasonable. The greater the knowledge, skill, and responsibility attached to a job, the higher the acceptable and accepted reward for doing it.

But all of this occurred within bounds that maintained some connection between the top and the bottom. Top business salaries were rarely more than 20 or 30 times higher than average wages, and for most people differentials were far less. Thus, the income of doctors and lawyers used to be about five times higher than that of manual workers, not ten times or more, as they are today.

It is the breakdown of non-economistic, common-sense ways of valuing human activities -framing them in larger social contexts - that has led to today's spurious methods of calculating pay.

There is a strange, though little-noticed, consequence of the failure to distinguish value from price: the only way offered to most people to boost their incomes is through economic growth. In poor countries, this is reasonable; there is not enough wealth to spread round. But, in developed countries, concentration on economic growth is an extraordinarily inefficient way to increase general prosperity, because it means that an economy must grow by, say, 3 per cent to raise the earnings of the majority by, say, 1 per cent.

Nor is it by any means certain that the human capital of the majority can be increased faster than that of the minority, who capture all of the educational advantages flowing from superior wealth, family conditions, and connections. Redistribution in these circumstances is a more secure way to achieve a broad base of consumption, which is itself a guarantee of economic stability.

The attitude of indifference to income distribution is in fact a recipe for economic growth without end, with the rich, very rich, and super-rich drawing ever further ahead of the rest. This must be wrong for moral and even practical reasons. In moral terms, it puts the prospect of the good life perpetually beyond reach for most people. And, in practical terms, it is bound to destroy the social cohesion on which democracy - or, indeed, any type of peaceful, contented society - ultimately rests.

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