SNG-The coming labor v. capital battles-6-6-16

The coming labor v. capital battles will be fierce

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The Trump and Sanders phenomena reflect in large part a sense among the little guys, who feel they are being screwed over [NOTE: If this term seems too coarse, use “exploited”] by the big guys.

Another way of putting it is that in recent decades the share of wealth allocated to labor (the working guys and gals) has been shrinking while that going to capital (those with top incomes and money to invest) has been growing, rapidly.

In his magisterial yet pessimistic book about “The Rise and Fall of American Growth” (Princeton, 2016), economist Robert Gordon of Northwestern University puts numbers to my observations.

From 1972-2013, there was significant average annual growth in the real income of the top 10 percent of Americans—and negative growth for the other 90 percent (the latter made only slightly positive when government transfer programs are added in).

This has reversed the effects of the long period from 1929-1971 during which the little guy actually improved his income status vis-à-vis the wealthy, in large part because of unionization and robust manufacturing.

Another way of slicing this is that the top 20 percent or so of households, generally double-earner college-educated and professional couples, are doing just fine. The other 80 percent, often not so well, and anxious about their future prospects.

And the growth for the top 1 percent of “earners” has been skyrocketing in recent years.

CEOs today command 257 times what the typical worker in his or her business makes, versus just 20 times as much in 1973, according to Gordon. Even when a business tanks and the CEO is bounced, he walks away with ga-jillions, floating on a golden parachute.

At the same time, the little guy sees once-good jobs flowing overseas or just evaporating in the face of technological change.

Even worse, the CEO who sends jobs overseas does so while seemingly "flipping the bird" to his former domestic employees, showing not a whit of concern for the worker and his family. The emotional distance and insensitivity are appalling.

So now the little guy is finally being heard, loudly but inchoately.

I believe that the political party that responds sincerely and effectively to the little guy will be the majority party of the future.

The split of wealth between labor and capital in a democratic society is always a balancing act. Things are out of balance at present.

At present, however, both major parties appear in thrall to big money.

For example, I fault the Obama Administration for prosecuting nary a single executive in the Wall Street scandal a decade ago that brought the world economy to its knees. Top executives had to know their people were fraudulently misrepresenting to investors hundreds of billions of dollars in absolute junk mortgages.

Banks have paid $40 billion in fines for their actions, which they can write off their tax liability—but somehow nobody is guilty!

And the GOP has been in bed for decades with the Koch Brothers and other billionaire investors, who finance the GOP in return for protection of their privileges.

I think we have to shift some of the wealth back to labor, or the nation risks tearing itself apart in years to come.

[And do so for pragmatic reasons. If most wealth is concentrated in a relatively few hands, there will be a demand deficit, as there was prior to the Great Depression, when those at the bottom were unable to buy the goods and services produced by those at the top.]

But how to accomplish this shift?

The longstanding Democratic predisposition is to tax more and provide more government handouts for those struggling at the bottom. This simply increases a debilitating dependency on government, which is too great already.

One fundamental alternative is to increase the leverage of the worker in the private sector.

But the traditional union-management collective bargaining process has failed.

The ability of employers to hire permanent replacement workers to replace those striking has been one major factor in the decline of union leverage.

So some workers have in recent years become part of the militant "alt-labor" (alternative to unions) movement, which is reflected in the recent protests for a $15 minimum wage staged outside McDonald's headquarters in suburban Oak Brook.

I think such battles will become more frequent and probably bloody at times.

In terms of public policy, political parties might turn to increases in the Earned Income Tax Credit, which rewards work.

Another idea is to increase (not decrease) immigration of the brightest from other countries. After all, wealth is created by geniuses and entrepreneurs, and the U.S. provides a very attractive setting in which to produce wealth. This wealth can be shared by those of us who provide lower value-added, yet critical services.

It's all complicated, yet the issue of labor v. capital balance needs to be addressed.