

The Middle-Class Squeeze

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The Saturday Essay By Charles Moore

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If Western countries want to disprove the dire forecasts of Karl Marx, we must think creatively about how to make the middle class more prosperous and secure. The middle class is in trouble. Can we reverse course—or was Marx right about the dynamics of capitalism?

Go back, for a moment, nearly 30 years. In March 1987, Margaret Thatcher visited Mikhail Gorbachev, the reforming leader of the Communist Party of the Soviet Union, in Moscow. Sitting in the Kremlin, the two argued for hours. At one point, Mr. Gorbachev accused Mrs. Thatcher of leading the party of the "haves" and of fooling the people about who really controlled the levers of power. The Iron Lady had an answer: "I explained," she wrote in her memoirs, "that what I was trying to do was create a society of 'haves,' not a class of them." In the era of Ronald Reagan and Margaret Thatcher, those words carried conviction. There was plenty of argument, of course, about whether the means they chose were the best and about the fate of those who got left behind. But even critics reluctantly had to agree about which way history was heading: The society of "haves" in the West was growing; state socialism was imploding.

Most of the rest of the world was hoping to follow the West's example. Two and a half years later, the Berlin Wall fell. Almost all the newly emerging ex-Communist regimes sought market freedoms for their people. Back home in the Anglosphere, the spread of ownership—of stocks and homes—and the expansion of economic and personal opportunity were the dominant themes of the age. As Mrs. Thatcher bustled around Whitehall urging on her program of popular capitalism, she used to shout: "Every earner an owner!"

In 2015, it is difficult to imagine a version of that Thatcher/Gorbachev conversation being replicated between any Western leader and the hostile and suspicious Vladimir Putin. Neither side seems to have an intelligible ideology. Besides, the confidence is not there anymore. Since the financial crisis of 2007-08, which Western leader could boast of spreading ownership in any important way? In the U.S. and Britain, the percentage of citizens owning stocks or houses is well down from the late 1980s. In Britain, the average age for buying a first home is now 31 (and many more people than before depend on "the bank of Mom and Dad" to help them do so). In the mid-'80s, it was 27. My own children, who started work in London in the last two years, earn a little less, in real terms, than I did when I began in 1979, yet house prices are 15 times higher. We have become a society of "have lesses," if not yet of "have nots."

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In a few lines of work, earnings have shot forward. In 1982, only seven U.K. financial executives were receiving six-figure salaries. Today, tens of thousands are (an enormous increase, even allowing for inflation). The situation is very different for the middle-ranking civil servant, attorney, doctor, teacher or small-business owner. Many middle-class families now depend absolutely on the income of both parents in a way that was unusual even as late as the 1980s.

In Britain and the U.S., we are learning all over again that it is not the natural condition of the human race for children to be better off than their parents. Such a regression, in societies that

assume constant progress, is striking. Imagine the panic if the same thing happened to life expectancy.

When things go backward in nations accustomed to middle-class stability, people start to ask questions. What is the use of capitalism if its rewards go to the few and its risks are dumped on the many? The rights of property do not seem so enticing if the value of what you own collapses or if that property is trapped by debt. What is so great about globalization if it means that the products and services you offer are undercut by foreign competition and that millions of new people can come to your country, take your jobs and enjoy your welfare benefits?

Great international banks and other corporations—and their top executives—can devise a life that escapes normal tax jurisdictions. Their successes are globalized and accrue chiefly to them; their failures crawl back home to die, at the expense of the rest of us.

So instead of feeling that it is a privilege to be an ordinary citizen of a free country, many of us start to feel a bit like suckers. Hope—the inseparable companion of progress—fades and is replaced by disappointment, even bitterness. It has always been understood that opportunity carries some price of insecurity, but what happens if insecurity rises and opportunity contracts?

Our politics has begun to match these uneasy feelings. “You people are suffering,” bellows Donald Trump to cheering crowds of seemingly fairly prosperous people. Material suffering is not, despite the ups and downs of his own business, an experience that he knows much about, but he finds a ready audience. Meanwhile, in Britain, an overwhelming majority of the Labor Party, which won three general elections in a row under the centrist Tony Blair, has just selected a new leader, Jeremy Corbyn, a 66-year-old veteran of hard Left politics who looks forward to the end of capitalism. Until a couple of months ago, he seemed almost literally the most unelectable person in his entire party.

Extremes of both left and right are doing well. These bad times have been good for the left-wing Syriza party in Greece, the democratic socialist Bernie Sanders in the U.S. and the antiausterity Scottish Nationalists; but also for Marine Le Pen’s National Front in France, Viktor Orbán’s Fidesz in Hungary and the UK Independence Party (UKIP) in Britain. There is nothing contradictory about this seeming confluence of the extremes. It is happening because the center cannot hold, or at least does not know what to say about itself.

Where might one find a useful analysis of what is happening today in the market democracies of the West? How about this: “The executive of the modern State is but a committee for managing the common affairs of the bourgeoisie.” Or this: “Modern bourgeois society...is like the sorcerer, who is no longer able to control the power of the nether world which he has called up by his spells.” Or this: “The productive forces no longer tend to further the development of the conditions of bourgeois property: on the contrary, they have become too powerful for these conditions...[and] they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property.”

All these quotations are from a work published in 1848 that caused quite a stir. It was written by Karl Marx and Friedrich Engels and was called “The Communist Manifesto.” Even now, people have heard of it.

By the last quarter of the 20th century, most people had seen a key aspect of Marx and Engel’s analysis disproved. The celebrated bearded communists had argued that capitalism would reduce all of society to only two classes: the prosperous bourgeoisie, who owned the capital, and the impoverished proletariat, who contributed their labor. Modern industrial production would inevitably depress the living standards of the proletariat, they believed, but also, in the end, increase their power. Having created a form of slavery, capitalism would be overthrown by its slaves. The proletarian masses would become the dictators.

This did not happen. Instead, the bourgeoisie grew so large that today it is commonplace for American politicians to speak of the “middle class” and mean much the same as people used to mean by “the workers.” In “The Communist Manifesto,” Marx and Engels refer to “the bourgeoisie, i.e., capital.” They scorned private property, pointing out that nine-tenths of the

population had none. It did not cross their minds that the bourgeois class could be numerous enough to win elections in an era of universal suffrage; yet that is what happened. Margaret Thatcher also equated the bourgeoisie with property and capital, but she saw this as empowering the many, not the few.

In the 21st century, however, it is not surprising that many members of the middle class now see themselves as prisoners of the system that they helped to create. Phrases like “negative equity” and “credit crunch” capture that. A lot of words that have a specific economic or financial meaning also draw on a moral meaning—value, bonds, goods, security, even “collateralized debt obligations.” The word “credit” itself means “trust” or “belief.”

The relationship between money and morality, on which the middle-class order depends, has been seriously compromised over the past decade. Which means that the mass bourgeoisie (a phrase that Marx and Engels would have thought a contradiction in terms) start to feel like the new proletariat.

True, unemployment rates in the U.S. and Britain, unlike those in the eurozone, are low. Against most predictions, David Cameron’s Conservatives stayed in power in Britain, this time with an overall majority, in the general election in May. There was just enough financial prudence and just enough returning prosperity to see to that.

But pretty much the whole of the developed world is still in the convalescent ward, and no one is sure whether the wonder drug of quantitative easing can yet be abandoned, or even whether it does no more than suppress the symptoms of disease. Despite years of supposed austerity, debt is still strikingly high. It remains possible that banks, or even whole countries in the eurozone, could collapse. And who knows whether or not China’s big banks are bust? There is clearly an unmet need for a politics that goes beyond mere grievance-peddling to develop a new way of thinking about what makes a society free and secure at the same time. If this were easy, we would have heard more of it by now, and I won’t pretend to have the answers. But certain basic principles seem like the proper foundation.

Look again at markets. “Capitalism” and “globalization” are words most commonly used by people who do not like the phenomena they describe. A better catchall term for the economic arrangements worth preserving is “markets,” and this should be emphasized. Markets provide the model for how goods should be exchanged in a free society—efficiently, amiably and under the rule of law.

To the extent that people cheat in markets, they are not real markets, any more than antifreeze labeled “wine” is real wine. Too many advocates of markets have allowed themselves to be suborned into becoming apologists for business. And too many businesses now operate as if their responsibilities are only to themselves and not to consumers. Take ownership much more seriously. Why are so few companies owned by the people who work for them, and why do both liberal and conservative political parties not offer greater incentives, such as tax advantages, for this to change? It is extraordinary that the joint stock company, the foundation of modern commercial and industrial wealth, is still so little influenced by the views of shareholders.

This is perhaps most evident in the preposterous salaries paid, particularly in the U.S. and Britain, to top executives of public companies. If the owners of these companies truly exercised authority over what is theirs, this wouldn’t happen. If these enterprises had grown over the last 20 years at the same rate as pay for the men who run them (it usually still is men), no one would be talking of a crisis of capitalism.

Ownership of housing, stocks and pensions is an area where creativity has died. This failing of our consumer society may owe something to the baby boomers’ desire to “have it now,” but another part of the problem is that people are correctly no longer confident that what they save now will be available to them later. Savings need more long-term government protection than they receive in most Western societies. A business culture based on deals and bonuses means that the best business minds are not interested in saving.

The ideal of ownership also needs to apply more fully to civil society. It might be a good idea, for example, if citizens could establish ownership rights over their local school by becoming

“members.” Under the existing arrangements, how much can parents and communities creatively affect what happens in schools? The charter-school movement in the U.S. and “academies” and “free schools” in Britain are working in the right direction but remain a long way from something citizens can feel they own.

These rights would give people a voice when things go wrong, rather as some congregations have a say in their churches. In Britain, there is an admirable and long-standing body called the Wine Society, wholly owned by its members with the sole purpose of getting them good wine at good prices. There could be some bold ideas about applying this principle to things so important that they can't be bottled, such as health.

The Victorians were more imaginative than we are about principles of mutuality—credit unions, building societies, the cooperative movement. Such organizations feel creakier in an age when people want larger sums, faster. But is it really beyond the skill of our great modern business brains to develop these concepts and adapt them to modernity? Financial creativity, unfortunately, really has become the preserve of the few, for the few.

Balance the national and the global. This could be the hardest principle to implement but also the most important. All nations in the modern world depend on other nations and flourish if they embrace that interdependence—for the sake of trade and the sake of peace. But it does not follow, as some internationalists argue, that the age of the nation-state is dead.

Democracy and the rule of law exist only because of national jurisdictions. If those jurisdictions blur, as they do in the European Union, people's trust in the polity weakens and the structures of answerability become too opaque. For all his love of trade, Adam Smith understood this. His great work is called “The Wealth of Nations,” not “The Wealth of the Global Community.”

Out of the allegiance that citizens feel to their country and its legal and political institutions comes the confidence to deal fairly with the wider world. The global village works best if each village householder is secure in his title to his own property and master in his own house. If the national and the global are not held in balance, popular fear of the global elites will (justifiably) grow. As happened in the 1930s, we will see weak, goody-goody international bodies wagging their finger ineffectually at strong, nasty nationalist regimes.

I am no alarmist, and no one should worry that I have become a late convert to Marxism.

Marx's prescriptions were mostly wrong, and his spirit was intolerant and coercive. He did not understand markets or respect political institutions, and he thought liberty was a sham. But Marx did have an insight about the disproportionate power of the ownership of capital. The owner of capital decides where money goes, whereas the people who sell only their labor lack that power. This makes it hard for society to be shaped in their interests. In recent years, that disproportion has reached destructive levels, so if we don't want to be a Marxist society, we need to put it right.