

# **Pay Inequality: where it comes from and what to do about it**

Anarcho

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*“The exploitation of man by man, someone once said, is theft” (Pierre-Joseph Proudhon)*

The global *Occupy* movement has struck a cord with the 99% and the ruling class is worried. Rightly so, given that the neo-liberal agenda that has allowed the few to become obscenely rich at the expense of the rest has come under fire.

In Britain, November 30<sup>th</sup> saw a massive public sector workers’ strike. In the run up, we were subject to articles in the right-wing press on “fat cat union bosses.” And, yes, these union officials do have wages between 4 and 6 times the average workers – although unlike bosses they are elected by their members. Anarchists have long argued that union officials should be paid the same wage as their average member and, moreover, that union officials have less power over their members. As any active union member knows, the officialdom happily uses Thatcher’s anti-union laws to clamp down on rank-and-file militancy. The right seems to have forgotten that no “union boss” can order workers to go on strike – a ballot of members is required.

Have they forgotten their beloved Thatcher already? But then the right, like the bosses, are a bunch of moaners. In spite of dominating Britain for 30 years, they still consider themselves as being persecuted and in need of more state aid! Hence the Condems running around trying to weaken further the pathetically few rights we workers have. But perhaps that should read despite – for they spend a significant portion of their time complaining about the consequences of the politics for so vigorously advocated and saw implemented under the party they support.

A few days after the right ranting about “fat cats” in the unions, the High Pay Commission’s report was published. It reported how excessive the pay is for company bosses, with them, executive pay in the FTSE 100 rising “on average by 49% compared with just 2.7% for the average employee” in the last year alone. Meanwhile, they bemoan and lobby against the 50% top rate of tax paid by those on over £150,000 while simultaneously arguing for cuts to the minimum wage. The logic is clear – pay cuts for the many and tax cuts for the few means that there are cuts all round, so we are all in it together!

Since Thatcher’s neo-liberal onslaught against the working class, wealth, as the report states, during “rewards have been flooding upwards... Since the mid 1970s, the general workforce’s share of GDP had shrunk by over 12% up to 2008.” And flood up it has, “with the top 0.1% seeing the most significant growth, followed closely by the top 1% and top 10%.” Comparing 1979 to 2007, the top 0.1% took home 1.3% of the national income this had grown to 6.5%, the top 1% took home 5.93% rising to 14.5% while the top 10% took home 28.4% rising to 40%. Between 1949 and 1979 “executive pay grew by 0.8% per year on average” but over the last 10 years “annual growth in the pay for FTSE 100 executives has been closer to 20%.” In short, “there has been a dramatic escalation in top pay over the last 30 years. This growth has taken place primarily in the private sector; it is our business leaders and bankers who are taking a bigger slice of the pie even as average wages across the private sector have stagnated.” In short, a shift has “occurred in which pay at the top increased exponentially” while the ratio between “the average pay of executives and that of workers has grown from 16 to 63.” Moreover, as inequality has soared, “we have seen social mobility decline.”

With admirable understatement, the report states it “is no longer possible to contest the fact that there has been an enormous upward redistribution of income since the 1980s.”

So the top earners have accumulated more wealth at an alarming way. For example, in 1980 the boss of Barclays was earning 13 times average pay at the bank but now they are on 169 times

the average, a 4,899% rise over that 30 years (average UK wages have gone up threefold). Both the 1980 and 2011 amounts dwarf the pay of union officials the right are trying to demonise.

The Commission's report pointed to the wider negative impact on the rest of society of this massive inequality. Thus there is "little doubt that gross inequality affects morbidity and mortality rates, including infant mortality rates. More unequal societies also have lower levels of social mobility" while inequality "can be harmful to long run economic growth" and within-firm pay inequality "is associated with lower-firm performance" ("No reputable study has shown that executive pay has been successfully linked to company performance... the body of evidence challenging the link between pay and performance has become increasingly compelling."). Moreover, while it has "traditionally been argued that inequality is actively good for growth" there is "a growing body of evidence which suggests that gross inequality in income contributes to sectoral imbalances, regional disparities in investment and asset bubble inflation." Investment in assets driven by inequality "can encourage economic instability and increase the likelihood of shocks and financial crises." It is also no surprise, the report notes, that "economic power tends to beget political power" which can "be used to exert bias that favours unreasonably or unfairly the status quo – or vested interests"

Needless to say, it suggested some trivial reforms and tried to suggest that excessive top pay "is a symptom of market failure." Yet this is *precisely* how the capitalist market is meant to work.

## The Anarchist Theory of Exploitation

While few except the (paid and unpaid) apologists of capitalism deny the obvious facts of inequality, mainstream economics finds it hard to explain it. Ignoring such trivial factors as history, society, organisations, structural hierarchies, classes, power, and a host of other relevant issues, the atomistic individualist notions of neo-classical economists cannot explain why inequality has soared – although it can, of course, rationalise it and justify it. This is unsurprising, as neo-classical economics was developed in response to the socialist critique of capitalism. It is no coincidence that the first book written by one of the key founders of that school, Léon Walras, was a polemic against the first anarchist theoretician, Pierre-Joseph Proudhon.

And it is to Proudhon who we must turn to explain the obscene inequalities we see around us. Proudhon's critique of capitalism rested on two key concepts. Firstly, property allowed the owner to exploit its user ("property is theft"). Secondly, that property created oppressive social relationships between the two ("property is despotism"). These are interrelated, as it is the relations of oppression that property creates which allows exploitation to happen and the appropriation of our common heritage by the few gives the rest little alternative but to agree to such domination and let the owner appropriate the fruits of their labour.

Hence inequality means the wealthy few have power over the many for "it is superior strength" which "enables the manufacturer to reduce the wages of his employees, and the rich merchant and well-stocked proprietor to sell their products for what they please... Who will yield? The weaker." (*Property is Theft!*, p. 128) Market power counts and so property allows the creation of authoritarian social relationships and exploitation. For Proudhon, the notion that workers are free when capitalism forces them to seek employment was demonstrably false. He was well aware that in such circumstances property "violates equality by the rights of exclusion and increase, and freedom by despotism." The worker "has sold and surrendered his liberty" to the

proprietor. (p. 132, p. 117) This allows exploitation to occur as workers produced more value than they received in wages:

“Whoever labours becomes a proprietor ... And when I say proprietor, I do not mean simply (as do our hypocritical economists) proprietor of his allowance, his salary, his wages, – I mean proprietor of the value he creates, and by which the master alone profits ... *The labourer retains, even after he has received his wages, a natural right in the thing he has produced.*” (p. 114)

The capitalist also unjustly appropriates the additional value (termed “collective force”) produced by co-operative activity as a “force of one thousand men working twenty days has been paid the same wages that one would be paid for working fifty-five years; but this force of one thousand has done in twenty days what a single man could not have accomplished, though he had laboured for a million centuries.” Thus the capitalist may have “paid all the individual forces” but “the collective force still remains to be paid” and which they “enjoy unjustly.” (p. 117)

Capitalism meant “another shall perform the labour while [the proprietor] receives the product.” So the “free worker produces ten; for me, thinks the proprietor, he will produce twelve” and so to “satisfy property, the labourer must first produce beyond his needs.” (p. 110, pp. 124–5) Hence the massive inequality between bosses and wage-workers is explained by the nature of the capitalist production process, by the fact that the worker sells their labour/liberty to a boss who controls their labour and keeps the product of their labour. Workers work harder while the bosses decide they contribute most to production and reward themselves accordingly.

Proudhon stressed that labour did not have a value but what it created did and so labour produces value only as *active* labour engaged in the production process: “Labour is said to have value, not as merchandise itself, but in view of the values supposed to be contained in it potentially. The value of labour is a figurative expression, an anticipation of effect from cause ... it becomes a reality through its product.” (p 176) As a consequence of this, when workers are hired wages *cannot* equal product as the proprietor secures a profit by controlling both product *and* labour:

“Do you know what it is to be a wage-worker? It is to labour under a master, watchful for his prejudices even more than for his orders ... It is to have no mind of your own ... to know no stimulus save your daily bread and the fear of losing your job.

“The wage-worker is a man to whom the property owner who hires him says: What you have to make is none of your business; you do not control it.” (pp. 248–9)

This hierarchical relationship within production allowed exploitation to occur as the worker “create[s], on top of his subsistence, a capital always greater. Under the regime of property, the surplus of labour, essentially collective, passes entirely, like the revenue, to the proprietor... The consequence of that usurpation is that the labourer, whose share of the collective product is constantly confiscated by the entrepreneur, is always on his uppers, while the capitalist is always in profit ... political economy, that upholds and advocates that regime, is the theory of theft.”(pp. 253–4)

In short, the capitalist firm “with its hierarchical organisation” means that workers had “have sold their arms and parted with their liberty” to a boss who controls them, appropriates the product of their labour and, consequently, the “collective force” and “surplus of labour” they create. (p. 193, p. 212)

Little wonder “property is theft!”

## Moving Forward

The *Occupy* movements across the world have successfully raised the issue of inequality. They have also shown that for all its talk of freedom, capitalism needs the state to clamp down on effective protest (hence all the “We believe in the right to protest, but...” articles, speeches and editorials we have suffered of late). They are a wonderful start and they raise the key issue.

For anarchists, as exploitative occurs in production it can only be solved there. As long as there is wage-labour, then bosses will accumulate the surplus-value produced by their wage-slaves. As Proudhon argued, under capitalism “a worker, without property, without capital, without work, is hired by [the capitalist], who gives him employment and takes his product” and his wages fail to equal the price of the commodities he creates. In a free society, however, “the two functions” of worker and capitalist “become equal and inseparable in the person of every worker” and so he “alone profits by his products” (and the “surplus” he creates). (pp. 534–5)

This means that inequality will never be ended until workers associations replace wage-labour because of “the immorality, tyranny and theft suffered” by workers by capitalists “who plunder” their “bodies and souls.” Capitalist firms are “a betrayal of power, a violation of the rights of the public, an outrage upon human dignity and personality.” (p. 584) Most anarchists go further than Proudhon by advocating *libertarian* communism – a system based on meeting needs rather than a market socialist one based on co-operatives selling their products to each other.

In the medium term, we need to encourage workers to occupy their workplaces, tenants their homes, occupy everywhere and everything. Our labour has created what the few monopolise. We must take it *all* back. In the short term, and again unlike Proudhon, revolutionary anarchists stress the need for workers to organise and resist their bosses. By organising in the workplace, we can keep more of the value we create – it is no coincidence that inequality rose as union militancy and density fell.

As Peter Kropotkin stressed in *Modern Science and Anarchism*, “the Anarchists have always advised taking an active part in those workers’ organisations which carry on the direct struggle of Labour against Capital and its protector, – the State.” This struggle “permits the worker to obtain some temporary improvements in the present conditions of work, while it opens his eyes to the evil that is done by Capitalism and the State that supports it, and wakes up his thoughts concerning the possibility of organising consumption, production, and exchange without the intervention of the capitalist and the State.” Workers would become “the managers of production” in a system “of independent Communes for the territorial organisation, and of federations of Trade Unions for the organisation of men in accordance with their different functions.” This was the “concrete conception of society regenerated by a social revolution.”

Of course, we are exploited and oppressed outside of work as within it. We need to organise and fight wherever injustice exists. However, without ending wage-labour we will never be able to create the economic basis for a free and equal society. Inequalities in wealth produced by wage-labour will impact in the rest of society and, by necessity, require a state to protect them. While ending wage-labour will not guarantee the end of other hierarchies and injustices, it is a necessary step – just like smashing the state.

Our task is to explain the link between inequality and wage-labour and help organise a mass movement which uses direct action and solidarity to keep more of the wealth we create in our own hands until we are strong enough to expropriate the wealth monopolised by the capitalist class. Nothing else will do.

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