

The Conscience of a Liberal

Paul Krugman

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Reviewed by Ben Jackson

New Labour politicians and advisors have generally found transatlantic dialogue with their counterparts in the Democratic Party to be a congenial experience. Back in the more innocent days of the 1990s, the Blair-Clinton third way thinkathons were the occasion for much mutual reinforcement. It was a real tonic, particularly on the Labour side, to discover the shared moderation and fatalism that bound together Labour and Democratic elites as both parties sought to regain the electoral initiative after long stretches in the wilderness. Party leaders reassured one another in glossy position papers and meditative postprandial discussions that their heavy burden as the grave-diggers of the old-fashioned politics of 'tax-and-spend' had been inescapably allotted to them by history. After all, Anthony Giddens and other like-minded experts were on hand to confirm that inexorable global economic forces had eviscerated any prospect of a return to the social democratic values and policies of the post-war boom.

Paul Krugman's uplifting new book, *The Conscience of a Liberal*, prompts the observation that a similar transatlantic summit meeting today would likely reveal an astonishing spectacle: a Democratic Party mainstream that is now to the left of the current Labour cabinet. An interesting question to ask today's Labour leaders is how congenial they would find discussions about raising taxes on big business and the rich; increasing the power of trade unions relative to corporations; and expanding universal entitlements to social services? For these, as Krugman highlights, are core themes of the new 'economic populism' that reaped electoral benefits for the Democrats in the mid-term elections of 2006 and framed much of the debate during the recent round of Presidential primaries (see also Hayes 2006; Toner 2007).

Krugman is well-known as an incisive commentator on US politics and economics for the *New York Times*, but his authority derives primarily from his academic career, as an economics professor at various elite universities (he currently teaches at Princeton). Krugman's expertise is what gives this book its unusual power: from within the citadel of the economics profession, he mounts an accessible, intellectually rigorous, and surprisingly radical argument.

An important clue to its main thrust is contained in the book's title. In 1960 Senator Barry Goldwater published *The Conscience of a Conservative*; by the standards of the time it was the work of an uncompromising right-winger determined to kick back against the corrosive influence of trade unions, public expenditure and other forms of crypto-communism. Goldwater subsequently became a John the Baptist figure in the history of American

conservatism. Nominated as the Republican Presidential candidate in 1964, Goldwater ran on a right-wing platform and was heavily defeated by Lyndon Johnson. But with the emergence of Ronald Reagan as the conservative standard-bearer in the 1970s, the ideas that Goldwater had espoused became mainstream and central to the strategic vision of what Krugman calls 'movement conservatism': the network of corporate interests, lobbying organisations, think-tanks and media outlets that all work within the Republican Party to roll back the legacy of the New Deal.

Krugman's book is an uncompromising argument against the changes wrought by the rise of movement conservatism; in this sense it is the reverse of Goldwater's text. As Krugman acknowledges, like the third wayists he once believed that inexorable forces such as technological change and globalisation were driving inequality in the United States skywards. He assumed too that the Republican Party had simply followed this socio-economic change as they became the representatives of the winners of this new economic ball-game. But now he thinks that he got it the wrong way round: instead, it is the political success of the right that has pushed up inequality. The victory of movement conservatism, Krugman writes,

emboldened business to launch an all-out attack on the union movement ...; freed business executives from the political and social constraints that had previously placed limits on runaway executive pay-cheques; sharply reduced tax rates on high incomes; and in a variety of other ways promoted rising inequality. (p. 7)

Krugman's new historical narrative therefore goes roughly as follows. From the 1870s to the 1930s the United States was characterised by great inequality. Detailed statistics don't exist for this period, but one indicative number is that the top 10 per cent of earners in the 1920s took about 44 per cent of total income, and the top one per cent accrued about 17 per cent (p. 16). It took the skilful electoral coalition-building of Franklin Roosevelt, against the backdrop of depression and war, to remake this inegalitarian political order and to undertake what Krugman calls 'the great compression'. By the mid-1950s, the real income of the median family had roughly doubled since 1929, while the real after tax incomes of the richest one per cent were 20 to 30 per cent lower than in the previous generation (pp. 41–2).

Krugman ascribes this narrowing of inequality to the New Deal's taxes, public spending, labour market regulation, and eventually war-time wage controls, all of which made working people better off and elites significantly worse off. This economic redistribution in turn bred a more democratic society: a sense that US citizens were living lives that were roughly similar in their material conditions and that ordinary Americans enjoyed a sense of dignity lacking in earlier, more class-conscious generations. Even the Republican Party became reconciled to this new America after losing to Truman in the 1948 Presidential election.

But this was not to last, thanks to the rise of movement conservatism within Republican ranks. As Krugman notes, the post-Goldwater electoral plausibility of conservatism derived from a burgeoning alliance between businesses keen to suppress trade

unions and Southerners opposed to civil rights legislation, the latter shrewdly exploited by the dog-whistles of politicians such as Reagan. The aim of this movement, as summarised by the leading conservative organiser Grover Norquist, is to take the US back to its condition ‘up until Teddy Roosevelt, when the socialists took over’ (pp. 10–11). And, as Krugman illustrates, Norquist and his associates have had considerable success in these efforts, with a return to pre-1930s levels of inequality the inevitable consequence.

In 2005, as in the 1920s, the top 10 per cent of earners once again net about 44 per cent of total income, and the top one per cent again take home about 17 per cent (p. 16). And although the average income in the US has increased substantially since 1973, the median income – the income of the person or family exactly in the middle of the income distribution – has on some measures actually declined and on others only modestly increased (pp. 125–8). In other words, the rise in average income in the US over the last three decades is largely due to a few people becoming much, much richer.

Krugman thinks that all of this shows the crucial role of shifts in fiscal policy, labour market institutions and social norms in pushing up US inequality. Some of this will be familiar – clearly, cutting taxes on the rich and failing to uprate the minimum wage will widen inequality – but it’s worth saying more about a couple of the less obvious causal drivers that Krugman highlights: labour market institutions and social norms.

By ‘labour market institutions’, Krugman principally means trade unions. He argues that strong unions had three main effects on inequality during the ‘great compression’. First, they raised the average wages of their members and of non-members in similar occupations (non-unionised employers tried to avert the threat of union organisation in their workplaces by matching union pay deals). Unions therefore helped to narrow the earning gap between workers and higher paid occupations. Second, unions narrowed income differentials within the workforce itself, securing bigger wage increases for lower paid members than for higher paid (again, non-union employers tended to follow suit). Third, unions increased the political power of working people relative to the rich. For example, by politicising their members, unions reduced the class bias in voter participation. Krugman cites one study showing that if union density in the US labour force had been as high in 2000 as it was in 1964, then an additional 10 per cent of adults in the lower two-thirds of the income distribution would have voted, compared with three per cent extra in the top third (p. 70, citing Leighly and Nagler, 2007). Another example of the additional clout given to working people by union membership was that it gave an incentive to managers and company directors to keep their own remuneration under control; any board endeavouring to dispense twenty-first century levels of executive pay in the 1950s would quickly have generated labour unrest.

This also bears on the other less obvious cause of growing inequality Krugman identifies: the role of social attitudes or norms in shaping the remuneration packages of very high earners. There is no inescapable economic logic driving up the pay of top executives, Krugman argues. Rather, it is principally the ‘death of outrage’ that has let corporate salaries soar away at the top. High earners have received loud and clear the signals sent by politicians, the media, colleagues, and weakened trade unions that they can get away

with paying themselves ever more extravagant salaries and bonuses. It hardly needs saying that both of these examples – the need for stronger trade unions and more egalitarian social norms – are also directly relevant to the debate about rising inequality in Britain.

How does Krugman propose to fight back against the victory of movement conservatism? His main short-term objective is to secure universal health insurance, both as an important goal in its own right and for the strategic purpose of giving new political life to an agenda of welfare state expansion. He reckons that this can be funded by rolling back the tax cuts brought in by Bush and due to expire in 2010. Krugman also wants to see higher public expenditure on anti-poverty programmes; a super-tax on very high earners and capital gains; and much greater efforts to reduce market inequality. He thinks that this latter objective requires a higher minimum wage; federal legislation aimed at facilitating greater union membership (along with tougher enforcement of existing labour legislation); and a progressive movement that drums up public hostility to exorbitant executive pay.

In Krugman's view, the significance of the 2006 mid-term elections is that they showed the US electorate was ready to listen to these arguments. He sees the white backlash on civil rights as now of diminished electoral significance, leaving the way clear for the Democrats to reopen a conversation with the American public about economic justice. Stagnating living standards, argues Krugman, mean that voters are now deeply concerned about an economy that leaves most of them behind.

Many points might fruitfully be taken from Krugman's compelling, passionate book and adapted for British political purposes, but one that strikes me as of particular salience is his insistence that the case for equality is a majoritarian one. Although in Britain we often talk as if redistribution mainly helps out a disadvantaged minority, Krugman's basic case for equality is that the economy should be managed so as to ensure that the majority benefit from economic growth rather than a few elite earners at the top. This is not the same as aiming at improving average incomes. As Krugman observes, when Bill Gates walks into a bar the average income of the bar's patrons shoots up, but the individuals in the bar are no better off than before. And, Krugman adds, Bill Gates walking into a bar is more or less what has happened to US living standards since the 1970s; all those below the 90th percentile of the income distribution received a below average increase in income (pp. 128–9).

The equivalent British figures will of course be much fairer – thanks in part to Labour's concerted effort to boost the incomes of the working poor – but the underlying political logic could nonetheless help assuage New Labour's famous worries about talking to the electorate about social justice for fear of offending 'middle Britain'. Krugman's book suggests a way forward from this impasse: a majoritarian argument for redistribution which proclaims that we should improve the living standards of the typical (median) citizen rather than allowing the super-rich to cream off the benefits of economic growth. This is no doubt a rare example of advice from the United States that New Labour doesn't want to hear; we must make sure it gets to them all the same.

Ben Jackson is University Lecturer and Tutorial Fellow in Modern History at University College, Oxford and an Associate Editor with *Renewal*. He is the author of *Equality and the British Left* (Manchester, 2007).

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