Dialogue between Friedman and Marx on Income Inequality

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APPENDIX 11.1
DIALOGUE BETWEEN FRIEDMANN AND MARX ON EQUALITY
BY HOWARD SHERMAN

Milto Friedman was the greatest conservative economist of the 20th century. Karl Marx was the greatest radical economist of the 19th century.

Suppose that Karl Marx and Milton Friedman met in heaven and Socrates asked them to talk about income equality.

SOCRATES: Why does inequality of income exist in the United States in 2012?

FRIEDMAN: Inequality of income reflects exactly the additional product produced by each producer. Every worker adds a certain amount to each product and so does every capitalist. They get income accordingly. Every person has the right to choose where to work, what to do, and how much to invest in a business. It is all a matter of choice. The result is exactly the same as if each person produced a product on an island, and then sold it to people on other islands in a perfectly free market, with the price produced by competition in the market.

MARX: There is almost no choice for the average employee. Their family has certain resources to help them get an education and find work. The average person has a certain amount of labor to provide per day, so that power of labor is bought and sold as a commodity. Capitalist owners
of corporations have superior strength, so the average employee receives an income about equal to the average consumption (to which they must add some credit to get what is considered a sufficient income). That wage or salary will be only a part of what they produce in a day, so the rest goes to profits. Capitalism cannot exist without profits, so every employee must produce a profit or be fired. There is a tremendous inequality between the average employee income, given by the competitive labor market, and the profits made by capitalists on their investments with no labor.

SOCRATES: Why does the percentage of national income going to employees fall in every business cycle expansion?

FRIEDMAN: There is no such thing as a business cycle. Occasionally, an external shock, such as a mistake in governmental monetary policy, may create a business downturn. The notion of an internal business cycle created by capitalism is a false piece of propaganda crated by socialists.

In fact, some downturns are caused when unions interfere with free competition to set wages and salaries so high that profits are forced to fall, creating a downturn. So it is false to assume that profits always rise faster than wages and salaries, when the opposite is usually true because of the power of unions.

MARX: The fact is that wages and salaries do always rise more slowly than profits. In fact, profits rose 25 percent faster than wages and salaries in the Bush expansion of 2001 to 2007. The facts about what happens to employee income versus profit income are shown in Chart 1.
This chart shows the much slower rise of employee income than profit income in the average cycle expansion in the five cycles from 1970 to 2001 and also in the cyclical expansion of 2001 to 2007.

Perhaps the extraordinary difference is explained by the fact that the power of the Bush government was added to the power of the giant corporations whenever the opportunity afforded itself. In every expansion on record, the same thing happens because under capitalist rules any increase in productivity goes automatically to the owners of the enterprise, none goes automatically to the employees.

In order to get higher wages and salaries, employees must renegotiate their contract. If the management refuses to budge, then only a strike may raise their incomes. The media, which are owned by large corporations, always point out the hardships of a strike to the consumer, but never mention the hardships of the employees which led them to strike. Thus, most strikes face resistance from the employer, the government (at every level), the media, and the general public (if they are convinced by the media). For all of these reasons, wages and salaries rise very sluggishly in every expansion, while business profits soar.

**SOCRATES:** Does the sluggish rise of wages and salaries cause the increase in consumer spending to be limited under capitalism?

**FRIEDMAN:** There is no relation between consumer spending and the distribution of income. This has been proven by econometric studies by some very highly reputable conservative economists.
MARX: Almost all conservative studies of the business cycle do not have a single mention of the distribution of income. Yet it is a key part of the story of recessions. Chart 2 shows that the percentage of employee income to all national income declines in every business expansion. This chart also shows that the percentage of Consumer Spending to all National income also declines in every business expansion. The chart illustrates very clearly that consumer spending and employee compensation — as percentages of national income — march very closely together in the expansion. They fall together in the expansion and rise together in the recession. Thus income distribution is a very important determinant of consumer spending.

Why is this a key happening? Because it tends to show that the very slow rise in employee income (and its decline as a percent of the whole) leads to a similar very slow rise in consumption in the last half of every business expansion. In brief, this means that limited growth of wages and salaries leads to limited growth of the aggregate demand for goods and services. When the aggregate demand is very limited, it leads to a lower growth of profits. This is the biggest single factor leading to recession, a rising unemployment, and falling incomes for most people.

SOCRATES: How could economic inequality be ended?

FRIEDMAN: There is no need to end economic inequality because it is a major help to innovation and economic growth. Each person is getting just what they deserve. Any attempt to reduce it will cause serious
economic problems. There is no alternative because no other system will work.

MARX: Economic inequality is the main cause of poverty and of cyclical unemployment. Therefore, it is urgent to get rid of it.

The main cause of inequality is that a large part of the product of employees goes as profit to the wealthy owners. The only way to reduce inequality in a permanent way is to end the monopoly of ownership of all business by the wealthy elite who are the top one percent of the populace by income and ownership.

To remove this monopoly, it is necessary to democratize a large part of ownership. Democratization means that the board of directors of a democratized corporation would be owned partly by representatives of a democratically elected government (say 60 percent) and by democratically elected representatives of the employees in the firm (say 40 percent). If the largest 100 giant corporations are democratically owned in this way, it would end a large part of all inequality and would also end the worst ups and downs of the economy.

Another road to equality is the increase in free goods and services. The next steps should be free education and free health care for all.

SOURCE: Most introductory textbooks by conservative economists preach Friedman's doctrine as stated above. The simplest and most exciting source of conservative economics is Milton Friedman, Capitalism and Freedom, 1962. The simplest and most exciting source on Marx is the
brief pamphlet by Karl Marx and Frederick Engels, The Communist Manifesto, 1848.