

On the need for redistribution of wealth

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I wrote a [very quick blog](#) yesterday morning — knocked off in a minute probably — that has attracted over 20 comments so far.

In it I said in response to a whinge in the Wall Street Journal on the richest in many communities seeing their taxes increase to pay for the impact of the recession:

Quite right too.

- 1) They caused the crash*
- 2) They benefited most from the bail out*
- 3) They have the capacity to pay.*

Your problem is?

The inevitable right wing reaction arose.

And now a hint that I am, for some reason, a Marxist. But I'm sorry — that doesn't stick, not at all. As I said to one commentator this morning (edited slightly):

What I can say is this: we need a major culture change

I'm not, as you imply, a Marxist. I am a social democrat. Yes, that's left of centre. Of course it is. It's also bang in mainstream politics. Unlike most who comment here who are way out on the political extreme of the right.

And as a chartered accountant with considerable business experience I can offer three opinions.

First, the system is not working. Isn't that plainly obvious?

Second the change required is not minor, it is systemic. Again, isn't that obvious?

Third, that change requires reallocations of resources within and between societies.

From developed to developing countries.

From banks to real productive activity.

From saving to investment.

From net exporters to net importers by changing the balance of trade — please note Germany and China.

From those with wealth to those without.

The crisis is a reflection of these imbalances.

Defending the status quo - saying in effect the wealthiest (and you say you are one of those) can maintain their wealth is your right.

But I can say without a shadow of a doubt that these imbalances caused the crisis.

And reallocation is required to restore balance.

Does that make me a Marxist?

No. It makes me a hard headed analyst who might pay more tax as a result.

Now - what's your choice? Do you want to solve this problem? Or perpetuate it? Because let me assure you — nothing but redistribution will resolve it.

I am convinced of that. But let me also add a little more explanation for all those who like to say the recession was caused by bankers alone, or governments allowing easy credit alone, or (although I've never heard this said), offshore alone. None of these is true, although each has merit in part.

The reality is more significant. Ordinary people — the vast majority of people — were in reality priced out of some basics of living, like housing, by an elite. That elite — the holders of the vast majority of wealth — forced up the price of many assets — housing in particular. The result was people had to borrow more and more, and one income households had to become two income households and still borrow more and more, just to secure a roof over their heads.

And at the same time that elite, which has had almost total control of resources and yet has proven markedly unable to decide what to do with them, proved enormously reluctant to take risk by investing in the meeting of needs. It did instead spend enormous amounts on creating wants capable of being satisfied through the supply of financial services products, all promoted by their control of the media. Those wants did

not generate much wellbeing — we know people's happiness has not risen much if at all since the 1970s — but they and, more importantly, the resulting financial services products, did result in yet further reallocations of wealth to a decided minority.

Why did those people have to borrow so much? For one reason: whilst overall income was rising in society wages have not or certainly not very much, not in real terms, not for most people. This is especially true in the USA.

And when it became obvious that those who, on the margins at first, had borrowed beyond their means could not repay bad debts arose and some asset repricing took place.

This is real reason why we had a crash: the imbalance in returns between wages and capital. Capital — unproductive capital at that — saw monetary returns rise from the creation of unsustainable financial assets. And people could no longer service those assets — which is why they were unsustainable.

So far a sticking plaster has been put on this. Some (only some) of the assets have been written off. But many more might need to be — especially if cuts send us into a double dip recession, unemployment rises and real wages fall — as they might well do.

But as with the other imbalances I note above — and they are important too, especially those created by Germany and China in particular — we're not going to solve this problem until the wage / capital return imbalance is solved. Real wages have to rise. Capital returns on artificial assets have to fall. As Wolfgang Schäuble, Germany's finance minister, [has said this week](#):

I'm convinced the markets are really out of control. That is why we need really effective regulation, in the sense of creating a properly functioning market mechanism.

I share that view. It does not make him a Marxist, nor me one.

As he also said:

We must regulate over-the-counter transactions, and we must also focus on the ratio of financial transactions to the real exchange of goods and services. They bear no relationship to each other. I understand that we need new financial instruments to cope with the huge financial tasks that we face. But, forgive my saying so, minimum profits of 25 per cent are simply unimaginable in the real economy. It isn't healthy.

Again, exactly right.

But add to that the fact that throughout business, and almost universally amongst those with wealth, the claim is made that labour is too greedy when I contend it is just as glaringly obvious that the return to labour is wrong as it is that the return to hedge funds is wrong. If the return to labour had been right labour could have afforded to put

a roof over its head without borrowing excessively to do so, or to meet its perceived needs and wants in the market place.

Now you can call that a Marxist economic analysis if you so wish — but Marx was an economist, after all. But that doesn't make me a Marxist. It just makes me a hard headed analyst. Admittedly, one who's damned sure he's right. And that wealth will have to be redistributed as a result. And that attacking real wage rates at this moment — [as the Con Dems are proposing](#) — is just another example of their poor economic thinking.

But let's stop the banal name calling because I happen to suggest redistribution is a pre-condition of solving our economic crisis when it glaringly obviously is, shall we? And shall we instead discuss how to do this with minimal impact in the form of stress on society as a whole — which is a much more interesting issue?