Growing inequality risks social revolution, hedge fund chief warns

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8 November 2019

The comments by American hedge fund chief Ray Dalio, one of the richest men in the world with wealth at around $17 billion, that rising inequality is bringing the threat of violent social revolution, point to the driving forces of the upsurge in the class struggle in the US and internationally over the past year.

Strikes and demonstrations are now erupting around the world—from Chile, North Africa, the Middle East to Europe—as the working class, written off by all manner of pseudo-left tendencies as a revolutionary force, begins to find its feet and its voice after decades of suppression of the class struggle.

One of the most striking chants of the demonstrations in Chile, which erupted in response to an increase in charges on the Santiago metro, has been “This isn’t about 30 pesos, it’s about 30 years”—a sentiment no doubt shared by US auto workers and workers around the world as the decades-long driving down of living standards and social conditions becomes intolerable.

Speaking to a business conference in Greenwich, Connecticut this week, Dalio said social inequality was a national emergency. The world had “gone mad,” he said, and the current system was “broken” and had to be “reformed” otherwise there would be revolution “where we are all going to try to kill each other.”

Fellow hedge fund chief, Paul Tudor Jones, likewise one of the richest men in the world, also pointed to the rise and rise of social inequality.

“There’s $2 trillion of corporate profits. Fifty years ago, a trillion of that would have gone to employees ... it would have gone to communities. It would have gone to customers. Now it goes to, increasingly, the 1 percent,” he said.

He pointed out that in public companies, on the boards of which he and other attendees sat, there were six million workers who did not make a living wage. “Fifty years ago, 6.5 percent of corporate revenue went to shareholders. Today that number is 13 percent.”

Notwithstanding the painting of the past in rosy colours, Jones’ remarks directed attention to a decisive shift in the operations of the capitalist economy.

Fifty years ago, a significant portion of profits was directed into new investments, bringing about an increase of economic growth and jobs as well as rising real wages. But this was not because, as Dalio and Jones maintain, there was a different “business culture” at the time. Rather, such investments were undertaken in the search for increased profit—the same driving force of the capitalist economy today.

However in the past, because reinvestment of profits brought economic growth and rising living standards, the underlying social reality could be obscured. The notion was advanced that capital and the working class were not irreconcilably opposed social forces but were locked together in some kind of mutually beneficial partnership. In the words of President Kennedy, “a rising tide lifts all boats.”

But by the mid-1970s, the post-war boom, which had brought a steady profit rate and rising real wages, had well and truly come to an end as profit rates turned down.

This brought two responses: a ferocious and unending offensive against the working class from the beginning of the 1980s—the level of real wages in the US by some estimates has not risen since 1973—and a turn to the accumulation of profits, not through investments in the real economy where profit rates had fallen, but by means of parasitic financial speculation.

Starting under the Reagan administration, the stock market became a key arena for these operations. This required changes in the legal system, one of the most significant of which was the 1982 decision of the Securities and Exchange Commission—the agency responsible for the regulation of the stock market—to allow companies to buy back their own shares, thereby reducing the number of shares and causing their price to rise. Previously, such measures would have brought charges of stock manipulation.

The 19th century French economist Frederic Bastiat once wrote: “When plunder becomes a way of life for a group of men living together in society, they create for themselves in the course of time a legal system that authorizes it and a moral code that glorifies it.”

Bastiat was an advocate of the “free market” and a vociferous opponent of socialism. But his remarks capture the processes set in motion from the 1980s onwards. The doctrine that profits should be used to expand the operations of a company through new investments in the real economy was replaced by the mantra of “shareholder value.”

That is, the prime task of a company was to increase the flow of profits to finance capital—hedge funds, banks and various investment funds that dominate the boards of corporations—by all means necessary. Among the most prominent have been mergers—leading to increased corporate wealth concentration and monopoly—and job cuts, such that the price of a company’s share price now rises when it announces such action.

Today, share buybacks play a key role in the rise of the market. The economist William Lazonick, who has made a long-term study of this process, has noted that between 2008 and 2017 the largest pharmaceutical companies spent $300 billion on buybacks and another $290 billion in the payment of dividends, equivalent to a little more than 100 percent of their combined profits, while investment in research and development falls behind.

This form of parasitism has extended to all the key sectors of the US economy. According to Lazonick, between 2002 and 2019 Cisco Systems, a major company involved in the development of computer networking, has spent $129 billion on stock buybacks, more than it has spent on research and development.

Earlier this week, it was reported that Berkshire Hathaway was sitting on a cash pile of $128 billion as its chief, Warren Buffett, searched for profitable opportunities in the stock market.

The pace of share buybacks is increasing. When US President Trump secured the passage of corporate tax cuts at the end of 2107, he claimed it would boost the US economy and expand well-paying jobs. Nothing of the sort happened as companies used much of the tax cut bonanza to buy back stock.

In 2018 S&P 500 companies spent a record $800 billion buying their own stock and the figure could well top $1 trillion this year.

None of this money is being used for economically productive activities. Its expenditure is entirely directed to boosting share values and increasing the flow of wealth into the coffers of the financial oligarchy without adding a dollar to real investment or creating a single job.

Everywhere workers who come into struggle to defend their wages and social conditions are met with the claim "there is no money." One can only begin to imagine the economically and socially useful purposes to which this cash mountain could be directed were it taken out of the hands of the financial elites.

A particularly egregious expression of the social consequences is that of Boeing. Between 2013 and 2019, the company spent more than $60 billion on share buybacks and dividends while refusing to spend the resources to fix the problems in the 737 Max jets, two crashes of which have led to the death of hundreds of people.

The other key factor in the rise of the share markets is the pumping of cheap money into the financial system by the US Federal Reserve and other major central banks through record low interest rates and the purchases of trillions of dollars of financial assets under the program of quantitative easing.

The provision of this ocean of cheap cash since the financial crisis of 2008 has become so central to the operation of the stock market and the financial system more broadly that the central banks dare not even attempt to return to what was once considered a "normal" monetary policy lest this set off another financial meltdown, possibly even bigger than that of a decade ago.

At its meeting last month, the US Fed, having already abandoned the wind down of its asset holdings, which expanded from $800 billion prior to the crash to more than $4 trillion, carried out its third cut of 0.25 percentage points in its base interest rate. Furthermore, it indicated there would be no interest rises for the foreseeable future. In other words, that the Fed was completely beholden to the dictates of the stock market.

The rise in social inequality is not some unfortunate side effect of the massive increase in financial wealth. There is a causal relationship between the two phenomena. While it appears that through the stock market and other speculative operations money can simply create more wealth, all financial profits ultimately represent a claim on the pool of surplus value extracted from the labour of the working class.

Thus, the more financial capital seeks to appropriate from that pool, the more it must try to ensure that the pool expands. This is achieved by increasing the level of exploitation through the development of precarious work arrangements and the slave-like systems deployed by Amazon, now being extended to the rest of the economy.

And because it represents a deduction from the available mass of surplus value, the social wage of the working class—the provision of health care, education, aged care and other social services—must also be slashed via ongoing austerity programs.

Dalio, Jones and other like-minded figures in the financial oligarchy rightly fear this can lead to an explosion of the class struggle and social revolution, including, above all in the heartland of global capitalism, the United States.

Their prescription is a change of course by the ruling elites towards more socially responsible economic policies. But the clock cannot be turned back to what they regard as happier and more peaceful times. This is because, in the final analysis, the present situation is not the outcome of the mindset of the financial oligarchy or their political representatives which can be reversed if only a new outlook of greater social responsibility is adopted.

Rather, it is rooted in the irresolvable contradictions of the capitalist mode of production, based on the private ownership of the means of production, in which the social production of wealth is completely subordinated to the drive for profit, now being imposed by increasingly dictatorial, authoritarian and even fascist-type regimes. There is no way out of this crisis via the measures advanced by Dalio and other would-be reformers. If reform were possible it would have been enacted by now. Instead, the unmistakeable direction of capitalist economics and politics is towards war and social counter-revolution.

Yesterday marked the 102nd anniversary of the Russian Revolution of October 1917 when, under the leadership of a revolutionary party, the Bolshevik Party led by Lenin and Trotsky, a detachment of the international working class overturned the capitalist system and established a workers' government for the first time in history.

One hundred years on, workers the world over, as exemplified in growing mass struggles, are discovering, from their own living experience, why it was necessary to take that course. The way forward lies in giving this unconscious striving towards socialist revolution conscious expression. This means building the International Committee of the Fourth International, the only party in the world which bases itself on the lessons of the Russian Revolution and the strategic experiences of the international working class in the century since.