

The objective roots of social inequality

Nick Beams
8 October 2020

There is a growing nervousness in US and international political circles about the explosive consequences of ever-widening social inequality, now accelerating as a result of the trillions of dollars being handed out to the ruling financial and corporate elites to ensure their wealth accumulation can continue unabated during the COVID-19 pandemic.

This is coupled with desperate efforts to advance the illusory claim that some kind of reform of the capitalist economy can be advanced in order to try to head off an eruption of the class struggle.

Two recent articles, one in *Time* magazine, a media bastion of the American political establishment, the other in *Foreign Affairs*, the premier US foreign policy journal, exhibit both these tendencies.

On September 14, *Time* carried a major article reporting the results of a study conducted by staff at the RAND Corporation, a long-established American think tank, which revealed the massive impact of widening social inequality in the US over the past 45 years.

The RAND research found that over that period almost \$50 trillion had been siphoned to the upper echelons of US society from the bottom 90 percent of income earners, going mainly to the top 1 percent. It revealed that had the income distribution remained what it was during the period from 1945 to 1975, then American workers in the bottom 90 percent would have received additional income of \$2.5 trillion in 2018.

As the *Time* report noted: “This is an amount equal to nearly 12 percent of GDP—enough to more than double the median income—enough to pay every single working American in the bottom nine deciles an additional \$1,144 a month. Every month. Every single year.”

While the report did not use the term “class”—this is something of a taboo in political analysis amid the drive led by the *New York Times* to racialise every social question—the data produced by the RAND researchers, Carter C. Price and Kathryn Edwards, made clear, it is the determinant of income distribution. It noted that “whatever your race, gender, educational attainment, or income, the data show that if you earn below the 90th percentile, the relentless upward redistribution of income since 1975 is coming out of your pocket.”

The *Time* report also cited other research by the American Compass think tank that showed whereas a median income male worker in 1985 needed 30 weeks income to pay for housing, healthcare and education for his family this had risen to 53 weeks by 2018—more than the actual year.

“In 2018, the combined income of married households with two full-time workers was barely more than what the income of a single-earner household would have earned had inequality held constant. Two-income families are now working twice the hours to maintain a shrinking share of the pie, while struggling to pay housing, healthcare, education, childcare, and transportation costs that have grown at two to three times the rate of inflation.”

The money has gone to the upper-income layers. The top 1 percent’s share of total income has risen from 9 percent in 1975 to 22 percent in 2018 while the bottom 90 percent have seen their share fall from 67 percent to 50 percent.

This has resulted in a situation where 47 percent of renters are living on the edge, 40 percent of households cannot meet a \$400 emergency, 55 percent of the population of have no retirement savings, 72 million people

either have no health insurance or are underinsured and cannot meet so-called co-pays and millions are forced to work in unsafe conditions due to COVID-19 because they have no other means of survival.

Having presented an array of damning statistics, the *Time* report then sought to cover over their underlying causes and prevent the necessary political conclusions being drawn. It insisted that “this upward redistribution of income, wealth, and power wasn’t inevitable; *it was a choice* —a direct result of the trickle-down policies *we chose* to implement since 1975.” [emphasis in original]

According to the report, it was “we” who “chose” to cut taxes on billionaires, allow share buybacks to manipulate the stock market, permit corporations to acquire vast power through mergers and acquisitions, to allow the erosion of the minimum wage and to elect politicians who put the interests of the rich and powerful above those of the American people.

In other words, in the final analysis, the mass of the population themselves are responsible for their ever-worsening living standards.

Examination of objective political and economics facts exposes this libel. It reveals that the underlying cause is rooted in the operation of the capitalist profit system and its economic laws, enforced through the operation of the market, over which the mass of the population has no control because the commanding heights of the economy—the banks and major corporations—are privately owned.

The RAND analysis identified the starting point of the upward redistribution of income as 1974–75. This period marked the end of the post-war boom in which income growth at all levels roughly followed the increase in per capita GDP, meaning that existing levels of income inequality did not widen.

The ending of the boom announced its arrival with the scrapping of the Bretton Woods monetary system of fixed currency exchange rates in 1971, when President Nixon, confronted with the weakening global economic position of US capitalism vis à vis its rivals, removed the gold backing from the US dollar.

This ushered in a period of global economic turbulence leading to the recession of 1974–75, the most significant to that point since the Great Depression.

There had been recessions during the boom. But that of 1974–75 was qualitatively different because its ending was not marked by an economic rebound and a higher growth rate, as had taken place in the 1950s and 1960s, but by what became known as stagflation—low economic growth, elevated levels of unemployment and rising inflation.

The recession of 1974–75 was the bursting to the surface of one of the most fundamental laws of the capitalist economy identified by Marx—the tendency of the rate of profit to fall.

During the boom this tendency was able to be contained because of rising productivity of labour within the existing industrial system. This was no longer sufficient and capital responded in the US and internationally with a fundamental restructuring of the economy.

It took the form of an offensive against the working class from the beginning of the 1980s, the destruction of whole swathes of industry, the outsourcing of production processes to take advantage of cheaper sources of labour internationally, the accelerated development of computer-based

technologies and the increasing turn to speculative financial operations as the basis for profit accumulation.

The upward redistribution of income to the tune of \$50 trillion, carried out under Republican and Democratic administrations alike and enforced by the trade union bureaucracy, which transformed itself into the open agency of capital, was not the result of a “choice” made by the population at the ballot box. It was the outcome of objective impulses, emanating from the very heart of the capitalist economy itself, which determined, in the final analysis, the direction and operations of the entire political superstructure.

Significantly, Price and Edwards, the authors of the RAND report, have not commented on the cause of rising inequality, saying that “more work” needs to be conducted in this area.

But scientific analysis, based on the laws of capitalist economy uncovered by Marx, reveals its source. His conclusion, decried by bourgeois economists of all political stripes down through the decades, was that the inherent objective logic of the capitalist profit system, whatever the twists and turns in its historical development, was the accumulation of vast wealth at one pole and poverty and misery at the other.

Definite political conclusions follow, which all manner of “critics,” above all from the “left” seek to cover over, namely, that the only way the working class can take control of its own fate and utilise the vast wealth and productive forces its labour has created is by ending the profit system, that is, the expropriation of the expropriators by taking the major corporations and financial system into public ownership under democratic control.

What alternative is offered by the “critics?” It is summed up in the conclusion of the *Time* article authored by Nick Hanauer, a venture capitalist, and David Rolf, founder Local 775 of the Service Employees International Union.

After writing of the need for “experiments” to develop increased workers’ power they conclude: “There is little evidence that the current administration has any interest in dealing with this crisis. Our hope is that a Biden administration would be historically bold.” In other words, the working class must remain trapped within the framework of capitalist politics.

The *Foreign Affairs* article by “left” economist Mariana Mazzucato, entitled “Capitalism After the Pandemic, Getting the Recovery Right,” published on October 2, is another attempt to obscure the underlying causes of the present crisis.

She begins her article with an analysis of the response to the 2008 financial crisis. The \$3 trillion bailout of the financial system enabled companies and investment banks to reap the rewards of recovery while the population was “left with a global economy that was just as broken, unequal and carbon-intensive as before. Now, as countries are reeling from the COVID-19 pandemic and the resulting lockdowns, they must avoid making the same mistake.”

The present “rescue efforts” by governments and central banks are necessary but “it is not enough for governments to simply intervene as the spender of last resort when markets fail or crises occur. They should actively shape markets so that they deliver the kind of long-term outcome that benefits everyone. The world missed the opportunity to do that back on 2008, but fate has handed it another chance.”

What took place in response to the global financial crisis was not a “mistake” but a class-driven response. By 2008 the financialisation that had begun with the ending of the post-war boom had reached such a point that the entire American economy was dependent on the speculation, corruption and outright criminality of Wall Street—a situation that led President George W. Bush to comment at the height of the crisis “this sucker’s going down.”

In the aftermath of 2008, the trillions of dollars pumped into the

financial markets by the Fed, via ultra-low interest rates and quantitative easing, lifted the mountain of fictitious finance capital to even greater heights and when the pandemic struck, the entire financial system froze in mid-March requiring even greater intervention by the administration and the Fed.

Mazzucato is well aware the extent of this process. As she notes: “Most of the financial sector’s profits are reinvested back into finance—banks, insurance companies, and real estate—rather than put toward productive uses such as infrastructure or innovation. ... The current structure of finance thus fuels a debt-driven system and speculative bubbles, which, when they burst, bring banks and others begging for government help.”

But now, she maintains, this system can somehow be made to turn on a dime, giving the world a chance to create a better economy that would “generate less inequality” and be “more exclusive and sustainable.”

What is to account for this standpoint, clearly flying in the face of a reality of which the author is fully aware?

In a word, politics. Mazzucato is part of a “left” milieu, based in sections of the upper middle class, which, while offering criticism of the capitalist economy, is deeply hostile to the independent struggle of the working class, lest that endanger its social and economic privileges, and so spins out illusions about the prospect for reform.

Insofar as Mazzucato attempts to give this illusion mongering a theoretical standpoint, she maintains that the crises of capitalism do not arise from its objective and irresolvable contradictions but from faulty ways of thinking.

After detailing the current crisis, under the subheading “Rethinking Value,” she writes: “All of this suggests that the relationship between the public and the private sector is broken. Fixing it requires first addressing an underlying problem in economics: the field has gotten the concept of value wrong.”

But as Mazzucato well knows, Marx, building on the work of the classical political economists who had gone before him, established in the opening chapter of *Capital*, dealing with the cell-form of the capitalist economy, the commodity, that value is not a concept but an objective social relation.

Value is not ahistorical. It arises in a specific historical socio-economic system, capitalism, in which production is social but is carried out by private owners of the means of production. The value of commodities is not ascribed to them either by their buyers or sellers but is determined by the amount of socially necessary labour embodied in them and comes to be represented by money.

The capitalist mode of production emerges out of commodity production when labour power, the sole commodity possessed by the working class, is bought and sold on the market and, having been purchased by the owners of the means of production, is put to work in order to extract additional, or surplus value. This surplus value forms the basis of industrial profit and the other forms of income flowing to landowners, banks and financiers.

The aim of this system is not the production of the goods and services needed for the advancement of society but the accumulation of money, the representative of value. Money, as Marx elaborated, is the beginning and end of the process and so a situation necessarily arises where finance capital comes to dominate the system and the entire political and economic establishment is devoted to defending the interests of this oligarchy, whatever the social cost, and, as the pandemic has so graphically revealed, including life itself.

No devil, Trotsky once wrote, has ever voluntarily cut off his own claws. And the claws of the financial oligarchy, ripping deeper into the body of society, do not arise from incorrect assessments of what constitutes value.

They are the necessary product of a socio-economic order based on the private ownership of the means of production, which has now entered an

advance state of decay and which must now be overthrown root and branch by the working class and replaced by socialism if human progress is to resume.

The fact that such desperate efforts are being made to obscure and mystify the life-destroying objective economic logic of the capitalist order in order to try to block the understanding of this task is a sure sign it is being very much placed on the order of the day.



To contact the WSWWS and the
Socialist Equality Party visit:

wsws.org/contact