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Monopoly Capital and Capitalist Inequality: Marx after Piketty

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Abstract

This paper proposes that one major explanation of growing inequality in the United States (US) is through the use of the concept of economic surplus. The economic surplus is a neo-Marxian term which combines the traditional Marxian tenet of surplus value with other ways that surplus value can be invested in a mature, advanced capitalist economy. A rising economic surplus that is not absorbed through growing consumer spending, luxury spending or government spending results in stagnant wages and growing inequality via higher levels of underemployment and greater monopoly and monopsony power among a decreasing number of huge, powerful corporations. Therefore, the politics surrounding the growth of inequality in the US has to be understood first by understanding over accumulation of the economic surplus by those at the top of the US capitalist class. This research note gives estimates of the rising economic surplus over the last several decades in the US as well as how these correlate with the level of inequality. The growth of the economic surplus gives rise and form to the politics of inequality and austerity. As time goes by, the politics of inequality and austerity in the US will be manifested by greater corporate influence in the political system, greater political polarization, less government

effectiveness, and more debates about welfare spending, corporate taxation, taxes on upper income households, and taxes on wealth.

Keywords: alienation, economics, fascism, inequality, monopoly capital, occupy movement, political science, socialism, tea party

Introduction

According to a recent, nationwide opinion poll, approximately 63% of United States (US) survey respondents indicated that US wealth and income differences should be more equally distributed (Newport 2015). In many political discussions and discourse in the US, the topic of economic inequality is growing in importance, especially as one major candidate for US President has made it a cornerstone of his campaign (Talbot 2015). Additionally, the notoriety of Thomas Piketty's *Capital in the Twenty-first Century* (2014, English edition) has added grist to the debate since one of Piketty's main points is that a large degree of economic inequality is the norm in a capitalistic system, not the exception. Piketty contends that some degree of inequality has been driven by the large increases in managerial and CEO pay over the years (p. 24), although a lot of research has failed to show a link between a management team's pay and corporate performance (Collins 2001, Chemi and Giorgio 2014). Add to this his assertion that rates of return on wealth and assets, or r , are greater than economic growth, or g , then in any society, most of national income tends to accumulate with the investor class, and part of this income becomes more assets and wealth. His central equation, $r > g$, explains why great concentrations of wealth yield even more wealth concentration as time goes by, especially if r is far above g . Finally, with large concentrations of wealth, inherited wealth becomes more and

more important in skewing the wealth toward those in the top income ranges, especially if inheritance and income taxes are kept low by national governments.

One solution to extremely skewed wealth distribution would be an international tax on wealth and/or inheritances, but Piketty believes these unlikely to come into effect. Therefore, despite astute analysis of why inequality persists and even becomes worse, Piketty's recommendations to address it are tenuous given political power imbalances in most societies and the inability of nation-states to coordinate actions to solve problems. Nonetheless, Piketty is at least concerned about the long term impacts of extreme inequality in most nations whereas some mainstream economists do not see it as a big problem if a problem at all. Instead, according to these economists, income and wealth inequalities within a society can be explained mostly by differences in labor productivity and educational attainment differences among those in the labor force (Feldstein 1999). On the other hand, critics of extreme inequality claim that too much income and wealth inequality can result in greater political and social alienation or even turmoil on the part of the citizenry, possibly due to the development of a static class structure or rule by oligarchy (Solt 2008, Newman, Johnston and Lown 2015).

One school of neo-Marxist thought, the "monopoly capital" point of view (Baran and Sweezy 1966, Foster 2014 among others), posits that modern inequality exists because of traditional Marxist explanations of worker exploitation and because of the power of land owners in the past and in modern times (a rentier class) and mostly because of the political and market powers of large, modern day corporations (i.e., many oligopolistic and monopolistic consumer markets and monopsonistic labor markets). Market concentration allows for restricted output (excess capacity), which in turn yields high markups on product prices. Restricted output lessens the demand for labor, which along with monopsonistic labor markets (in which workers are

limited with regard to employer choices) limit the earnings of workers and raises the unemployment rate beyond what it would be otherwise. In the monopoly capital school of thought, Piketty's observation of $r > g$ can be easily explained by the degree of corporate and upper class dominance in a society in that market concentration and power in product and labor markets yields higher returns and profits than in competitive markets relative to what workers can earn in wages (Foster and Yates 2014, Andrews 2014). With wages stagnant or not increasing fast enough to keep up with inflation, this makes the degree of labor exploitation even stronger (Piketty 2014, Lambert and Kwon 2015a). Finally, since innovation and the resulting products from innovation usually reach a peak in sales and market share, g is usually low, and so the economy usually tends toward stagnation. That is, according to the monopoly capital point of view, the product life cycle of rapid growth, slow growth, and then peak sales occurs with all products, and if no further innovations are forthcoming to keep an economy growing, then slow or negative growth occurs. This is compounded by the fact that as many industries cease to grow as rapidly as they have in their early stages, jobs are eventually shed as labor saving techniques are introduced, and this can exacerbate any unemployment and inequality problems. Finally, slow growing or declining sales in existing product markets and a lack of new products or markets in which to invest lead to fewer investment outlets for the upper capitalist class. This causes the "economic surplus" of a society to rise, which can be manifested in over accumulation of surplus or under consumption of goods and services.

According to Baran and Sweezy (1966), the economic surplus is the amount over and above what is required to produce a given level of output and is normally considered as comprised of things such business profits, property rents, interest payments, and wasteful

expenditures on such things as luxury items, advertising, retailing, research and development¹, finance, and military programs. Using Piketty's equation (or inequality), since $r > g$, the surplus of the wealthier classes rises faster than what it can invest in productive investment or assets. Hence, in order to use the excess surplus that is accumulated, the result is spending on many wasteful items according to Baran and Sweezy. Wasteful and non-wasteful activities are seen from a traditional Marxian perspective these that uses a non-productive and productive dichotomy for classifying economic activity and labor.²

Productive activity or labor includes those activities such as agriculture, manufacturing, mining, utilities, construction, transportation, and some forms of government activity such as education, sanitation, and emergency services (Baran and Sweezy 1966, Shaikh and Tonak 1994, Mohun 1996 and 2014 among others). These activities and labor are considered productive because they produce surplus value and add value in that they satisfy the consumer needs of food, clothing, shelter, education, etc. Those economic sectors that are classified as unproductive add little or no value and are only ancillary to the productive sectors of the economy. Yet, the unproductive sectors are necessary in order to provide an outlet for accumulated surplus that cannot be channeled into productive sectors if the latter are not growing (Baran and Sweezy 1966).

For Baran and Sweezy (1966) this combination of surplus value obtained from worker exploitation (where workers produced output greater than their wages) and expenditures for non-productive labor and activities made up their concept of the economic surplus. Therefore, as wages remain stagnant or decline as prices and profits rise (which would cause r to increase even

¹ According to them, most research and development revolves around product re-design or re-branding rather than new product development, which is often not fruitful.

² Some Marxist writer and scholars do not believe that the dichotomy exists or is important (Houston 1997, Laibman 1999)

more relative to g in Piketty's equation) and as non-productive sectors grow, then a nation's economic surplus would grow. Along with this growth in economic surplus, as wages are stagnant or declining, one would expect to see rising inequality due to rising labor exploitation, and so there should be a high degree of correlation between the economic surplus and inequality.

This research note proceeds as follows. Next is a section in which the methods of evaluating the argument that the economic surplus and inequality are linked are discussed. Then a results section summarizes the findings. Finally, a discussion and conclusion elaborate on the research results and offers recommendations for further research.

Methods

This paper uses time series, least squares regression to predict the levels of income inequality (top 1% income share, including capital gains) and wealth inequality (net private wealth as a portion of all income³) in the US from 1929 to 2013 using the monopoly capital concept of economic surplus as a percentage of GDP. This is a method similar to that used by Lambert and Kwon (2015a) in which they predicted the percentage change in top income shares over a similar time period using different concepts of surplus and other variables. The top 1% income share and wealth to total income numbers come from the World Wealth and Income Database, a database created by Piketty and other researchers of inequality (Alvaredo, Atkinson, Piketty, Saez, and Zucman 2016). The economic surplus as a portion of US GDP was used by Baran and Sweezy (1966) to illustrate the level of exploitation occurring in the US over time. In an appendix by Joseph D. Phillips, the surplus as a portion of GDP is constructed as the sum of business profits, rent, property income, interest, dividends, depreciation, and the value of the

³ This is Piketty's "beta" concept, which is a nation's wealth, or capital, over its income. He uses this as a measure of wealth concentration for each nation, and the greater beta is, the greater the degree of wealth inequality. In the US, this has generally ranged from 300 to 500% from the 1870s to 2010 (Piketty 2014, Figure 5.1, p. 165). The data for this paper shows the same pattern.

“wasteful” sectors of the economy (e.g., finance, insurance, real estate, services, government etc.) divided by GDP. Later, Shaikh and Tonak (1994) fine-tuned the economic surplus concept as a portion of GDP that is basically the value of Gross Domestic Product less the value of the wages and salaries in the productive sectors of the economy. This paper adapts their concept, which has also been used by other authors (Wolf 1987, Lambert and Kwon 2015a and 2015b). The source of the data is from the US Bureau of Economic Analysis (BEA) National Economics Accounts tables website, <http://www.bea.gov/national/index.htm> , and more specifically Table 1.1.5, Gross Domestic Product and Table 6.2A, Compensation of Employees by Industry.⁴

This paper contends that there should be a high degree of correlation between the economic surplus and two variables, income and wealth inequality, since capitalist wealth and income are extracted by high rates of labor exploitation and the wasteful investment of surplus into productive and non-productive activities.

Results

Figures 1 and 2 show that the economic surplus concept and the income and wealth shares are highly correlated and have strong, direct and positive relationships. Table 1, Model 1, shows the economic surplus as a percentage of GDP to be a statistically significant predictor of the income shares of the top 1%, and it explains about 88% of the variation in top 1% income shares. A one percent increase in economic surplus is associated with around a 12% increase in top 1% income share on average. In Model 2, a 1% increase in economic surplus as a share of GDP predicts a 163% increase in the wealth to income percentage on average. Model 2 shows the economic surplus variable to be statistically significant and explains about 73% of the variation in wealth to income. In using ordinary least squares analysis, the Durbin-Watson

⁴ The World Wealth and Income Database has US data from 1913 to 2014, but only the years 1929 to 2013 are used in this paper because BEA data only goes back to 1929 for the data needed.

statistic is less than the lower critical value at $\alpha < 0.05$ for both models indicating positive serial correlation, so Newey-West standard errors to correct for any autocorrelation or serial correlation are used in both models (Studenmund 2006, pages 334-335).

Discussion and Conclusion

The regression results support the hypotheses advanced by this paper. The bulk of the gains made by the upper classes in US society appear to have occurred because of increases in US economic surplus, which grew as a result of stagnant wages to labor (or greater labor exploitation) and greater investment in what Baran and Sweezy (1966) would characterize as “waste”---the unproductive sectors of the US economy (Lambert and Kwon 2015a).

Politically, greater labor exploitation and greater inequality in both wealth and income make for a potentially volatile situation according to Piketty (2014). Toward the end of his book *The Theory of Capitalist Development* (1970 (1942 original), set in the US during the Great Depression and on the eve of its entry into World War II, Paul Sweezy speculates on the question of whether fascism is inevitable in a society which has suffered and continues to suffer a major economic crisis. Similar to the nations that suffered trauma during and after World War I because of economic hardships, military defeat and/or subsequent economic crisis (e.g., Germany and Italy), the US was dealing with high unemployment and excess industrial capacity, although the US had come out of World War I stronger than any other nation in the world. Sweezy believes that a nation which has embarked in imperialist ventures in the past (i.e., has had colonies or territories) and has a capitalist economy, although a faltering one, and has suffered some type of national trauma (war, depression, etc.) is a good candidate for a fascistic takeover of the government. He rejects this as inevitability for the US during the time of his

writings for the book, but leaves open the possibility for a later date should circumstances change.

Have circumstances changed enough since then? Other writings on fascism and socialism offer some clues as to possible future scenarios. The US has possibly suffered the greatest economic crisis since the Great Depression due to the 2007-2009 Great Recession and its aftermath. Subsequent economic growth after the recession's "end" in 2009 has been very slow, with stagnant wages, a great number of people dropping out of the labor force, an increase in the official poverty rate, and now an apparent slowdown in the global economy, which could spell more trouble for the US economy (Greenhouse and Leonhardt 2006, Foster and Magdoff 2009, Lambert 2011, Mongiovi 2015, Patnaik 2016). Although illegal immigration has declined during this time period, there still persists a common belief among the working classes that a large number of illegal immigrants are harming the working class (Goo 2015). Additionally, the aftermath of wars in Afghanistan and Iraq and continued problems with terrorist groups such as Al Qaeda and ISIS have put the nation almost on a perpetual war time footing since 2001.

Recently, a watchdog organization that monitors hate groups and hate crimes in the US, the Southern Poverty Law Center, issued a report stating that the number of hate groups that exist in the US rose 14% from 2014 to 2015, mostly due to controversies over immigration, newly legalized same-sex marriage, terrorism, and a counter movement against an African-American protest movement ("Black Live Matter") against police brutality (Chokshi 2016). Many of these groups are claimed to have an extreme rightward orientation, although some consist of African-American separatist groups. The Southern Poverty Law Center also reported that the US Federal Bureau of Investigation (FBI) noted an increase in hate crimes against Muslims in 2015.

Fascism has been generally defined as a political and economic system which arises from national political and/or economic turmoil and wherein capitalism is seen as chaotic and has to be managed by a strong, nationalistic government led by elites which seeks to unite labor and upper class interests rather than try to exploit class struggle. The capitalist class, however, is allowed to retain its property rights and business interests, although it now has to submit to a “managed” form of capitalism in which industry is organized into large and cooperative cartels (Sabine and Thorson 1973, Carsten 1980, Renton 1999, Amin 2014). In return for full and steady employment, labor gives up its unions and a large number of its rights, which assists with an austerity efforts to balance national budgets and pay off debts. Such a compromise goes a long one in managing social spending that cannot keep up with the chaos (economic downturns), unemployment, poverty, and inequality brought about due to capitalism’s excesses (O’Connor 1973). Piketty (2014) acknowledges that much of the austerity movement in developed and developing countries has emanated from the fact that most bondholders are from the world’s wealthy and upper classes, and therefore, austerity is imposed to make sure that the debt is properly serviced and paid, even if it means harsh conditions for debtor nations.

Fascism does seem plausible in other nations that are undergoing austerity due to having to repay debts to the IMF or other financial institutions. Repressive regimes could arise when faced with labor and working class strife arising from a negative reaction to austerity measures. Although there is a more remote chance in the US since many of its financial institutions hold such debt, it is not entirely out of the question. This is due to the possibility of chronic deficits and a debt level at 100% of GDP which the nation does not seem capable of adequately addressing in the current political climate. Inaction with regard to increasing taxes or significantly decreasing spending seems to be the norm now, although this may change if the

economy becomes very bad in the future. O'Connor (1973) speculates that greater and greater levels of social spending are necessary in a monopoly capitalist economy due to capitalist interests being able to shift more and more social problems on to the government (spending on unemployment, welfare, and job training, for example). Yet at the same time, capitalist interests resist greater levels of taxation. With the resistance to higher taxes and a rising budget deficit and debt level, austerity and cutbacks are the next option, which in turn could lead to a working class revolt. The reaction to such a revolt, could lead to some type of politically and economically repressive regime. This is a grim but possible scenario unfortunately.

Table 1: Times Series, Least Squares

Model 1: Dependent Variable is US Top 1% Income Shares including Capital Gains, 1929 to 2013

	b (Newey-West standard errors)
Constant	-21.672
Econ Surplus as Pct. GDP	12.011*** (0.559)

Adjusted r^2 : 0.883

n = 85

Model 2: Dependent Variable is Net Private Wealth as Pct. Of Income, 1929 to 2013

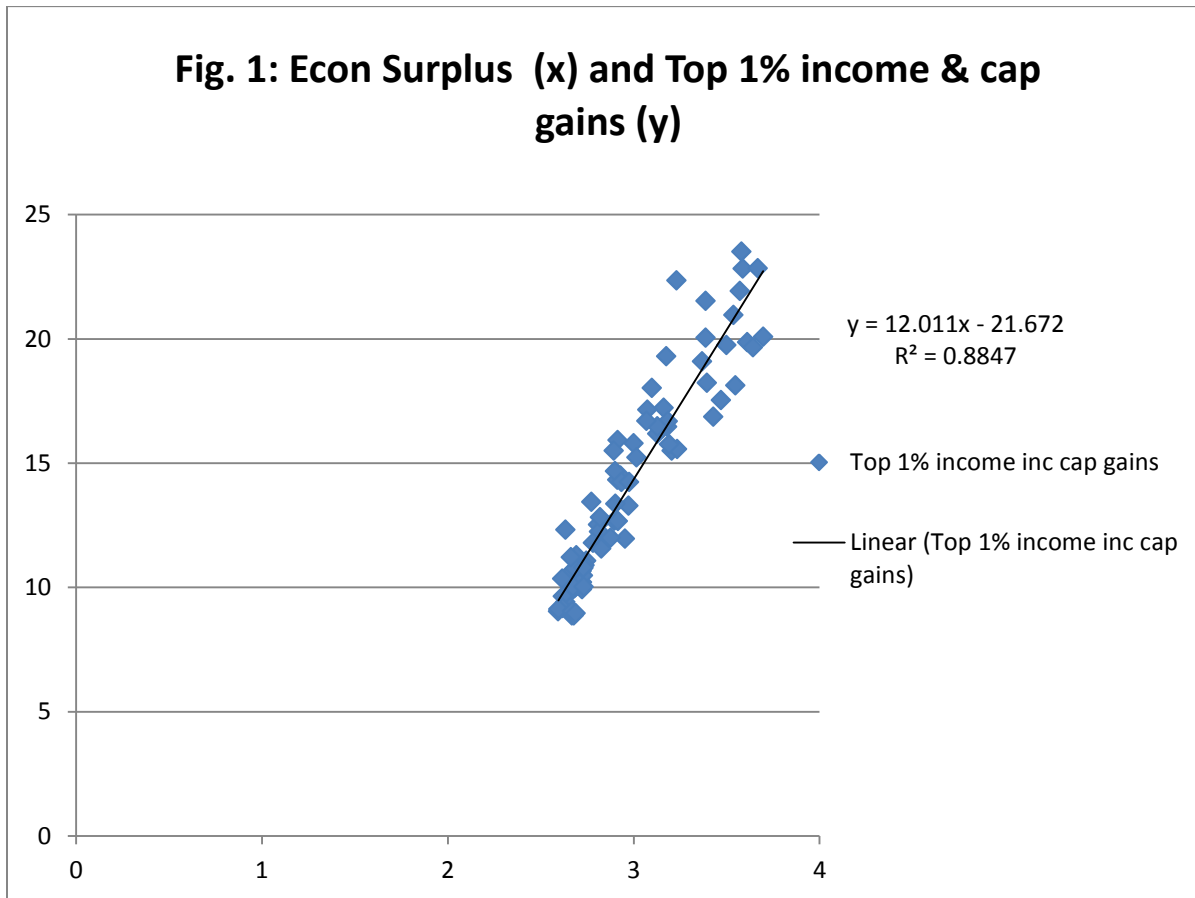
b
(Newey-West standard errors)

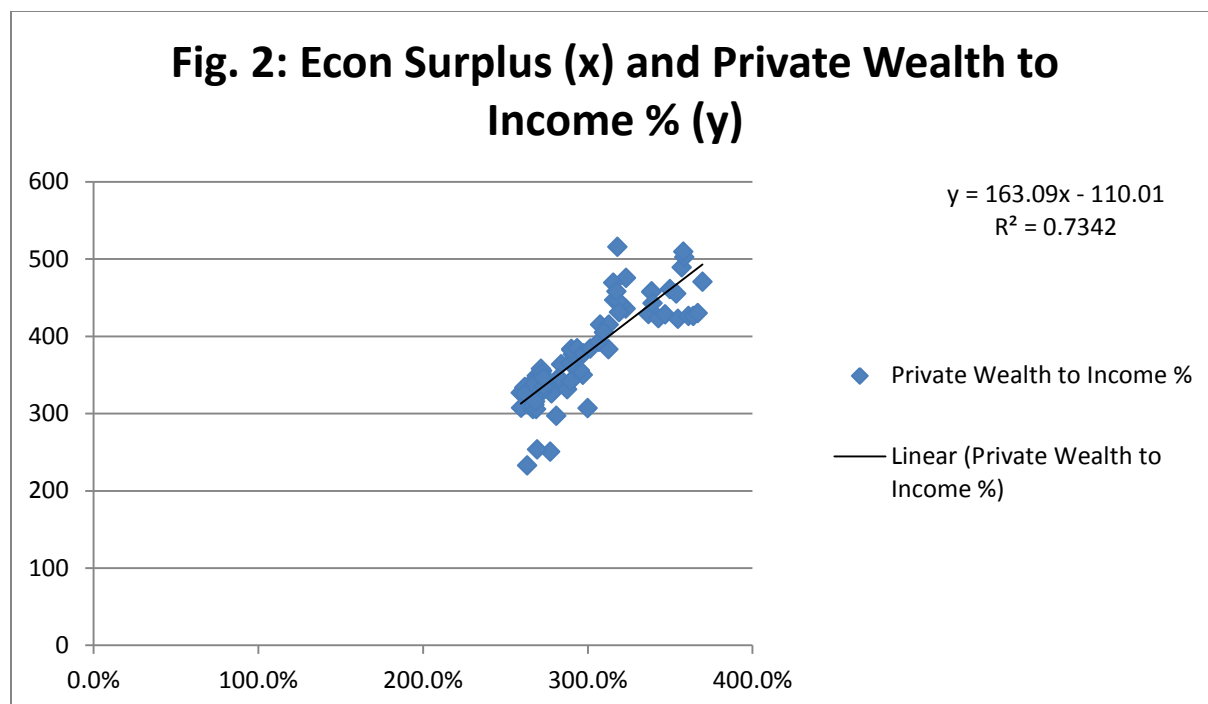
Constant	-110.008
Econ Surplus as Pct. GDP	163.091*** (34.098)

Adjusted r^2 : 0.731

n = 85

***p < 0.01





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