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Does Capitalism Inevitably Produce Inequalities?

When Profits Trump Logic

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In a recent New York Times op-ed article, Nobel Prize-winning economist Joseph Stiglitz theorized that capitalism does not inevitably produce inequalities in wealth. Instead, he argued, today's inequalities result from policy decisions made by politicians on all sorts of matters that affect people's income: the tax structure that favors the rich, the bailout of the banks during the Great Recession, subsidies for rich farmers, cutting of food stamps, etc. In fact, he concluded, today there are no "truly fundamental laws of capitalism." Thanks to democracy, people can steer the economy in a variety of directions and no single outcome is inevitable.

In their 2010 book, "Winner-Take-All Politics: How Washington Made the Rich Richer – and Turned Its Back on the Middle Class," Yale Professor Jacob Hacker and U.C. Berkeley Professor Paul Pierson would seem to add additional support to Stiglitz's conclusion. As reported by Bob Herbert in The New York Times, they argued that "the economic struggles of the middle and working classes in the U.S. since the late-1970s were not primarily the result of globalization and technological changes but rather a long series of policy changes in government that overwhelmingly favored the rich."

Although there is certainly significant substance to Stiglitz's argument – policy decisions can have profound impacts on economic outcomes – nevertheless capitalism is far more responsible for economic inequality because of its inherent nature and its extended reach in the area of policy decisions than Stiglitz is willing to concede.

To begin with, in capitalist society it is much easier to make money if you already have money, and much more difficult if you are poor. So, for example, a rich person can buy up a number of foreclosed houses and rent them out to desperate tenants at ridiculously high rates. Then, each time rent is paid, the landlord becomes richer and the tenant becomes poorer, and inequalities in wealth grow.

More importantly, at the very heart of capitalism lies an incentive that leads to the increase of inequalities. Capitalism is based on the principle of competition, and businesses must compete with one another in order to survive. Each company, therefore, strives to maximize its profits in order to achieve a competitive advantage. For example, they can use extra profits to offset lowering the price of their product, undersell their opponents, and push them out of the market.

But in order to maximize profits, businesses must keep productive costs to a minimum. And a major portion of productive costs includes labor. Consequently, as a general rule, in order for a business to survive, it must push labor costs to a minimum. And that is why, of course, so many businesses migrate from the U.S. and relocate in countries like China, Viet Nam, Mexico, and Bangladesh where wages are a mere pittance.

This inherent tendency to maximize profits while minimizing the cost of labor directly results in growing inequalities. Stiglitz himself mentions that C.E.O's today "enjoy incomes that are on average 295 times that of the typical worker, a much higher ratio than in the past." In fact, in 1970, the ratio was roughly 40 times. C.E.O.s who succeed in suppressing wages are routinely rewarded for their efforts. Hence, not only is there an incentive to keep wages low for the survival of the business, there is a personal incentive in play as well.

While Stiglitz is correct in arguing that politicians can influence economic outcomes by policy decisions, what he fails to acknowledge is that these policy decisions themselves are heavily influenced by the economic relations established by capitalism. There is no firewall between the economy and politics. Those who have acquired money from the economic sector can then put this money to work in the political sector by lobbying and showering politicians with campaign contributions. Although politicians religiously deny that these contributions have any influence on their decisions, it is inconceivable that businesses – always obsessed with their "bottom line" – would continue these contributions without a "return on their investment."

Study after study has confirmed the influence of money on political decisions. The San Francisco Chronicle reported, for example: "In a state with nearly 38 million people, few have more influence than the top 100 donors to California campaigns – a powerful club that has contributed overwhelmingly to Democrats and spent $1.25 billion to influence voters over the past dozen years. These big spenders represent a tiny fraction of the hundreds of thousands of individuals and groups that donated to California campaigns from 2001 through 2011. But they supplied about one-third of the $3.67 billion given to state campaigns during that time, campaign records

show. With a few exceptions, these campaign elites have gotten their money's worth, according to California Watch's analysis of campaign data from state finance records and the nonpartisan National Institute on Money in State Politics, which tracks the influence of campaign money on state elections."

Even beyond campaign contributions, political decisions are not crafted in a vacuum, remote from capitalism. Capitalism is a way of life, and for that reason it generates its own peculiar culture and world view that envelopes every other social sphere, a culture that includes competition, individualism, materialism in the form of consumerism, operating in one's self-interest without consideration for the needs of others, and so on. This culture infects everyone to one degree or another; it is like an ether that all those in its proximity inhale. It encourages people to evaluate one another according to their degree of wealth and power. It rewards those who doggedly pursue their narrow self-interests at the expense of others.

The culture of capitalism, because of its hyper individualism, also produces an extraordinarily narrow vision of the world. Viewing the world from an isolated standpoint, individuals tend to assume that they are self-made persons, not the products of their surrounding culture and social relations. So the rich assume that their wealth has been acquired through their personal talents alone, while they see those mired in poverty as lacking the ambition and willingness to work hard. People are unable to see the complexities underlying human behavior because of the atomization of social life. But the disciplines of psychology, sociology, and anthropology all concur that individuals are overwhelmingly a product of their social environment to their very core.

In 1947, for example, the American Anthropological Association argued in its Statement on Human Rights: "If we begin, as we must, with the individual, we find that from the moment of his birth not only his behavior, but his very thought, his hopes, aspirations, the moral values which direct his action and justify and give meaning to his life in his own eyes and those of his fellow, are shaped by the body of custom of the group of which he becomes a member."

It is in this more subtle way that capitalism induces growing income inequalities. Because of their intensely competitive environment, politicians are more vulnerable to this capitalist culture than most. Capitalist culture engenders a mindset among politicians that leads them to craft public policies in favor of the good people, the rich and powerful, and turn their backs on the poor or punish them with mass incarceration. They think it entirely natural to accept money from the wealthy in order to fund their re-election campaigns. And the more the inequalities in wealth grow, the more this mindset blinds politicians to the destructive implications of these "natural" decisions.

In 2011, Stiglitz wrote a compelling article, "Of the 1%, by the 1%, for the 1%," in which he argued forcefully that large inequalities in wealth are in no one's interest. But since then the politicians have continued to accept campaign contributions from the rich, socialize with them, and do their bidding. They ritually denounce the shamelessly low taxes on the 1%, but have done nothing to alter them. The culture of capitalism trumps logical arguments, and thus the inequalities in wealth continue to expand. Capitalism has an iron grip on the political process.

Stiglitz concluded his article with this prophetic statement: "The top 1 percent have the best houses, the best educations, the best doctors, and the best lifestyles, but there is one thing that money doesn't seem to have bought: an understanding that their fate is bound up with how the other 99 percent live. Throughout history, this is something that the top 1 percent eventually do learn. Too late."

While Stiglitz's arguments have had no impact on growing inequalities, thanks to the power of capitalism, nevertheless capitalism gets credit for producing the one force that can put a stop to these destructive trends: the working class. As Karl Marx argued, capitalism produces its own "gravediggers." In the 1930s workers massively organized unions and fought militant battles to defend their right to unionize and their right to fair compensation. These unions, which Stiglitz fails to mention, played a decisive role in reining in inequalities and unleashing a period in which the ranks of "the middle class" grew.

As Marx noted in his "Contribution to a Critique of Hegel's Philosophy of Right," "The weapon of criticism cannot, of course, replace criticism of the weapon, material force must be overthrown by material force; but theory also becomes a material force as soon as it has gripped the masses."

Stiglitz's criticisms of growing inequality will have little impact on policy decisions until they are embraced by the masses, the working class, those that capitalism cruelly exploits and who are so easily dismissed by politicians and academics. At that point the working class will finally stand up and collectively declare enough is enough.