http://www.counterpunch.org/2014/03/28/capitalism-and-income-inequality/print

Capitalism and Income Inequality

Which Side Are You On?

by ROB URIE

MARCH 28-30, 2014

A lot has been written in recent years in the liberal / progressive press about 'income inequality,' the unequal distribution of income and wealth in Western capitalist democracies. President Barack Obama and the prior half-century of 'liberal' Democrat Presidents have made speeches decrying income inequality while also advocating and otherwise supporting 'market' capitalism. The theoretical incoherence of supporting what are alleged to be 'market outcomes' while implying that they are inadequate or somehow 'unfair' is hidden behind veiled social 'pragmatics;' 'market' distribution is legitimate and just but working people 'deserve' to earn a living. The base contradiction lies with two irreconcilable concepts of social justice. As a 'system' of 'natural' distribution capitalism is theorized to allocate income and wealth according to economic contribution. If 'it' fails to do so then its legitimacy as political economy premised in 'nature' and 'natural order' is questionable. If capitalism does allocate according to economic contribution then re-allocation is to take from those who 'earned' it to give to those who didn't. This is the basic tension found in public rhetoric around income distribution and 'redistribution.'

This contradiction finds the 'pragmatic' center, liberals and progressives, supporting the corporatist policies of 'liberal' Presidents Barack Obama and Bill Clinton while arguing that more 'needs to be done' to address income inequality. The implication is that the theoretical core of capitalist democracy as it has been reconstituted in the social institutions of 'the West' is legitimate in the sense of being close to socially optimal. This flows from capitalist theoretics (economics) that argues that capitalism 'makes the most' of 'society's' endowments implying that if some 'do without' it is a function of nature, of natural 'scarcity,' rather than a failure of political economy. The rhetorical frame is: capitalism is the political economy of abundance; if this abundance doesn't 'find its way' 'down' to 'the needy' it is the 'responsibility' of the fortunate to share some of their 'good fortune.' Alternatively, within the capitalist frame, the needy deserve their lot because it reflects their absence of economic contribution. Usually left unexplored is the radical incoherence of these conflated theories. If capitalism is the political economy of abundance then redistribution doesn't merely change its allocation, it reduces it outright. 'Pragmatic' redistribution is its own opposite within the theoretical frame of capitalism. In other words, if the creation of abundance is the social virtue that legitimates capitalism and redistribution reduces it then redistribution diminishes social virtue. This background hegemonic conceit is in part why proposed policies of 'redistribution' from rich to poor go absolutely nowhere in the West.

The American tendency is to view the political 'center' as pragmatic and the enthusiastic left and right as ideologically bound. In the realm of economics this 'pragmatic' center is found always reacting to history, to the sequential and related catastrophes of capitalism, without challenging its fundamental premises. Theoretical coherence is 'sacrificed' to social pragmatics under the premise that 'making the best of the situation' is always and eternally unrelated to its genesis. This is partly a function of the reactive nature of Western economics and partly of the inability to relate cause and effect in historical, rather than in theoretical, 'space.' Economist John Maynard Keynes tried to unite 'pure' capitalist theory with social pragmatics through economic 'paradox,' the circumstance when history renders the 'natural' benevolence of capitalism 'temporarily' not so benevolent. By arguing that regularly recurring economic crises and depressions are not 'normal' Keynes 'legitimated' the social pragmatics of reacting to them while leaving the fundamental premises of capitalism during 'normal' times intact. Left unexplored both then (the 1930s) and now is that economic crises and depressions are 'normal' times in capitalist political economy in the sense that they are regularly recurring and they share broad genesis and political and economic context across history. Liberal and progressive economists imply that such is the case by periodically reviving Keynesian economic prescriptions during these recurring 'downturns.' In historical terms the resurgence of radical capitalist political economy since the mid-1970s has coincided with the return of regularly recurring economic crises of increasing intensity, with extreme concentration of income and wealth and with radically dysfunctional 'politics' that 'accidentally' tends to favor policies that benefit the already wealthy without variance.

The sleight-of-hand facilitated by this bifurcation of 'normal' / 'not normal' allows the 'pragmatic' center to expend its efforts during 'normal' times reiterating the astounding brilliance of global capitalism and during 'not normal' times to argue that temporary market 'failures' necessitate begging the 'naturally' 'endowed' 'fortunate' to share a bit of their fortune to keep 'the system' of capitalism from falling apart. Keynes' 'paradox' tied the (theorized) abundance generating qualities of capitalism during 'normal' times to the necessity for social benevolence during 'not normal' times. However, the set of policies this bifurcation implies is the opposite of the liberal / progressive policy stance. Raising the minimum wage is a permanent policy, not reaction to temporary circumstance. So is providing health care to poor people if it can be assumed for the moment that the nominal and factual goals of doing so are united. And food stamps are a permanent program as well. The number of people using these programs may vary between 'normal' and 'not normal' times. But their existence implies a base failure of capitalist distribution. Permanent failures imply a much deeper and more persistent problem. And the coincidence of the rapid growth of these failures with the resurgence of radical capitalist political economy strongly suggests a causal relation, particularly when considered in relation to the generally analogous circumstances in the lead-up to the Great Depression. In other words, the hypothesized normal / not normal distinction used by Keynes to 'save' capitalism appears to be coincident—persistent by degree across time. And the creation of semi-permanent redistribution schemes suggests that this is in some sense understood.

As put forward in capitalist theories of 'natural' distribution redistribution allocates income and wealth away from their most economically 'productive' uses, from their 'natural' homes. Economic dynamism may produce 'winners' and 'losers' but so what? Capitalist theory, a/k/a Western economics, is the science of Social Darwinism. If aggregated abundance— the 'most' that 'a society' can produce, is the goal and redistribution reduces this theoretical abundance through the inefficient allocation of economic resources then it is antithetical to the primary social goal of Western political economy. However, implied in these redistribution schemes is that there exist social virtues other than producing 'the most' regardless of its distribution. The problem again is that once the premise is granted that capitalism produces / has produced Western abundance and that this abundance is the rationale for Western political economy then redistribution simply buggers 'the system.' Of course the whole package is nonsense—Western political economy was ‘founded’ by genocidal plutocrats whose fortunes derived from the expropriated labor of slaves and from the expropriated lands of indigenous peoples. Western industry has been wholly dependent on standing armies, on imperial foreign policies to ‘secure’ industrial resources and on the ability to force its costs in terms of social and environmental dysfunction onto others. As far as theories of ‘natural’ distribution go, the only way any working person in the West ever got a paycheck was through free-riding on the unionists who got their heads kicked in by Pinkertons and through credible threats of socialist / communist revolution as was seen in the 1930s. The ‘pragmatic’ concessions of the New Deal such as social guarantees were to prevent wholesale revolution. Without New Deal programs capitalist distribution is landing exactly where it is intended to land— in the coffers of the already wealthy. By different measures the capitalist U.S. has much less social mobility than the European nations that have retained social guarantees.

Liberal and progressive politicians and their constituents who support both the corporatist policies of capitalist democracy and programs of economic redistribution are more than simply theoretically muddled, they support the very political economy that creates the need for economic redistribution. The Obama administration’s policies that are posed as ‘pragmatic’ compromises— the bank bailouts, mortgage ‘relief’ programs, the ACA (Affordable Care Act) and various and sundry other programs actively harm the very people they are put forward as helping. This may be evident by degree: the bank bailouts clearly benefited banks and bankers at public expense, the mortgage ‘relief’ programs did so under a bit more stealth and the ACA has most Americans once again conflating ‘private’ health insurance with health care just as intended. What unites these programs is cartel economics, the use of ‘market power’ by large corporations to create asymmetrical distribution of income and wealth. The economic divide that finds its result in rich and poor has its genesis in large and small— in the corporations and social institutions with the social power to take for themselves versus the rest of us who are the taken from. The best-case scenario for the ACA is that it provides more customers for a ‘private’ cartel system that currently costs ‘us’ twice the price for health care than other developed systems while providing less health care. The ‘public’ goal of redistributing health care ‘downward’ creates the problem it purports to solve by supporting this system of asymmetrical distribution. It is the inability to account for self-perpetuating social power that produces much of the distance between economic distribution as it is theorized to ‘work’ by capitalist economists and as it exists in fact. As with liberal and progressive economics, what appears to be ‘pragmatic’ compromise is in fact utter capitulation to the ‘winning’ side of this social asymmetry.

This may read abstractly but it can be tied down by looking at recent sources of great wealth. The Forbes list of the richest Americans finds inherited wealth in the heirs to Wal-Mart, pharmaceutical industrialists and their heirs, technology industrialists and their heirs and finance. Wal-Mart grew its economic power through iteratively squeezing its suppliers and workers and putting its smaller competitors out of business. In Western mythology this is simply clever business practice but the price 'competition' that draws Wal-Mart customers to it is itself drawn from government subsidies of 'its' workforce and from imperialist and neo-imperialist relations with the labor that produces Wal-Mart products. This latter point can be seen clearly in technology fortunes gotten from products nurtured and developed at public expense and manufactured by the residual of Western empire put forward by Western economists as 'states of nature.' The historical bases of these 'states of nature' in a century or more of extractive imperial relations have technology corporations filling the roles formerly held by imperial bureaucrats. Pharmaceutical fortunes emerged from products subsidized by government or developed in government labs and given cartel protection from market competition through patent protection. And finance combines recurrent public transfers to save 'the system' with the banker economics of the public-private Federal Reserve that purposely causes bouts of unemployment to save banker loans from the ravages of inflation. What unites these fortunes is their genesis in freedom from 'market' competition, not freedom of competition. Sure Wal-Mart may have started as a competitive enterprise but its 'success' provided it now self-perpetuating market power. As counterintuitive as this generalization is within the frame of capitalist theoretics, it is this precise ability to use accumulated wealth to close the door on subsequent market competition that renders Western explanations of income and wealth distribution so implausible. Conversely, if market economics really explained these fortunes they wouldn't exist because competition would have eliminated the social power that is their source.

The use of this residual of empire in China, India, Vietnam, El Salvador, Honduras, etc. to 'hire' low paid labor finds institutional support in the standing armies of the West needed to assure repatriation of 'profits' and in the institutional incapacity to force the payment of taxes on these 'profits.' Capitalist behemoths like Apple Computer and pharmaceutical makers 'wash' profits through tax havens like Ireland because they have the social power to have tax laws written in their interests and the global reach to behave opportunistically. To be clear, this arrangement of circumstance is institutional arbitrage supported by publicly funded militaries and government policies, not 'market' competition. This tendency is well understood in financial 'markets' where large banks use cartel pricing for the 'products' they create and where multi-national corporations with market power are favored as stock 'holdings' of the rich. The large-small divide in corporate 'profits' finds companies without market power earning decreasing profits and companies with market power taking the largest share of national 'income' in history. The historical back-and-forth between corporate consolidation and de-consolidation has been in reaction to clear understanding through experience of this 'paradox' of capitalism and its being forgotten in the ideological bluster of high capitalist theoretics. Again, if 'market' economics explained the 'private' U.S. healthcare system then by capitalist theory health care would cost less than other systems and would be of higher quality. However, the opposite of this is true. 'Our' system costs twice as much and only provides about two-thirds of the health care of other systems. The reason is that insurance, device maker and health care cartels use their social power to shut down competition and extort economic rents. And existing cartels are in the process of consolidating to assure that they retain monopoly-pricing power.

The problem with redistribution schemes in the capitalist West is that they legitimate initial distribution. Capitalism is only a system of 'natural' distribution in a particular configuration of circumstance— in the absence of asymmetrical social power, which its 'fact' assures will never arise. Through the expression of market power the rich become rich by making the poor poorer. The 'initial' fortunes in the U.S. came through genocide to 'enclose' indigenous lands to turn it into 'property,' through the use of 'private' property designation to claim ownership of 'natural' resources, through the expropriation of slave labor and through 'externalizing' costs that have by now rendered large swaths of land uninhabitable, water undrinkable and air unbreathable. The distribution of capitalist abundance absolutely does matter because political-economic asymmetry is self-perpetuating. According to recent economic chatter the great 'mystery' of the Internet is that independent content providers receive less and less for their 'product' whereas Internet 'providers' use horizontal, and increasingly vertical, monopoly power to extract economic rents. As with health care, in the U.S. Internet service costs twice or more as much as other systems and runs half as fast. This is broadly analogous to the mechanics of the social distribution of income and wealth in the capitalist West. Capitalism in fact is absolutely antithetical to 'natural' distribution even granting for the moment that the idea makes any sense. In political economy where the rich become and stay rich by making and keeping the poor poor it is both theoretically incoherent and politically infeasible to 'ask' the rich to give some back through redistribution 'downward.' The contemporary storyline of 'makers' and 'takers' takes the incoherence of liberal / progressive policies of redistribution to their logical conclusion— within the frame of capitalist theoretics it is wholly coherent (and wholly circular) and outside of it a near absolute reversal comes into focus. Through the use of asymmetrical social power it is the rich who are the 'takers' and the rest of us the 'makers.'

In this latter frame the corporate-friendly policies of liberal Democrats Obama and Clinton and their cohorts in Congress tie directly to policies of immiseration. Mr. Clinton used a stock market bubble engineered by Wall Street and the Federal Reserve to end ‘welfare as we know it’ while ‘freeing’ the banks to loot ‘the economy.’ Mr. Obama’s first task in office was to restore this very same financial cartel while pushing wholly inadequate economic ‘stimulus’ and a series of conspicuous scams against working people and the poor. Mr. Obama’s milquetoast call for raising the minimum wage is placed against his rapid and complete restoration of the forces driving wages down— Wall Street and other public-largesse dependent multi-national corporations. His unilateral move in an election year to raise the minimum wage for government ‘contractors’ leaves unanswered, and apparently unasked, why the Federal government is hiring contract workers at low pay in the midst of the greatest crisis for Western labor since the Great Depression? The U.S. government has a fiat currency meaning that it can simply ‘create’ the money needed to pay labor a living wage but Mr. Obama, like Mr. Clinton before him, hides behind the contrived lie that budget ‘constraints’ prevent the Federal government from acting in the interests of those made and kept poor by monopoly capitalism. To be clear, there is no suggestion here that capitalism should be ‘reformed.’ It is the political economy of divergent interests put forward as singular. Class warfare is clearly understood by actual capitalists even as it remains a mystery to their academic apologists. So: which side are you on?