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Capital and class: inequality after the crash

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The premise and promise of capitalism, going back to Adam Smith, have been that global wealth would increase and serve as a benefit to all of humanity.[2] However, the experience of recent decades has challenged those claims: while global wealth has indeed grown, most of the increase has been captured by a small group at the top. This has continued into the "recovery" in the United States and globally. The result is that an obscenely unequal distribution of the world's wealth has become even more unequal. Those in the small group at the top have long been able to put distance between themselves and everyone else precisely because they've been able to capture the surplus and then convert their share of the surplus into ownership of wealth. And the returns on their wealth allow them to capture even more of the surplus produced within global capitalism. This is accompanied by growing income inequality.

However, although people are aware of inequality, they are typically unaware of its real extent, and mainstream economics and the popular press contribute to this situation, which in turn leads to the reproduction of the system that produces ever-more-grotesque levels of inequality.

Both class and ideology underpin this worsening situation. The tiny group at the top, both nationally and globally, have both an interest and the means to maintain the economic and social rules and institutions that allow them to capture the surplus, and thus create more distance between themselves and everyone else. Meantime, mainstream economic and political discourses, inside and outside the academy, tend to ignore the class conditions and consequences of inequality – and to undermine the possibility of a real debate about the kinds of changes that are necessary to give the majority of people a say in how the surplus is utilized.

Global wealth inequality

Since Thomas Piketty published *Capital in the Twenty-First Century*, the World Inequality Lab has become one of the best known and most reliable sources of data on wealth and income

[1] This short paper began life as a series of Blog posts:
https://anticap.wordpress.com/2018/03/05/if-poor-people-knew-how-rich-rich-people-are-there-would-be-riots-in-the-streets/
https://anticap.wordpress.com/2018/04/30/inequality-and-fairness/
https://anticap.wordpress.com/2018/06/04/unequal-wealth-of-nations/
https://anticap.wordpress.com/2018/07/10/i-ran-out-of-words-to-describe-how-bad-the-recovery-numbers-are-for-workers/

[2] The "wealth of nations" that Smith referred to was current production or, as it is currently measured, Gross Domestic Product. That is, the "immense accumulation of commodities" produced and exchanged in a country's economy over a particular period of time. Today, wealth refers to the ownership of assets, both financial (stocks, bonds, etc.) and nonfinancial (especially housing) – as against income (flows of value associated with either doing or owning) or sums of transactions (which is what is captured in GDP). Mainstream economists often claim that inequality in global capitalism is decreasing, because of "convergence," that is, growth rates in developing countries of the Global South are faster than in the developed North and the gap in GDP per capita is closing.

inequality. So far, the Lab has collected reasonably good data for the United States, China, and Europe (which is represented in what follows by France, Spain and the United Kingdom) up to 2015 and provides projections from there. Globally, wealth is substantially more concentrated than income: the top 10 percent owns more than 70 percent of the total wealth. The top 1-percent wealthiest individuals alone own 33 percent of total wealth in 2015. This figure is up from 28 percent in 1980. The bottom 50 percent of the population, on the other hand, owns almost no wealth over the entire period (less than 2 percent). The projection looking forward is similarly dramatic: according to the World Inequality Lab, if present trends continue the share of each of the top groups – the top 1 percent, the top 0.1 percent, and the top 0.01 percent – would grow by one percentage point every five years. What that means is that, by 2050, the share of each group would increase dramatically. In particular, the share owned by the top 0.1 percent would eventually match that of the declining middle group – at a quarter of global wealth:[3]

Using a different approach a report commissioned by UK MP Liam Byrne (Chair of the All-Party Group on Inclusive Growth) provides an even more extreme projection. Drawing on data compiled by Credit Suisse for 2008-2017, and assuming total wealth grows at the same

[3] https://anticap.files.wordpress.com/2018/05/global-wealth.jpg

rate as this period, the report estimates that by 2030 the wealthiest 1 percent in the world could hold 64 percent of the wealth:[4]

Estimated distribution of global wealth under different scenarios, 2017-2030

	Wealthiest 1%	Least wealthy 99%
Share of total wealth in 2017	**50%**	**50%**
Total wealth, annual rate of increase 2000-17	*6%*	*5%*
Total wealth, annual rate of increase 2008-17	*6%*	*3%*
Share of total wealth in 2030		
Assuming total wealth grows at 2000-17 annual rate	54%	46%
Assuming total wealth grows at 2008-17 annual rate	64%	36%

Note: the composition of each group will change from year to year. Someone who is in the wealthiest 1% in one year may be in the least wealthy 99% in the next.
Source: Estimates based on wealth data for 2000-2017 published in Credit Suisse, *Global Wealth Report 2017* and *Global Wealth Databook 2017*

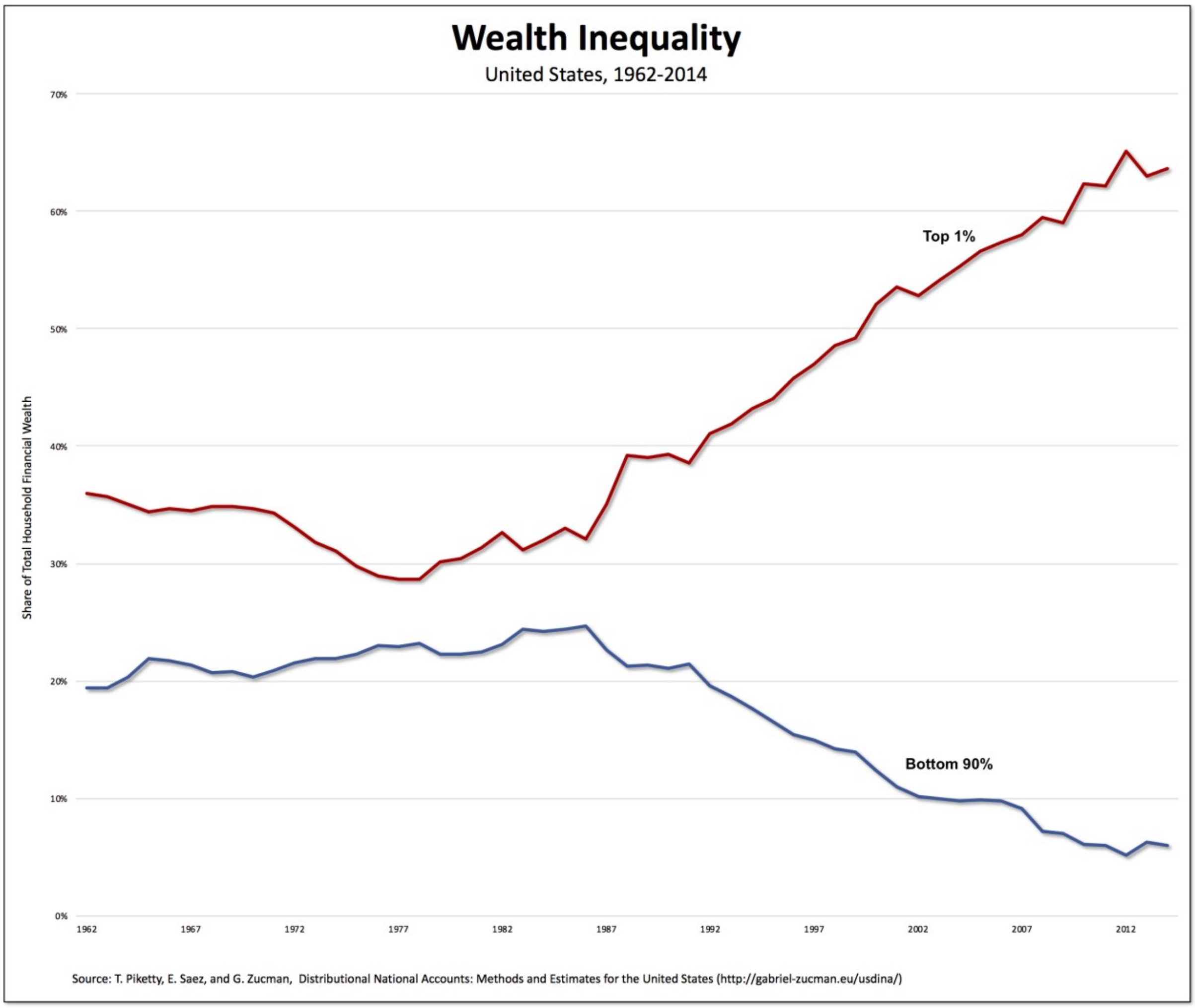
Projections, of course, are always contestable but the underlying mechanisms that have emerged are not.[5] What we've been seeing in recent decades is that an unequal distribution of wealth leads to even more inequality, since wealth inequality is amplified as wealth is concentrated in the hands of a small group at the top. Past wealth is capitalized at a faster pace, since the rate of return on wealth is faster than the rate of growth of the economy. Moreover, this effect is reinforced by the fact that rates of return tend to increase with the level of wealth: the rates of return available to large financial portfolios are usually much higher than those open to small bank deposits and the other savings vehicles available to everyone else. There is no sign that *this* is going to change unless more people are made aware and are willing and able to organize. The trend is not just quantities; it is a manifestation of capitalist class dynamics.

Re-estimating wealth inequality in the United States

If we return to the World Inequality Lab, the share for the top 1 percent in the United States is higher than the global figure. It was, for example, an astounding 41.8 percent in 2012 and 35 percent in 2014 (compared to 45.3 percent for the bottom 90 percent of households) However, depending on *how* it is measured, actual wealth inequality may be even higher. Both the World Inequality Lab and the Federal Reserve (in the Survey of Consumer Finances) include housing and retirement pensions in household wealth – and those two categories comprise most of the so-called wealth of most Americans. The important point is that they don't own much in the way of financial or business wealth. They live in their houses and they retire based on contributions from their wages and salaries over the course of their work lives.

[4] https://anticap.files.wordpress.com/2018/06/byrne.jpg
[5] Note though that: "Danny Dorling, professor of geography at the University of Oxford, said the scenario in which the super-rich accumulated even more wealth by 2030 was a realistic one: 'Even if the income of the wealthiest people in the world stops rising dramatically in the future, their wealth will still grow for some time,' he said. 'The last peak of income inequality was in 1913. We are near that again, but even if we reduce inequality now it will continue to grow for one to two more decades.'" See: M. Savage 'Richest 1% on target to own two thirds of all wealth by 2030' *The Guardian* April 7th 2018 https://www.theguardian.com/business/2018/apr/07/global-inequality-tipping-point-2030

They own little in the way of equities, fixed-income claims and business assets, which we can refer to independently as *real* wealth (in so far as this wealth is something they can additionally call upon beyond specific retirement products or their home). If we take out housing and pensions and calculate just the shares of financial or business wealth – and, thus, equities, fixed-income claims, and business assets – the degree of inequality is much, much worse. According to my calculations, in 2014 the top 1 percent owned almost two thirds of the financial or business wealth, while the bottom 90 percent had only six percent. That represents an enormous change from the already-unequal situation in 1978, when the shares were much closer (28.6 percent for the top 1 percent and 23.2 percent for the bottom 90 percent):[6]



What does this mean? The majority do not have the ability to amass any real wealth; put another way, they produce most of the wealth but don't take home any of the surplus. For the small group at the top, things are quite different. They *do* get a cut of the surplus, which they use, not only to purchase housing and put aside in their pensions, but to accumulate real wealth, for themselves and their families. Moreover, as the labour share declines and the profit share increases, this is exacerbated. This is the background against which wages and incomes stagnate or fall for the majority, a trend that has continued throughout the "recovery" since the global financial crisis.

[6] https://anticap.files.wordpress.com/2018/02/wealth-inequality.jpg

Continuing income inequality

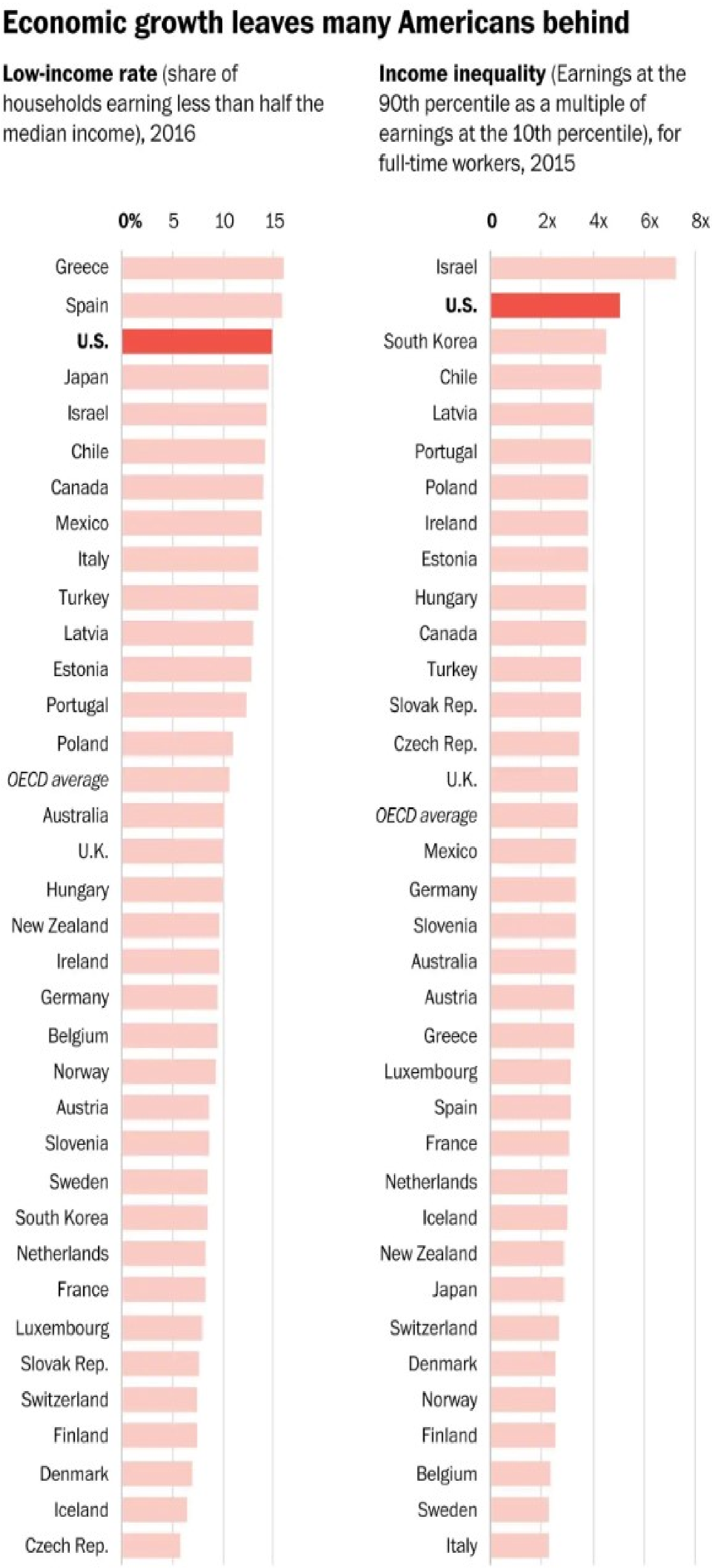
The OECD's Directorate of Employment, Labour and Social Affairs provides the following summary of their *Employment Outlook 2018*:[7]

> For the first time since the onset of the global financial crisis in 2008, there are more people with a job in the OECD area than before the crisis. Unemployment rates are below, or close to, pre-crisis levels in almost all countries. . . Yet, wage growth is still missing in action. . . Even more worrisome, this unprecedented wage stagnation is not evenly distributed across workers. Real labour incomes of the top 1% of income earners have increased much faster than those of median full-time workers in recent years, reinforcing a long-standing trend. This, in turn, is contributing to a growing dissatisfaction by many about the nature, if not the strength, of the recovery: while jobs are finally back, only some fortunate few at the top are also enjoying improvements in earnings and job quality.

The number of jobs has gone up and unemployment rates have fallen. However, workers are still being left behind because wage growth "is still missing in action." Workers' wages have been stagnant for the past decade across the 36 countries that make up the Organisation for Economic Cooperation and Development. The problem has been particularly acute in the United States, where the "low-income rate" is high (only surpassed by two countries, Greece and Spain) and "income inequality" even worse (following only Israel):[8]

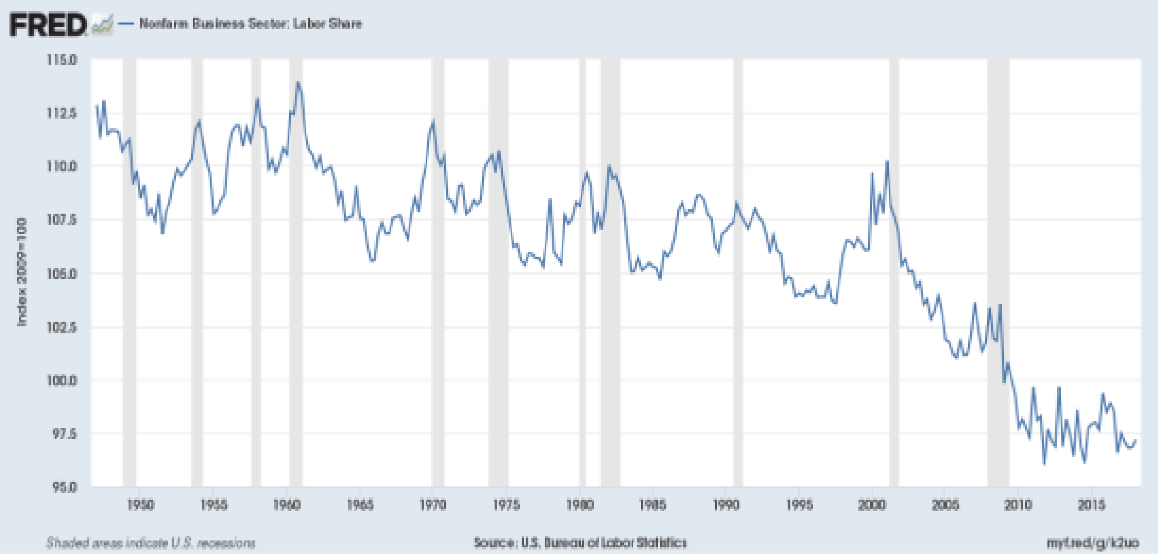
The causes are clear: workers suffer when many of the new jobs they're forced to have the freedom to take are on the low end of the wage scale, unemployed and at-risk workers are getting very little support from the government, and employed workers are impeded by a weak collective-bargaining system. And it is important to remember that the growth of corporate profits is both a condition and consequence of the stagnation of workers' wages. Employers have been able to use those profits to undertake share buybacks, in turn, increasing the value of financial assets held by the few (a mechanism exacerbated by corporate tax cuts, since investment has not grown commensurately), but profits have not in the main been used to increase worker pay (except for CEOs and other corporate executives whose pay is actually a distribution of those profits). The investment that does occur uses new technologies to take advantage of national and global patterns of production and trade to keep both unemployed and employed workers in a *precarious* position. That precarity, even as employment has expanded, serves to keep wages low – and profits growing.

[7] https://read.oecd-ilibrary.org/employment/oecd-employment-outlook-2018_empl_outlook-2018-en#page2
[8] https://anticap.files.wordpress.com/2018/07/left-behind.jpg



Source: Organization for Economic Cooperation and Development

What we're seeing then, especially in the United States, is a self-reinforcing cycle of high profits, low wages, and even higher profits. That's why the labour share of business income has been falling throughout the so-called "recovery":[9]



Eric Levitz in a July 2018 article in *New York Magazine* states that in the end this is political, as "American policymakers have chosen to design an economic system that leaves workers desperate and disempowered, for the sake of directing a higher share of economic growth to bosses and shareholders."[10] Productivity, automation, etc. on which economists focus are simply issues within that system. American workers (and workers in general) are being "ripped off". Nowhere is this seen more clearly than in ratios of CEO-to-average-worker-pay.

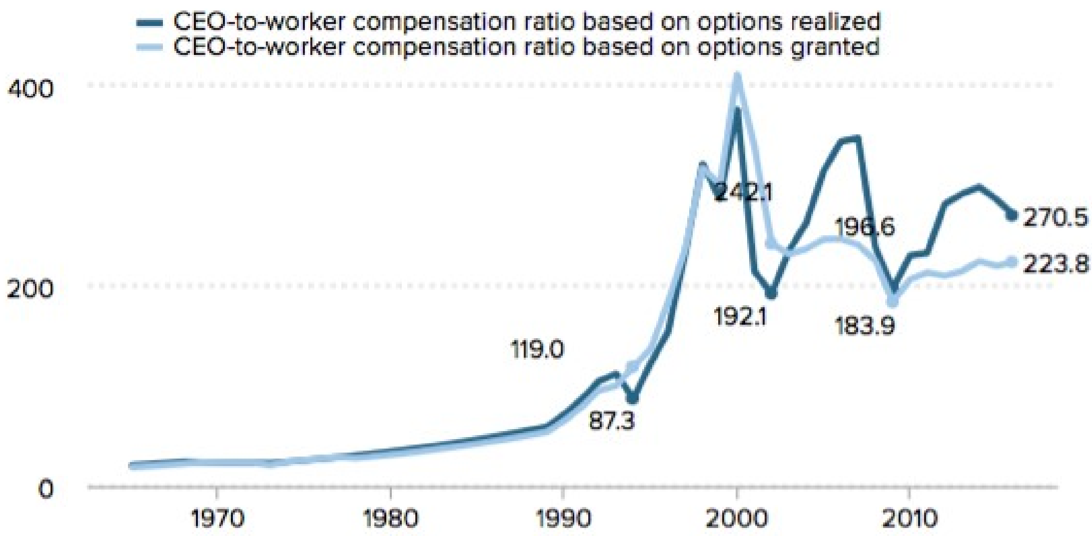
CEO-to-average-worker-pay ratios

According to a 2017 Economic Policy Institute report, the average CEO-to-average-worker-pay ratio for the largest 350 corporations in the US was 271 to 1.[11] There are different ways to calculate this ratio and it can be difficult to acquire appropriate data because of the way corporations choose (and are able) to report the relevant numbers and it is only recently that a change in regulations required US corporations to actually provide such a measure. However, what is undisputable is that the ratios indicate extreme inequality and that there has been an upward trend over decades. For example, according to the Economic Policy Institute report:[12]

[9] https://anticap.files.wordpress.com/2018/07/fredgraph.png. The graph maps the precipitous decline in the labor share during the past decade (from 103.3 in the first quarter of 2008 to 97.1 in the first quarter of 2018, with 2009 equal to 100), but the trend is longer: from 114 in 1960 or 112 in 1970 or even 110.2 in 2001.
[10] http://nymag.com/daily/intelligencer/2018/07/oecd-study-labor-conditions-confirms-that-u-s-workers-are-getting-ripped-off.html
[11] https://www.epi.org/files/pdf/130354.pdf
[12] https://anticap.files.wordpress.com/2018/04/ceo.jpg

CEOs make 271 times more than typical workers

CEO-to-worker compensation ratio, 1965–2016



Notes: CEO annual compensation is computed using the "options realized" and "options granted" compensation series for CEOs at the top 350 U.S. firms ranked by sales. The "options realized" series includes salary, bonus, restricted stock grants, options realized, and long-term incentive payouts. The "options granted" series includes salary, bonus, restricted stock grants, options granted, and long-term incentive payouts. Projected value for 2016 is based on the change in CEO pay as measured from June 2015 to June 2016 applied to the full-year 2015 value. Projections for compensation based on options granted and options realized are calculated separately. "Typical worker" compensation is the average annual compensation of the workers in the key industries of the firms in the sample.

Source: Authors' analysis of data from Compustat's ExecuComp database, the Bureau of Labor Statistics' Current Employment Statistics data series, and the Bureau of Economic Analysis NIPA tables

Economic Policy Institute

We can also look at individual firms and compare the ratio, average worker pay and the poverty line. Amazon has reported an average compensation for its varied, mostly warehouse (and now, with Whole Foods, grocery store), workers at $28,446 a year. The federal government defines its poverty guideline for a family of four to be $25,100. So, Amazon's average wage falls easily within 150 percent of the poverty line – and stands at about one-half of the median household income in the United States. The only private employer bigger than the e-commerce giant is their retail competitor Walmart, whose workers average only $19,177 per year, putting them far under the federal poverty guidelines.[13] Moreover, the ratio to average-worker pay of Walmart CEO Doug McMillon, who took in $22.8 million last year, was an astounding 1,188 to 1. And the extraordinary numbers continue, across the economy. Royal Caribbean Cruises: 728-1. Regeneron Pharmaceuticals: 215-1. Netflix: 133-1. Live Nation Entertainment: 2,893-1. Honeywell International: 333-1. Fidelity National Information Services: 654-1. UnitedHealth Group: 298-1. And on and on. Each such ratio indicates the obscene level of inequality in the United States, based on the amount of surplus pumped out of workers and distributed to those who run American corporations on behalf of their boards of directors.

[13] https://www.bloomberg.com/graphics/ceo-pay-ratio/

“Ripped off” starts to have real meaning when confronted with these ratios. It is no wonder that Amazon is owned and run by literally the richest man in the world, Jeff Bezos. While he technically “made” only $1.7 million last year, he’s worth $127 billion. The business press makes much of the idea of indispensable innovators, the wealth creators, but it typically neglects the fact that the reality of working for a large corporation involves hard-headed wealth extraction. Jeff Bezos recently received a hostile reception from workers when he arrived in Berlin to pick up an innovation award. As Frank Bsirske, the head of the Verdi trade union, explained: “We have a boss who wants to impose American working conditions on the world and take us back to the 19th century.”[14] Meanwhile, back in the United States, Amazon reported that its profits more than doubled to $1.6 billion in the first quarter of 2018, sending shares of its stock soaring to an all-time high.

While the figures of CEO-to-average-worker-pay are reported in the business press, they are not and have not been widely discussed in the mainstream media or by the nation’s politicians. This is a situation found in many countries; it matters because it creates a situation of systematic ignorance of the real extent of inequality even though ordinary people are both aware that there is (growing) inequality and that it is created by economic arrangements that are fundamentally unfair. Lack of awareness serves to undermine or prevent the expected outrage and reduce the momentum to organize and pressure for change—following Levitz’s comment, to compel policymakers to choose differently or themselves be changed.

The under-estimation of inequality and mainstream economics as ideology

In a 2014 study, Sorapop Kiatongsan and Michael Norton asked about 55,000 people around the globe, including 1,581 participants in the United States, how much money they thought corporate CEOs made compared with unskilled factory workers.[15] They then asked how much more pay they thought CEOs *should* make. American respondents estimated that executives out-earned factory workers by a factor of roughly 30-to-1. As also indicated by the Economic Policy Institute report, this is exponentially lower than the contemporary figure, and is actually just about what that ratio was in the 1960s.

According to the study, Americans believed the ideal ratio should be about 7-to-1.[16] Furthermore, Americans didn’t answer the survey much differently from participants in other countries. Australians believed that roughly 8-to-1 would be a good ratio; the French settled on about 7-to-1; and the Germans preferred around 6-to-1. In every country, the CEO pay-gap ratio was far greater than people assumed. And although they didn’t agree on precisely what would be fair, both conservatives and liberals around the world also concurred that the pay gap should be smaller. People also found themselves in agreement across income and education levels, as well as across age groups.

Clearly, representations of the economy that minimize the existence of inequality or the problems associated with inequality are bound to reinforce the systematic misperceptions

[14] https://qz.com/1261701/amazon-jeff-bezos-booed-in-berlin-by-workers/
[15] https://www.hbs.edu/faculty/Publication%20Files/kiatpongsan%20norton%202014_f02b004a-c2de-4358-9811-ea273d372af7.pdf
[16] This follows a 2010 paper in the same journal in which Michael Norton and Dan Ariely also find that Americans have a notion of economic fairness that is strikingly more equal than the current reality, and more equal even than their own underestimate of the degree of inequality. http://www.people.hbs.edu/mnorton/norton%20ariely%20in%20press.pdf

found by Norton and others. As has been widely noted since Piketty's *Capital in the Twenty-First* Century, previously mainstream economics had relatively little to say about inequality. Mainstream economics in general tends to deflect attention from the existence of inequality (e.g., by focusing on growth, output, and the price level versus distribution) and from the economic and social problems created by inequality (by attributing the growing gap between the haves and have-nots to forces like globalization and technological change that are beyond our control, or invoking more education as the only solution).

Mainstream economics continues to form part of what others, such as Vladimir Gimpelson and Daniel Treisman in the NBER working paper "Misperceiving inequality", refer to as "ideology", something "which may predispose people to 'see' the level of inequality that their beliefs and values convince them must exist."[17] The dominance of mainstream economics in the United States – in colleges and universities as well as in the media, think tanks, and in government – and around the world is one of the main reasons Americans, like people in other countries, tend *not to see* the existing degree of inequality. Of course, no ideology can be complete, and this is also the case for mainstream economics. It jars with our experience of the world and our aspirations regarding the world we want to live in. That's why Americans and citizens around the globe do see that the degree of inequality created by existing economic arrangements is fundamentally unfair.

Conclusion

Trends in global income and wealth concentration unequivocally suggest that unless radical economic changes are made within nations, the existing inequalities created by contemporary capitalism represent both the premise and promise of an even-more-unequal distribution of income and wealth in the decades to come. And the consequences of growing inequality – for the tiny group at the top as well as the vast majority at the bottom, albeit in different ways – make that case even more compelling. Neither group can escape the existing logic and its effects unless existing rules and practices are fundamentally transformed. At the same time, the widespread sense of fundamental injustice and unfairness, which is only partially masked by mainstream economics and politics, can serve as the clarion call for a ruthless criticism and reimagining of contemporary economic and social institutions.

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[17] https://www.nber.org/papers/w21174