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Policy Brief:

Inequality, Policy, and the Capitalist System

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The dawn of the industrial age signaled a profound shift in economics, social relations, and cultures across the globe-leading to levels of productivity and prosperity never before seen. However, the rise of the capitalist system brought with it unprecedented levels of social and economic stratification. This gap between the rich and poor has been the concern of politicians, philosophers, activists, and scholars since the Industrial Revolution. Many of the great names of the intellectual and political pantheon – Weber, Marx, Tocqueville, Keynes – have considered this question of inequality and its relationship to the political and social order. The wide variety of the conclusions these and others have reached illustrates the complexity of the issue and the difficulty faced by those who attempt to examine it. Among the schools of thought are several which claim to identify the causes of inequality, and furthermore, offer solutions to lessen the disparity between those at the top of the socioeconomic ladder and those clinging to the bottom rung. In this policy brief I argue that while the choice by political actors may matter at the margins, fundamentally, ***it is the nature of capitalism and not the policies of governments which determine the gaps between the haves and the have-nots.***

The Scale of Inequality

Before exploring continuing, it is important to understand the scale of this inequity and the impact it has, both on the American economy and the global system. According to data compiled by the Congressional Budget Office (CBO) and the Institute for Policy Studies, the average wage gap between CEOs and those they employ has dramatically risen in the past three decades. Between 1979 and 2001, the income of the top 1% of households in the United States rose by 139%, with these households posessing more than 60% of the nation's corporate wealth. In 1980, the wage ratio between top earners and those at the opposite end of the spectrum was 42-to-1, ten years later it had risen to 107-to-1, and by 2007 it had jumped to a staggering 411-to-1.[1]

The disparity between the top 1% and the bottom fifth of wage earners, while striking, arguably affects but a small portion of the population. What is perhaps more concerning the wages of the middle class – that highly lauded backbone of the American economy which possesses high levels of technical skill and formal education. Their average income rose by only 17% during this thirty-year period. When considering this disproportional increase in wages, it should be pointed out that there is no connection between this rise in relative incomes and overall economic productivity during this period.[2] The financial crisis of 2008 brought many economic concerns, including inequality, to the forefront of political and social discourse. However, the so-called Great Recession seems to have done little to endanger the privileged position of the top 1% - they claimed an estimated 95% of post-crisis growth, while the rest of the population saw their average wealth decline.[3]

One need only look at today's headlines to see how the concentration of so much wealth in the hands of so few has shaped our society and how it continues to affect the daily lives of millions. Not only do substantial gaps exist in the distribution of wealth in the United States. similar divides exist in access to healthcare and education. Although the United States represents only 5% of the world's population, it holds nearly a fourth of the world's prisoners. Justice itself seems to have become a commodity – available to those who can afford legal protection and defense. In the words of economist Joseph Stiglitz, political ideology and

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financial interests have "combined nefariously" to decrease governmental regulations meant to improve our safety, the protection of the environment, and the health of American citizens.[4]

As striking as the U.S. figures are, the scale of wealth inequality across the globe is even more profound. It is estimated that half of the world's total wealth ($110 trillion, or sixty-five times the wealth of the bottom half of the global population) is owned by the top 1% of the population. A tiny group of the international ultra-rich, only 85 individuals, possess as much wealth as the bottom half of humanity – roughly 3.5 billion people. Across the globe, 7 out of 10 people live in a country where the financial divisions between the rich and poor have increased over the past three decades.[6] To many, this extreme gap between the 'haves' and 'have-nots' illustrates a systemic, indefensible, even downright immoral unfairness in the global socio-economic order. However, it is not only the champions of universal human equality who view these numbers with distress. A report published by the World Economic Forum in 2013 ranked growing income disparities as the second greatest risk to global stability.[7] These figures conclusively demonstrate that inequality has come to define the distribution of domestic and global wealth. Now the question remains, does government intervention in the form of policy have an effect on wealth inequity?

As previously mentioned, various arguments have been put forth regarding the relationship between inequality, the capitalist system, and government policy. Some have argued that capitalism itself is not the root cause of wealth disparity. When allowed to function free of regulation or other government control, the free market generates substantial wealth, high standards of living, and low unemployment. It is when governments attempt to regulate the market that negative byproducts, such as inequality, are produced.[8] In this argument, unnecessary state intervention is viewed as the cause of inequality, not capitalism. This argument also assumes that policy does have an effect on inequality – exacerbating rather than diminishing it. Others also place the blame for rising inequality on government policy, but argue that these policies lead to widening income gaps due to their favorable treatment of the rich at the expense of the poor. For example, tax cuts during the presidency of George W. Bush, which resulted in an average increase of 5% for the wealthiest Americans, have been cited as the cause of unequal income growth in subsequent years.[9] However, in light of the figures reported above, the income of the rich in the U.S. has risen significantly more than 5%. Tax cuts alone, while perhaps not helping the underlying problem, are not enough to explain the gap between rich and poor.

Some observers have taken a more optimistic view of political intervention in the economy, arguing that policy interventions can alter market-based inequality and redistribute wealth among all segments of the population. Examples of this brand of government action include taxes on income, subsidies, and minimum wage legislation. The government can also directly spur economic growth by investing in infrastructure and other large-scale projects. Additionally, by providing access to education and healthcare, maintaining public order, and ensuring national defense, the state creates a secure and stable environment for economic investment and growth.[10] This view of government policy and its effect on economic growth raises a theme common throughout much of the literature regarding inequality – the role of education.

Possible Solutions

Many economists assert that the most effective way to reduce the gap between rich and poor is to increase educational opportunities. Because relevant data shows a correlation between a college education and later success in life, many argue that college should be as accessible as possible. Some claim educational opportunities at the college level come too late for many, and instead push for increased funding for primary and secondary schools. Still others focus on early childhood education as the most likely way to produce an educated and competitive workforce. However, several flaws in this 'education solution' have been highlighted. Real-world experiences have demonstrated that widening access to college, while increasing the number of college students, may not produce significantly more college graduates. Many students find themselves unprepared for college-level work, leading to a rise in drop-outs. Additionally, others receive degrees that do not reflect the standards typically ascribed to a college degree. Increased funding of primary and secondary education, while providing some examples of successes, is often ineffective at closing achievement gaps between socioeconomic groups. Preschool education has also been shown to produce only minor benefits – and these benefits are usually not judged to be worth the cost.[11]

The unfortunate fact is that very little can be done to reduce the levels of income disparity we see today. Inequality is an inherent part of the capitalist system – a part which the current sociopolitical order is unable and unwilling to eliminate.

The very heart of capitalism rests in competition between both individuals and organizations.[12] While our political system is founded on equality for all, the economic reality is that people are born unequal in terms of skill, financial resources, and support structures. This reality, like it or not, leads to inequality, and which the capitalist system is unable to address. Competition also occurs at the corporate level, with businesses seeking to produce ever more products while also generating more wealth. Keeping costs at a minimum often drives businesses to cut or put caps on wage increases, abetting the inequality issue. A survey of workers' wages since 1980 demonstrates this fact clearly – unskilled workers' income has fallen over the past three decades.[13] The incentive to outperform the competition, a key feature of capitalism, is itself a cause of another central element, wealth disparity.

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A second essential element of the capitalist system is constant innovation and evolution. Companies are always seeking to improve their products and create new ones, to find new customers, and to open areas of the world to free trade. This process of continual renewal and growth is often called "creative self-destruction"

where old products, forms of distribution, and organizations give way to the new.[14] This process is not only central to capitalism, but it is often touted as one of the foremost benefits of the system; it represents progress. However, in order for the "new" to take hold, individuals must be available to produce the new products, work in new environments, and respond to new demands. Workers who can adapt to this process are at an advantage and can continue to find meaningful work. Those who cannot are left at a distinct disadvantage. Retraining of workers, while helpful to those who can take advantage of it, is not as effective as one might think. Employment opportunities for low-skilled workers are not as common, and these jobs, when found, are much more insecure. In developed countries, unemployment among low-skill workers is much higher proportionally than skilled workers.[15]

Final Thoughts

There is much evidence to support the argument that the negative effects of competition and constant innovation, while necessary parts of the capitalist system, do not have to lead to increased inequality. Government policies can act as a shield to those who suffer from income disparity. The unfortunate fact remains that policies which could possibly have significant equalizing effects are unlikely to occur. This fact is rooted in two connected issues – the pervasive effects of capitalism on all aspects of society, and the influence of 'capitalists' on political leaders – regardless of party. Capitalism is not just an economic system, it constitutes a worldview which creates its own culture and values (competition, individualism, consumerism, self-interest).[16]

These values have become so imbedded in our society that their influence cannot be legislated away. Additionally (and significantly for all issues, not just economic ones), the American political system is under constant pressure from financial elites and lobbyists to enact legislation which is supportive of the existing order. The political and economic sectors have become engaged in a mutually-beneficial and self-perpetuating relationship, each supporting the other for their own interests.[17]

While inequality is an issue which will continue to occupy a central place in political and economic discourse, it is an inherent and intractable part of the capitalist system. Policies may have a small impact on certain populations, but wealth disparity is an element of the system which cannot be overcome by policy.

Endnotes:

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16 Robertson and Leumer, 2.

17 Ibid.