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Marxist World

What Did You Expect From Capitalism?

By Robin Varghese

After nearly every economic downturn, voices appear suggesting that Marx was right to predict that the system would eventually destroy itself. Today, however, the problem is not a sudden crisis of capitalism but its normal workings, which in recent decades have revived pathologies that the developed world seemed to have left behind.

Since 1967, median household income in the United States, adjusted for inflation, has stagnated for the bottom 60 percent of the population, even as wealth and income for the richest Americans have soared. Changes in Europe, although less stark, point in the same direction. Corporate profits are at their highest levels since the 1960s, yet corporations are increasingly choosing to save those profits rather than invest them, further hurting productivity and wages. And recently, these changes have been accompanied by a hollowing out of democracy and its replacement with technocratic rule by globalized elites.

Mainstream theorists tend to see these developments as a puzzling departure from the promises of capitalism, but they would not have surprised Marx. He predicted that capitalism's internal logic would over time lead to rising inequality, chronic unemployment and underemployment, stagnant wages, the dominance of large, powerful firms, and the creation of an entrenched elite whose power would act as a barrier to social progress. Eventually, the combined weight of these problems would spark a general crisis, ending in revolution.

Marx believed the revolution would come in the most advanced capitalist economies. Instead, it came in less developed ones, such as Russia and China, where communism ushered in authoritarian government and economic stagnation. During the middle of the twentieth century, meanwhile, the rich countries of Western Europe and the

United States learned to manage, for a time, the instability and inequality that had characterized capitalism in Marx's day. Together, these trends discredited Marx's ideas in the eyes of many.

Yet despite the disasters of the Soviet Union and the countries that followed its model, Marx's theory remains one of the most perceptive critiques of capitalism ever offered. Better than most, Marx understood the mechanisms that produce capitalism's downsides and the problems that develop when governments do not actively combat them, as they have not for the past 40 years. As a result, Marxism, far from being outdated, is crucial for making sense of the world today.

A MATERIAL WORLD

The corpus of Marx's work and the breadth of his concerns are vast, and many of his ideas on topics such as human development, ideology, and the state have been of perennial interest since he wrote them down. What makes Marx acutely relevant today is his economic theory, which he intended, as he wrote in Capital, "to lay bare the economic law of motion of modern society." And although Marx, like the economist David Ricardo, relied on the flawed labor theory of value for some of his economic thinking, his remarkable insights remain.

Marx believed that under capitalism, the pressure on entrepreneurs to accumulate capital under conditions of market competition would lead to outcomes that are palpably familiar today. First, he argued that improvements in labor productivity created by technological innovation would largely be captured by the owners of capital. "Even when the real wages are rising," he wrote, they "never rise proportionally to the productive power of labor." Put simply, workers would always receive less than what they added to output, leading to inequality and relative immiseration.

Second, Marx predicted that competition among capitalists to reduce wages would compel them to introduce labor-saving technology. Over time, this technology would eliminate jobs, creating a permanently unemployed and underemployed portion of the population. Third, Marx thought that competition would lead to greater concentration in and among industries, as larger, more profitable firms drove smaller ones out of business. Since these larger firms would, by definition, be more competitive and technologically advanced, they would enjoy ever-increasing surpluses. Yet these surpluses would also be unequally distributed, compounding the first two dynamics.

Marx made plenty of mistakes, especially when it came to politics. Because he believed that the state was a tool of the capitalist class, he underestimated the power of collective efforts to reform capitalism. In the advanced economies of the West, from 1945 to around 1975, voters showed how politics could tame markets, putting officials in power who pursued a range of social democratic policies without damaging the economy. This period, which the French call "les Trente Glorieuses" (the Glorious Thirty), saw a historically unique combination of high growth, increasing productivity, rising real wages, technological innovation, and expanding systems of social insurance in Western Europe, North America, and Japan. For a while, it seemed that Marx was wrong about the ability of capitalist economies to satisfy human needs, at least material ones.

BOOM AND BUST

The postwar boom, it appears, was not built to last. It ultimately came to an end with the stagflationary crisis of the 1970s, when the preferred economic policy of Western social democracies—Keynesian state management of demand—seemed incapable of restoring full employment and profitability without provoking high levels of inflation. In response, leaders across the West, starting with French Prime Minister Raymond Barre, British Prime Minister Margaret Thatcher, and U.S. President Ronald Reagan, enacted policies to restore profitability by curbing inflation, weakening organized labor, and accommodating unemployment.

That crisis, and the recessions that followed, was the beginning of the end for the mixed economies of the West. Believing that government interference had begun to impede economic efficiency, elites in country after country sought to unleash the forces of the market by deregulating industries and paring back the welfare state. Combined with conservative monetary policies, independent central banks, and the effects of the information revolution, these measures were able to deliver low volatility and, beginning in the 1990s, higher profits. In the United States, corporate profits after tax (adjusted for inventory valuation and capital consumption) went from an average of 4.5 percent in the 25 years before President Bill Clinton took office, in 1993, to 5.6 percent from 1993 to 2017.

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Yet in advanced democracies, the long recovery since the 1970s has proved incapable of replicating the broad-based prosperity of the mid-twentieth century. It has been marked instead by unevenness, sluggishness, and inequality. This sharp divergence in fortunes has been driven by, among other things, the fact that increases in productivity no longer lead to increases in wages in most advanced economies. Indeed, a major response to the profitability crisis of the 1970s was to nullify the postwar bargain between business and organized labor, whereby management agreed to raise wages in line with productivity increases. Between 1948 and 1973, wages rose in tandem with productivity across the developed world. Since then, they have become decoupled in much of the West. This decoupling has been particularly acute in the United States, where, in the four decades since 1973, productivity increased by nearly 75 percent, while real wages rose by less than ten percent. For the bottom 60 percent of households, wages have barely moved at all.

If the postwar boom made Marx seem obsolete, recent decades have confirmed his prescience. Marx argued that the long-run tendency of capitalism was to form a system in which real wages did not keep up with increases in productivity. This insight mirrors the economist Thomas Piketty's observation that the rate of return on capital is higher than the rate of economic growth, ensuring that the gap between those whose incomes derive from capital assets and those whose incomes derive from labor will grow over time.

Marx's basis for the condemnation of capitalism was not that it made workers materially worse off per se. Rather, his critique was that capitalism put arbitrary limits on the productive capacity it unleashed. Capitalism was, no doubt, an upgrade over what came before. But the new software came with a bug. Although capitalism had led to previously unimaginable levels of wealth and technological progress, it was incapable of using them to meet the needs of all. This, Marx contended, was due not to material limitations but to social and political ones: namely, the fact that production is organized in the interests of the capitalist class rather than those of society as a whole. Even if individual capitalists and workers are rational, the system as a whole is irrational.

To be sure, the question of whether any democratically planned alternative to capitalism can do better remains open. Undemocratic alternatives, such as the state socialism practiced by the Soviet Union and Maoist China, clearly did not. One need not buy Marx's thesis that communism is inevitable to accept the utility of his analysis.

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LAWS OF MOTION

Marx did not just predict that capitalism would lead to rising inequality and relative immiseration. Perhaps more important, he identified the structural mechanisms that would produce them. For Marx, competition between businesses would force them to pay workers less and less in relative terms as productivity rose in order to cut the costs of labor. As Western countries have embraced the market in recent decades, this tendency has begun to reassert itself.

Since the 1970s, businesses across the developed world have been cutting their wage bills not only through labor-saving technological innovations but also by pushing for regulatory changes and developing new forms of employment. These include just-in-time contracts, which shift risk to workers; noncompete clauses, which reduce bargaining power; and freelance arrangements, which exempt businesses from providing employees with benefits such as health insurance. The result has been that since the beginning of the twenty-first century, labor's share of GDP has fallen steadily in many developed economies.

Competition also drives down labor's share of compensation by creating segments of the labor force with an increasingly weak relationship to the productive parts of the economy—segments that Marx called "the reserve army of labor," referring to the unemployed and underemployed. Marx thought of this reserve army as a byproduct of innovations that displaced labor. When production expanded, demand for labor would increase, drawing elements of the reserve army into new factories. This would cause wages to rise, incentivizing firms to substitute capital for labor by investing in new technologies, thus displacing workers, driving down wages, and swelling the ranks of the reserve army. As a result, wages would tend toward a "subsistence" standard of living, meaning that wage growth over the long run would be low to nonexistent. As Marx put it, competition drives businesses to cut labor costs, given the market's "peculiarity that the battles in it are won less by recruiting than by discharging the army of workers."

The United States has been living this reality for nearly 20 years. For five decades, the labor-force participation rate for men has been stagnant or falling, and since 2000, it has been declining for women, as well. And for more unskilled groups, such as those with less than a high school diploma, the rate of participation stands at below 50 percent and has for quite some time. Again, as Marx anticipated, technology amplifies these effects, and today, economists are once again discussing the prospect of the large-scale displacement of labor through automation. On the low end, the Organization for Economic Cooperation and Development estimates that 14 percent of jobs in member countries, approximately 60 million in total, are "highly automatable." On the high end, the consulting company McKinsey estimates that 30 percent of the hours worked globally could be automated. These losses are expected to be concentrated among unskilled segments of the labor force.

Whether these workers can or will be reabsorbed remains an open question, and fear of automation's potential to dislocate workers should avoid the so-called lump of labor fallacy, which assumes that there is only a fixed amount of work to be done and that once it is automated, there will be none left for humans. But the steady decline in the labor-force participation rate of working-age men over the last 50 years suggests that many dislocated workers will not be reabsorbed into the labor force if their fate is left to the market.

The same process that dislocates workers—technological change driven by competition—also produces market concentration, with larger and larger firms coming to dominate production. Marx predicted a world not of monopolies but of oligopolistic competition, in which incumbents enjoy monopolistic profits, smaller firms struggle to scrape by, and new entrants try to innovate in order to gain market share. This, too, resembles the present. Today, so-called superstar firms, which include companies such as Amazon, Apple, and FedEx, have come to dominate entire sectors, leaving new entrants attempting to break in through innovation. Large firms outcompete their opponents through innovation and network effects, but also by either buying them up or discharging their own reserve armies—that is, laying off workers.

Research by the economist David Autor and his colleagues suggests that the rise of superstar firms may indeed help explain labor's declining share of national income across advanced economies. Because superstar firms are far more productive and efficient than their competitors, labor is a significantly lower share of their costs. Since 1982, concentration has been increasing in the six economic sectors that account for 80 percent of employment in the United States: finance, manufacturing, retail trade, services, wholesale trade, and utilities and transportation. And the more this concentration has increased, the more labor's share of income has declined. In U.S. manufacturing, for example, labor compensation has declined from almost one-half of the value added in 1982 to about one-third in 2012. As these superstar firms have become more important to Western economies, workers have suffered across the board.

WINNERS AND LOSERS

In 1957, at the height of Western Europe's postwar boom, the economist Ludwig Erhard (who later became chancellor of West Germany) declared that "prosperity for all and prosperity through competition are inseparably connected; the first postulate identifies the goal, the second the path that leads to it." Marx, however, seems to have been closer to the mark with his prediction that instead of prosperity for all, competition would create winners and losers, with the winners being those who could innovate and become efficient.

Innovation can lead to the development of new economic sectors, as well as new lines of goods and services in older ones. These can in principle absorb labor, reducing the ranks of the reserve army and increasing wages. Indeed, capitalism's ability to expand and meet people's wants and needs amazed Marx, even as he condemned the system's wastefulness and the deformities it engendered in individuals.

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Defenders of the current order, especially in the United States, often argue that a focus on static inequality (the distribution of resources at a given time) obscures the dynamic equality of social mobility. Marx, by contrast, assumed that classes reproduce themselves, that wealth is transferred effectively between generations, and that the children of capitalists will exploit the children of workers when their time comes. For a period, it seemed that the children of the middle class had a fair shot at swapping places with the children of the top quintile. But as inequality rises, social mobility declines. Recent research by the economists Branko Milanovic and Roy van der Weide, for instance, has found that inequality hurts the income growth of the poor but not the rich. Piketty, meanwhile, has speculated that if current trends continue, capitalism could develop into a new "patrimonial" model of accumulation, in which family wealth trumps any amount of merit.

THE KEYNESIAN CHALLENGE

Marx's overall worldview left little room for politics to mitigate the downsides of capitalism. As he and his collaborator Friedrich Engels famously stated in The Communist Manifesto, "The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie."

Until recently, governments in the West seemed to be defying this claim. The greatest challenge to Marx's view came from the creation and expansion of welfare states in the West during the mid-twentieth century, often (but not only) by social democratic parties representing the working class. The intellectual architect of these developments was the economist John Maynard Keynes, who argued that economic activity was driven not by the investment decisions of capitalists but by the consumption decisions of ordinary people. If governments could use policy levers to increase overall demand, then the capitalist class would invest in production. Under the banner of Keynesianism, parties of both the center-left and the center-right achieved something that Marx thought was impossible: efficiency, equality, and full employment, all at the same time. Politics and policy had a degree of independence from economic structures, which in turn gave them an ability to reform those structures.

Marx believed in the independence of politics but thought that it lay only in the ability to choose between capitalism and another system altogether. He largely believed that it was folly to try to tame capitalist markets permanently through democratic politics. (In this, he ironically stands in agreement with the pro-capitalist economist Milton Friedman.)

Under capitalism, Marx predicted, the demands imposed by capital accumulation and profitability would always severely limit the choices available to governments and undermine the long-term viability of any reforms. The history of the developed world since the 1970s seems to have borne out that prediction. Despite the achievements of the postwar era, governments ultimately found themselves unable to overcome the limits imposed by capitalism, as full employment, and the labor power that came with it, reduced profitability. Faced with the competing demands of capitalists, who sought to undo the postwar settlement between capital and labor, and the people, who sought to keep it, states gave in to the former. In the long run, it was the economic interests of capital that won out over the political organization of the people.

MARXISM TODAY

Today, the question of whether politics can tame markets remains open. One reading of the changes in advanced economies since the 1970s is that they are the result capitalism's natural tendency to overwhelm politics, democratic or otherwise. In this narrative, les Trente Glorieuses were a fluke. Under normal conditions, efficiency, full employment, and an egalitarian distribution of income cannot simultaneously obtain. Any arrangement in which they do is fleeting and, over the long run, a threat to market efficiency.

Yet this is not the only narrative. An alternative one would start with the recognition that the politics of capitalism's golden age, which combined strong unions, Keynesian demand management, loose monetary policy, and capital controls, could not deliver an egalitarian form of capitalism forever. But it would not conclude that no other form of politics can ever do so.

The challenge today is to identify the contours of a mixed economy that can successfully deliver what the golden age did, this time with greater gender and racial equality to boot. This requires adopting Marx's spirit, if not every aspect of his theories—that is, recognizing that capitalist markets, indeed capitalism itself, may be the most dynamic social arrangement ever produced by human beings. The normal state of capitalism is one in which, as Marx and Engels wrote in The Communist Manifesto, "all that is solid melts into air." This dynamism means that achieving egalitarian goals will require new institutional configurations backed by new forms of politics.

As the crisis of the golden age was ramping up in the 1970s, the economist James Meade wondered what sorts of policies could save egalitarian, social democratic capitalism, recognizing that any realistic answer would have to involve moving beyond the limits of Keynesianism. His solution was to buttress the welfare state's redistribution of income with a redistribution of capital assets, so that capital worked for everyone. Meade's vision was not state ownership but a broad property-owning democracy in which wealth was more equally distributed because the distribution of productive capacity was more equal.

The point is not that broader capital ownership is a solution to the ills of capitalism in the present day, although it could be part of one. Rather, it is to suggest that if today's egalitarian politicians, including Bernie Sanders in the United States and Jeremy Corbyn in the United Kingdom, are to succeed in their projects of taming markets and revitalizing social democracy for the twenty-first century, it will not be with the politics of the past. As Marx recognized, under capitalism there is no going back.