

## **American-Style Capitalism and Income Disparity: The Challenge of Social Anarchy**

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With the end of the Cold War on Christmas Day 1991, the word "capitalism" seems also to have disappeared from public discussions. In its place, there is much talk about "the market" as an impersonal object and praise for its alleged merits as a guide to economic decision making. But there is surprisingly little attention paid to the actual state of capitalism itself—especially as it is evolving in the United States in the late 1990s. Yet it is capitalism as an economic system that defines "the market" and it is the policies and institutions of capitalist countries that actually shape market outcomes. Thus, it is of consequence to ponder how this process is working out. For just as its chief intellectual rival—communism—collapsed from within because centralized socialism could not keep pace with capitalist economies that were consistently revolutionizing the frontiers of knowledge, supporters of capitalism also must watch for signs of its own undermining.

With regard to its outward manifestations, the American variant of capitalism seems healthy and vibrant. The contemporary economic indicators are essentially positive: unemployment is falling; inflation is low and essentially stable; profits are generally high; industrial production is close to capacity; future expectations by both consumers and producers are optimistic; and the stock market averages are at or close to record levels. But, on the other hand, the social indicators that describe the quality of contemporary life are almost universally morbid and depressing. Divorce rates are staggering; the use of illicit drugs is widespread; bankruptcies are increasing; illegal immigration is massive; teenage pregnancies are at epidemic levels; homelessness is spreading; less than half the voting age population actually votes in national elections; membership in trade unions has fallen to low levels that last existed in the depths of the depression in the early 1930s; the percentage of children living in poverty, the incidence of violent crimes, the magnitude of adult illiteracy, and the number of persons reported

to be AIDS-HIV infected are all the highest in the industrial world; and over a million persons are in jails and prisons (over half of whom are blacks) with more than twice that number either on parole or on bail. Moreover, stories of the prevalence of violent urban "street gangs," oppressive manufacturing "sweatshops," and armed militias in rural areas are commonplace on evening news shows. So if the economic indicators are so good, how is that the social indicators can be so bad? Ironically, a plea for a critical assessment of the state of capitalism in the United States was made in 1997 by one of the foremost beneficiaries of this free market era—the billionaire financier, George Soros. Writing in *Atlantic Monthly*, he bluntly stated: "Although I have made a fortune in the financial markets, I now fear that the untrammelled intensification of laissez-faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society. The main enemy...is no longer the communist but the capitalist threat" [Soros, 1997, 45]. Soros sees what many economic conservatives in academia, business, the media, and government refuse to recognize: namely, that "too much competition and too little cooperation can cause intolerable inequities and instability" [Soros, 47].

By far, the most significant of the emerging outcome "inequities" in the United States pertains to the widening economic disparity amongst the population. In early 1997, U.S. Secretary of Labor, Robert Reich summed up the situation as follows: "over 15 years ago, inequality of income, wealth, and opportunity began to widen and the gap today is wider and than at any time in living memory" [Reich, 1997, E-13]. Because the United States has always been among the extreme examples of consumer-driven capitalism, it is questionable—given this disparity among its population—how long it can maintain social order when increasing numbers of persons are left out of the banquet while a few are allowed to gorge.

### **The Consumer Economy**

Factually, consumption in the United States totaled over \$5.1 trillion in 1996 and that sum represented over 67 percent of the nation's Gross Domestic Product [*Economic Report*, 1997, 300]. Yet, no one really needs to be told the economic statistics to know that American-

style capitalism is consumer-driven [Sagoff, 1997]. Anyone who has ever visited a major shopping mall or who has ever watched television advertising that is broadcast directly into the living rooms and bedrooms of virtually every household knows intuitively that consumption is the imperative of our economy. The "life styles of the rich and famous" are on daily display for all to see--and to covet.

American-style capitalism seeks to make the citizenry want what it has to offer: material well-being. Engineering power—called technology—seems to be capable of continually increasing productivity if the consumer demand is forthcoming. Producers who produce what consumers want have the possibility to reap huge profits. But in this age of mega-enterprises, few producers are content to let the foibles of consumers determine their fate. Hence, producers seek to influence consumers about what they want [Galbraith 1967, 204-207, 273]. Thus, through massive and pervasive advertising, the system seeks to create wants and anxieties which can only be satisfied by more and more goods. It offers the lure of material satisfaction in one's lifetime. No longer does one have to wait for the afterlife to enjoy the good things. If one has the income, one can consume and enjoy in the "here and now." Advertising is designed to urge and to convince people to buy on impulse; to satisfy immediate wants; to seek immediate gratification; to avoid savings; to stay young; to have fun; to accept no limits on freedom. American-style capitalism and societal permissiveness go hand-in-hand. Consumption is the fire that fuels the American economy. For this reason, American capitalism has had deep and fundamental support—both economically and ideologically—from most of its citizens and its workers.

American-style capitalism, with its emphasis on consumerism, has offered the prospect that it can defy the Marxian time bomb that competitive capitalism would spawn class divisions and class hatreds between the "haves" and the "have nots." In the process, it has sought to minimize class, race, and gender differences by creating a new estate—the consumer. Humanism, after all, has failed to generate much support for people to consider themselves as

being "brothers" and "sisters," or to be "friends;" or to be thought of as being "citizens." So, in this era, why not call the populace "consumers?" And we do.

Hence, it has become the simple, uncluttered operating principle of modern American capitalism that consumers should be constantly persuaded to want more and more in the "here and now." Life in the United States is increasingly based on the gospel of achieving material well-being in this world. American-style capitalism does not create a need for any rewards in the afterlife. No idea system should make promises it cannot fulfill. Therefore, having deprecated the need for religious faith, "the market" is now totally on its own to justify its existence for the first time since the consolidation of capitalism in the 17th and 18th centuries.

### **The Challenges of Income Disparity**

As indicated, consumer capitalism derives its popular support from being able to satisfy the wants that it creates among the consumer population. From 1950 to 1978, virtually all strata of the U.S. society shared in this quest. As shown in Figure 1, real family income for the bottom 20 percent of the population increased substantially more than that for the top 20 percent (a 138 percent increase for the former versus a 99 percent increase for the latter) [see Figure 1]. Starting in 1979, however, and continuing since, precisely the opposite has occurred [see Figure 2]. The inflation-adjusted income of the top 20 percent of the population distribution grew by 26 percent while for the poorest it fell by 9 percent. Even more telling is the fact that in 1995, the richest 5 percent of U.S. families received 20 percent of the nation's total income while the bottom 40 percent received only 14.6 percent of the nation's total income [Reich, E-14 and E-15; Ryscavage, 1995 ]. Moreover, since 1995, the poorest of the poor -- those living at less than half the official poverty level -- actually increased in number by one-half million families in 1996 [U.S. Bureau of the Census, 1997, 1]. Thus, widening income disparity between the rich and the poor has become a distinguishing feature of the U.S. economy over the past two decades [U.S. Bureau of the Census, 1996,1]. Increasingly, significant segments of the population are lacking the income to convert their "wants" into consumer purchases.

A similar polarization in wages has also occurred over this timespan. Real wages for full-time weekly workers increased by about 11 percent since 1980 for the top 10 percent of the nation's wage earners; real wages declined by almost 10 percent over the same time interval for the lowest 10 percent of the distribution; and the median real wages for all workers fell by 3.6 percent over this time span. [Reich, E-14; see also Blau, 1996]. Labor economist Richard Freeman has summarized this trend as follows: "Inequality has jumped to levels that raise doubts about the health of the U.S. economy and its ability to deliver to all the American dream of rising living standards" [Freeman 1997, 1].

### **Capitalism and Income Distribution**

The issue of divergent income patterns in capitalist nations is, of course, not a new issue. Indeed, the competitive principles inherent in capitalist economies means, by virtual definition, that there will be "winners" and "losers." As Lester Thurow has written: "Capitalism has its virtues and vices. It is a wonderful machine for producing goods and services but... free markets also tend to produce levels of income inequality over the nation's history that are politically incompatible with democratic governments" [Thurow 1992, p. 17]. As a consequence, he notes that there is "the need for large social-welfare income transfer systems in every major industrial country" [Thurow, 17]. In the case of the United States, income inequality has been a continual theme of social critics and social scientists [e.g., see George, 1962; Riis, 1957; Harrington, 1962; Caudill, 1963; Wilson, 1987].

As noted earlier, from the end of World War II through the mid-1970s, there was a marked tendency in the United States toward income convergence. Beginning in the late-1970s and continuing ever since, however, the older pattern of income divergence has re-emerged--with a vengeance. In the private sector, the traditional pursuit of short run profit maximization goals has been greatly amplified by a new array of business policies. Mega-mergers of enterprises has become commonplace; employment rolls of large corporations have been "down-sized;" employee benefits have been slashed; the use of "contingent workers" has spread; and the

practice of exorbitant salaries and stock bonuses for top corporate executives has become standard compensation practice. Likewise, in the public sector over this period, an unprecedented array of public policies have been initiated to exacerbate the disparity trends. Not only have tax policies been introduced that disproportionately benefit the rich while redistributive social spending that benefit the less-fortunate has been curtailed, but mass immigration policies have been introduced that have swelled the ranks of the poorly educated and unskilled work force. Furthermore, a host of “free trade” policies (without any enforceable linkages to labor standards) have been implemented that benefit some while hurting others and which dampen efforts to maintain and to increase living standards for most American workers have been implemented with virtually no regard for the adjustment consequences felt by adversely affected individuals or by communities. And, of course, there has been a move to de-regulate a host of industries in the transportation, financial, and telecommunication industries with little concern other than rhetoric for how the consumers in general would be actually impacted.

As the decade of the 1990s comes to an end, it is clear what the outcome of almost a quarter century of unbridled capitalism has produced. The rich have become richer, the poor poorer, and the middle class has been severely squeezed. As a consequence, the noted American historian Arthur Schlesinger, Jr. observed in 1997 that “even premier capitalists are appalled by what runaway capitalism has wrought” [Schlesinger, 1997, 8].

### **The Advent of Social Anarchy**

In its formative years three centuries ago, capitalism had the benefit of Christian religions in Europe to mitigate the suffering of the masses of workers and others who constituted the ranks of the “have nots” as the twin forces of industrialization and market-oriented capitalism commenced their transformation of western civilization. Those who were harshly treated, who lived lives in grinding poverty and squalor, and who failed to share in the emerging material wealth of their capitalist societies could at least be comforted by their faith. For Christianity proclaimed that it was they—the disenfranchised and economically disadvantaged—who would

inherit the Kingdom of Heaven in the next world. Religion, in other words, served to preserve the social order during the tumultuous transition to the new world order of that era. In many ways, Christianity served as an unwitting “fifth factor of production.” It not only supported the ethos of capitalism [Tawney, 1947], it also provided much of the social glue needed to hold society together during this era of transformation

But one of the startling accomplishments of American capitalism in the 20<sup>th</sup> century has been that it has effectively replaced the teaching of Christianity with the teaching of the market place. It is life in the “here and now” where gratification is to be found. The values that are stressed; the symbols of success that are to be sought; and the lessons that are taught to the young are all those that serve the interest of “the market” in this world. In the process, however, the great pain killer of human suffering once offered by Christianity has been removed. The power of mitigation previously offered by religion has been reduced to zero in contemporary U.S. society.

The “market” is now entirely “on its own” with respect to its ability to preserve the social order for the first time in the history of capitalism. There is nothing else to hold society together. As a consequence, the tendency now is for economic controversies within U.S. society such as those associated with differential income patterns between racial, gender, and class groups to take on all of the trappings, all of the bigotry, all of the rhetoric, and all of the uncompromising ignorance of the religious wars of earlier centuries preceding the advent of capitalism.

The widening income disparity in the United States with its parallel inducing of anxieties of unfulfilled consumer wants by a growing portion of the populace does not mean that a revival of Marxism is in the offing. For revolutions of the downtrodden and the utopian promises of such social movements are pre-industrial concepts. The means of surveillance and the methods of suppression by the governments of industrialized states today are far too great to offer any prospect of success for such endeavors. Instead, when shoved to the wall, American capitalism

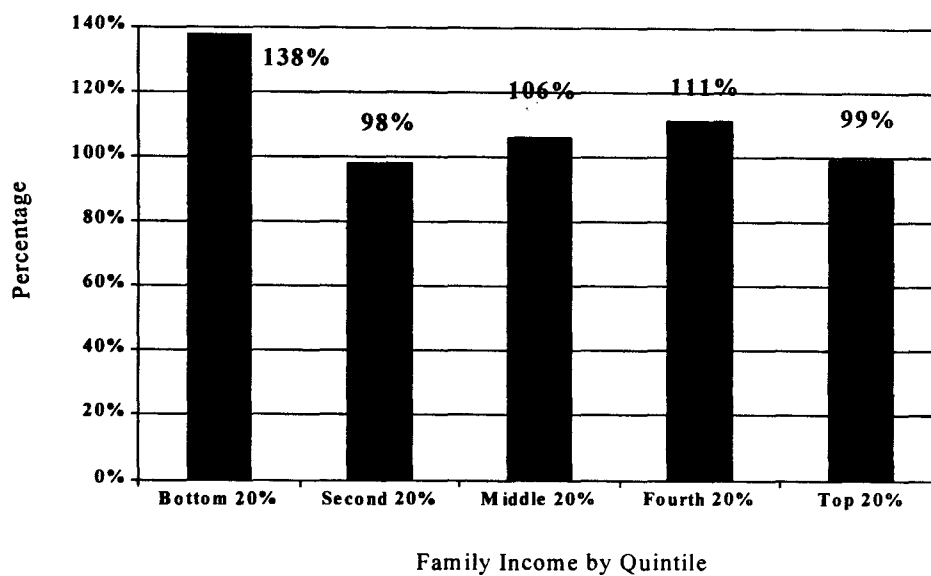
will most likely yield to social anarchy—as it already seems to be doing—rather than to revolution.

To the degree there is a way out of this seemingly inevitable dilemma, it must rest with a subordination of the short run profit objectives of the business class to the long term concerns for a stable and equitable society for the whole. This will require a redirection of societal resources toward greater investment in education, in the provision of universal healthcare, in environmental protection, in infrastructure investment, in providing affordable housing, in immigration reform, and in urban re-development. It will require a revival of interventionist government policies and the recognition of this imperative by those who seek leadership positions. Rather than surrender to the anarchy of the market, human intelligence should be used to buffer the hard edges of capitalism, to improve society, to enhance the quality of life, and to reduce human suffering.



**Figure 1**

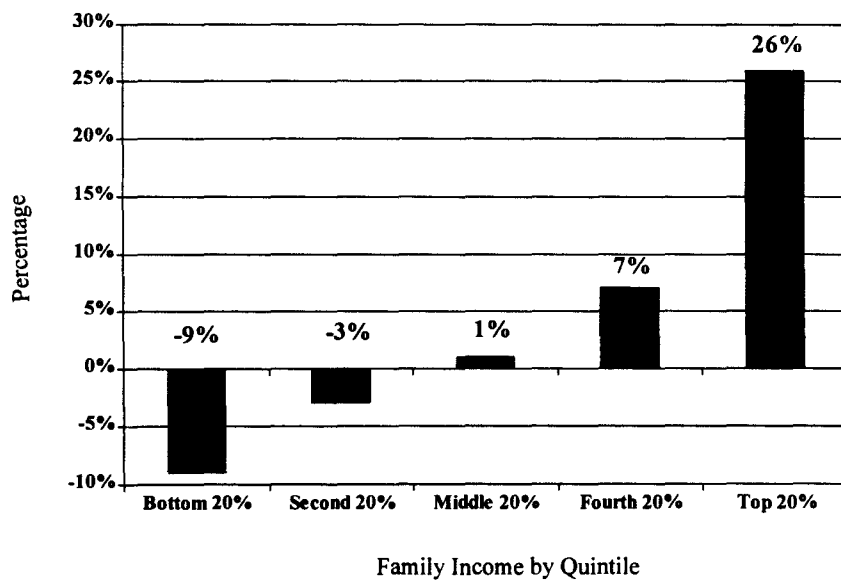
**Distribution of the Growth of U.S. Family Income  
by Quintile, 1950-1978**



Source: U.S. Bureau of the Census

**Figure 2**

**Distribution of the Growth of U.S. Family Income  
by Quintile, 1979 to 1995**



Source: U.S. Bureau of the Census

## Endnotes

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