

Straight Talk (75), 1 September 2014

Capitalism and Inequality

Prepared by Herbert Jauch for The Villager newspaper

In recent weeks, several interesting articles on the topic of capitalism and inequality appeared in newspapers, both here at home and internationally. In local newspapers, a debate ensued if inequality was bad for capitalism too or if inequality was the unavoidable outcome of this economic system which Namibia adopted alongside many other countries.

Beyond our borders, the New York Times carried an article in early August which referred to a report which found that an unequal distribution in incomes is making it harder for the USA to recover from the recession and to achieve the kind of growth that it had experienced in past decades. This report did not come from any left-leaning organisation but was prepared by economists at Standard & Poor's Ratings Services, a mainstream organization that conducts research for bond investors and others. Their report pointed out that the current levels of inequality in the US are hampering economic growth and are thus counterproductive – even within the logic of capitalism.

This is an interesting admission since the USA has been at the centre of global capitalism in the past decades and played a key role in promoting the neoliberal free market ideology which created unprecedented levels of income inequality in the world during the past 3 decades. For years, only those on the political left have criticized neoliberalism as being merely in the interests of a tiny elite and the world's large multinational corporations. Finally, the ravages of this system of global capitalism are now being acknowledged as even pro-business proponents (reluctantly) have to admit that the system's contradictions have become too obvious to deny any longer.

Several years ago, the Canadian economist Michel Chossudovski has pointed out how global capitalism not only destroys the lives of billions of people but how it is caught in unresolvable contradictions. Worldwide, unemployment now affects nearly a third of the global workforce and the abundant supply of cheap labour in the "Third World" and Eastern Europe contributes to depressing wages even in industrialised countries. Real wages in the low-wage countries are as much as 70 times lower than those paid in the US, Western Europe and Japan. Global corporations use this scenario to minimise labour costs and to achieve high levels of "corporate efficiency" through plant closures, mergers and acquisitions, market control and downsizing. The underlying rule is "survival of the fittest" as the enterprises with the most advanced technologies or those with command over the lowest wages will survive in a ruthless world economy.

This system leads to massive profits for the dominating companies that control global markets. However, it has the opposite effects when one analyses the economy beyond individual enterprises. At the macro-economic level, many economies experience mass unemployment and poverty, bankruptcy of local SMEs and unutilised industrial capacity in

the face of super profits for global corporations. Thus, despite the rapid technological advances, we witnessed a stagnation in the production and supply of essential goods and services, simply because the impoverished majority of the world's population cannot buy the production output. The ultimate contradiction of the global capitalist system is what Chossudovsky described as follows: *"the very process of expanding output (through downsizing, lay-offs and low wages) contributes to compressing society's capacity to consume"*.

This explains why not only Namibia but many countries in the world experience poverty amidst enormous wealth for the elites. Despite the global economic stagnation, the world's largest corporations have experienced unprecedented growth and expansion of their share in the global market at the expense of local, regional and national producers. The "free market" reforms as promoted by the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO) opened up new markets and production sites for global corporations and ensured profitability through low wages and deregulated labour markets. Likewise, the macro-economic policies as promoted by industrialised countries have paved the way for corporate mergers and acquisitions as well as the accompanying large-scale bankruptcy of small and medium-sized enterprises. Countries who refused to "open-up" their economies were confronted with a combined onslaught from the IMF-World Bank-WTO who continue to tell us that free market economies are the only way to go.

Today's global social and economic order is based on the logic of capitalism and has created a vicious and self-destroying economic cycle: The relocation of industries to cheap-labour location leads to economic dislocation and rising unemployment in industrialised countries. As a result, spending power there and markets for developing countries decline which leads to intensified competition and reduced production as well as economic stagnation in the "Third World". Nobody but tiny elites and global corporations are the beneficiaries.

This is the world that we currently live in and the time has come to debate the need for another economic system that will guarantee a decent life for all and the equal sharing of resources while preserving the world's ecology which is providing the very basis for humanity's survival.

Herbert Jauch is a labour researcher and educator, based in Windhoek.