

Understanding Capitalism

Vivek Chibber

In early 2015 the Gallup Agency polled Americans on what they thought was the most pressing concern for the United States. The winner? A cluster of issues labelled “economic problems,” which at 38 percent, topped all other issues by a factor of more than 2 to 1. If we add concerns such as health care (10 percent), education (7 percent), and poverty/joblessness (4 percent) — matters of economic welfare were the biggest concern for 60 percent of the respondents. A few weeks later, the Pew Charitable Trust queried Americans on their sense of financial security. It found that 50 percent of those polled declared that they felt acutely insecure about their financial situation. An astounding 71 percent declared that

1. “Most Important Problem,” accessed March 7, 2015, <http://www.gallup.com/poll/1675/most-important-problem.aspx>.

they could not pay their bills and 70 percent said they did not have enough saved to retire. The feeling of insecurity about their future weighs so heavily on the minds of Americans that a whopping 92 percent said that they would give up economic mobility in exchange for economic security. It is not that the respondents don’t wish for mobility — rather, they view their situation as being so precarious that they would forego future economic gains for a sense of stability here and now.²

Things are not this bad for everyone. In fact, for those at the apex of American society, life has never been so good. For America’s richest families, the last forty years have been something like a non-stop party. Even as incomes have stagnated for the vast majority, the richest 10 percent have gotten richer and fatter. In the United States, 88 percent of all the increase in personal wealth between 1983 and 2016 went to this group, while none went to the bottom 80 percent. If we turn to income growth, about 83 percent of increases in income since 1982 went to the top 10 percent, while the bottom 80 percent only got 8 percent of the total.³ So, even as the economy has gotten better and more efficient since 1980, almost all of the direct benefits have gone to those who were already rich.

Any decent person would agree that there is something fundamentally wrong with this situation. How can it be that in a society with such enormous resources and wealth, a thin layer of the population at the top gets to have everything, while millions upon millions experience life as a daily grind, a struggle just to make ends meet?

Well, mainstream media and talking heads do have an explanation, and it tends to be of two kinds. The first one places the focus

2 Pew Charitable Trust, *Americans Financial Stability — Perception and Reality*, March 2015.

3 Edward Wolff, “Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?” NBER Working Paper, November 2017, <http://www.nber.org/papers/w24085>.

on individuals. It's exemplified in what Republican presidential candidate Herman Cain said in his 2012 primary campaign: "if you don't have a job and you're not rich, blame yourself!"⁴ What Cain meant is that the only thing standing between you and a decent life is your willingness to work hard. So if you are in poverty, stuck in a bad job, or simply unemployed, it is because you cannot or will not put in the effort to succeed. You either refuse to put in the hours, or you refuse to accept the wage and the hours that the job comes with. You are either too lazy or too precious. But then, if this is so, of course you have no one to blame but yourself.

The second explanation blames the government. The basic idea is that social problems arise because the government keeps interfering in the market, preventing it from functioning the way it is supposed to. If left to itself, the market is both fair and maximally efficient. As long as people want to work, everyone will find a job; if they have special skills, the market will recognize and reward them for it; if they have an idea that will make money, banks will give them the credit to start their own business and become rich. Markets spontaneously tend toward full employment and they reward people for their talents. The problem is that governments won't leave them alone. Politicians and special interests pile on regulations that squelch entrepreneurial initiative; they launch welfare schemes that get people hooked on welfare; they don't let goods flow freely across borders, and so on. The solution, therefore, is to get the government out of the economy and let the market do its magic.

It's easy to see that this is the view from the mansion. It is the ideology of the winners, those for whom the system works fantastically well. On this view, if someone is rich it must be because of their hard work, not because they have the advantage of class; their

⁴ "Cain to Protesters: 'If You Don't Have a Job and You're Not Rich, Blame Yourself,' the Hill, October 5, 2011, <http://thehill.com/video/campaign/185671-cain-to-protesters-if-you-dont-have-a-job-and-youre-not-rich-blame-yourself>.

The problem is the system, and if we're going to do anything to make the situation better, it is important to understand how that system works.

money reflects their skills and talents, not the power they wield over their workers. There is no oppression and no exploitation, only free choice and opportunity.

For the last few decades, this explanation for people's misery didn't face much of a challenge. For what seemed like a lifetime, it looked like people saw no choice but to hunker down and try to just get through, even if they had doubts about what their TVs and their teachers told them about how society works. The idolatry of the market seemed to drown out every other voice.

But in the past few years, it's become pretty clear that people aren't buying the message any more. Whereas it seems it was only yesterday that Margaret Thatcher proclaimed there was "no alternative" to the market fundamentalism that she espoused and implemented — that ideology is now in shambles. The signs are everywhere, but most evidently in the explosive success of new left-wing political candidates in the Atlantic world — Bernie Sanders's campaign in the 2016 Democratic Party primary in the United States, Jeremy Corbyn's amazing success in Great Britain, Jean-Luc Mélenchon's garnering of 20 percent of the vote in the first round of the French presidential elections, and the emergence of Podemos in Spain. On the flip side is the significant decline of the traditional parties of the center and the right, from France to Spain and Greece.

An “alternative,” to use Thatcher’s language, is exactly what people seem to want. In 2015, the most frequently entered query in Google’s search engine was “socialism”!

Socialism is back in the air because there is a growing sense among working people that the problems they face aren’t the doing of this or that party or politician, but stem from the way the system itself works. And in fact this intuition on the part of billions of people is correct — the problem *is* the system, and if we’re going to do anything to make the situation better, it is important to understand how that system works.

This is a long essay. It might be useful to summarize in advance what it says. The five big points to take away from it are as follows:

1. Capitalism isn’t just a collection of individuals, but individuals grouped in social classes. People don’t come to the market as individuals competing on a level playing field. They are grouped into different classes and face very different economic conditions. The basic fact that differentiates the people into these classes is whether or not they own their means of production — land, factories, banks, hotels, etc. The vast majority of people don’t. The only way they can survive is by working for those who do own the means of production, called capitalists. So most people in capitalism are simple workers, and they have no choice but to sell their labor effort to capitalists; capitalists, in turn, sell the goods and services that they produce by hiring the workers. Both groups are forced to sell on the market, but what they sell is very different.

2. Capitalists and workers have very different interests. Capitalists are driven to maximize profits. But in order to succeed, they typically have to wage constant war on their own employees. What every employer tries to achieve is to produce as cheaply as possible and to squeeze as much as she can out of

her workers for every dollar she gives them. This naturally means that each employer tries to keep her employees’ wages as low as she can, while also getting as much work out of them as she can in return. This runs against what workers desire. Whereas the employer wants to keep wages low, the worker wants to set them as high as she can; and while the employer wants to set the pace of work as high as she can, the worker wants to keep it at a reasonable level. But because the employer is the stronger party, workers have to accept the terms, even though it undermines their wellbeing.

3. Capitalists aren’t motivated by greed but by market pressures. Capitalists don’t cause harm to their employees out of malice or greed. Their motivation comes from the brute reality of market competition. If a capitalist doesn’t produce at the lowest price, she knows that she will lose customers, and if that continues, her firm will start bleeding money. So she has to keep her selling price as low as possible. But if she’s going to lower her selling price, she also has to lower her costs, or she won’t make any money. Hence, she tries to pay out as little as possible for her inputs — the machines and raw material that she buys, and the wages she’s paying to her workers. So every capitalist constantly tries to get the most out of every dollar she spends, including from her workers. *This is how firms survive in the market.* It has nothing to do with greed.

4. This system creates enormous wealth but also great misery for the majority. This is why, even though capitalism creates enormous wealth, its benefits are so lopsided. Workers would be better off if every time productivity went up, it meant higher wages and shorter working days. This doesn’t happen in a free market. Even while productivity is increasing, employers respond by demanding more effort and longer hours. But just

as importantly, even as profits go up, there is no guarantee that they'll come back to the employees as higher wages — the employer will prefer to keep the increased profits herself, either to pay out to shareholders, or to reinvest it, or put it in her pocket. This means that even as the economic pie expands, workers don't necessarily benefit from it. They can be stuck with stagnant wages, job insecurity, long hours, and ill health. If left to its own, the system itself creates enormous wealth for some, and misery for the many.

5. Workers only advance if they act collectively. The reason you get fantastic riches on one side and mass misery on the other is very simple — workers are dependent on their employers, so they have to accept the terms they are offered. The boss gets to call the shots. Even though capitalists and workers need each other, they aren't equals. Yes, a factory owner has to have workers, and workers need to find a job. It sounds like a good bargain for both. But in fact, the worker will always be more desperate than the employer. She typically has very little savings to tide her over, is living hand to mouth, and knows that if she doesn't agree to the wage being offered, there are lots of other equally desperate people who will take those terms. What makes her weaker is the fact that she is easily replaced if she turns down the offer. The only solution to this for workers is to make it harder to be replaced if they choose to refuse the employers' offer, and the only way to consistently do this is by banding together. In other words, individual workers defend their interests by forming collective organizations. This is the lesson they have learned over the course of two centuries, and it is as true today as it was two centuries ago.

With this summary as a guidepost for our basic argument, we can work out the details.

WHAT IS CAPITALISM?

Capitalism is a kind of economic system. It is a particular way of organizing the production of goods and services in a given population. Now, to suggest that capitalism is one way of organizing economic activity implies that it is not the *only* way of doing so. There have been other kinds of economic systems — two well-known examples are the slave economy of ancient Rome and feudalism in medieval Europe and Asia. So what sets capitalism apart? How do we know it when we see it?

The simplest way to identify capitalism is on the basis of something called *market dependence*. In a capitalist society, the vast majority of people depend on the market to make a living. What this means is that when people try to acquire the basic necessities for their well-being — such as food, clothing, and shelter — they have to buy or rent them from someone else. They don't have the option of making the essentials themselves. A system in which everyone is market-dependent has several important characteristics.

1. All production is carried out for selling on the market, not for self-consumption. What this means is that when producers make something, it is not for their own use. The main aim is the sale of that product to someone else. This has a profound effect on all aspects of production. Those people who organize and carry out economic decisions now have to focus single-mindedly on finding a buyer for their goods. It doesn't matter if the good or service is something they personally like or have a use for. All that matters is that that someone else finds it desirable and wants to buy it.

2. The labor that goes into production is by people working for a wage. Another way of saying this is that the typical form of employment in capitalism is wage labor. For most of human

history, most people were self-employed. They worked on their own plots of land as peasants, or in their own establishments as craftsmen. In capitalism, self-employment is the exception, not the rule. What is most common is for people to work for someone else. They work under their employer's direction, for an agreed-upon amount of time and at an agreed-upon rate of compensation. The most common is an hourly rate, which is called a wage.

3. Productive establishments are privately owned. What this means is that the places that hire wage laborers — like factories, warehouses, restaurants, and hotels — are owned by individuals who have full and exclusive authority over what to do with them. They also have authority over whom to hire, how many people to employ, what to produce, whether or not to expand production, and so on. These owners are called *capitalists*, and the assets that they own are called *capital*.

These three elements are foundational to a capitalist system. It is important to note that while all three are important, it is really private ownership that gets the ball rolling. Wage labor was present to some extent in many economic systems — it existed in Ancient Rome and in every kind of medieval system in Europe and Asia. It was also very common to have trade and exchange, and, in fact, virtually every society with settled agriculture has had trade both within and outside its boundaries. But in all such cases, wage labor and trade were pretty minor phenomena. People worked for wages, but usually just to supplement what they produced on their own landholdings; there might have been some people who relied mainly on wage labor, but their numbers were small.

Similarly, trade has been around for centuries, even millennia, but family units very rarely *depended* on exchange for their survival. What they took to the market was usually a surplus left over

after their basic consumption needs had been satisfied. Hence, they didn't organize their production with the goal of selling on the market. What they made therefore remained geared toward personal consumption. So the mere fact that there exists some wage labor is not evidence of capitalism, nor is the existence of trade and exchange. Both of these phenomena have existed within pre-capitalist economic systems. In capitalism, wage labor and trade have moved to the very center of economic activity. They have become the *organizing principles* for production and distribution.

So trade and wage labor become markers of capitalism when they become the anchors of the entire economy — that is, when they become the means by which production and consumption are carried out. And historically, this only happened once the vast majority of people lost their access to the means of production. Throughout most of human history, the vast bulk of the population lived on the land, and, more importantly, individual families had *publically* recognized rights to plots of land. As long as they had access to this land, they could produce for themselves — they grew their own crops, produced much of their own articles of consumption, and therefore did not have to rely either on selling on the market or working for a wage. They still participated in market transactions, and they even resorted to wage labor occasionally. But their survival never *depended* on these activities. They relied on them only to supplement their income and consumption. As long as they had access to the means of production, they could keep market forces at bay in their lives.

But once economic actors are stripped of the means of production, once they lose access to land and capital, the conditions for their economic reproduction undergo a sea change. They can no longer rely on their own crops or handicrafts to survive, since they don't have access to key factors of production. They have to *buy* their articles of consumption on the market, which means that they have to first find a way of acquiring money in order to purchase them. This

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money comes from working for those few people who now have taken exclusive control over the means of production — the capitalists.

Another way of putting all this is that capitalism comes about when a particular kind of class structure is created — in which there is a small group on one side called capitalists, who control the basic means of production; and another group, the vast majority, on the other side, who don't have any choice but to seek employment from these capitalists. We call the second group the working class. It's the creation of this class system that brings about complete market dependence for everyone. The very act of creating a class of capitalists and a class of workers spreads the market throughout society. How does that happen?

Here's how. By depriving the bulk of the population of the means of production, two new mass markets have been created simultaneously. First, by forcing the bulk of the population to go out looking for jobs, we have created a market for labor power. Owners of capital wishing to produce a good can now find labor on this newly established labor market. Second, by forcing these wage laborers to purchase their consumption goods on the market, we have created a mass market for those very goods — a market that didn't exist before, since people relied on their own means of production to feed and clothe themselves. There is now a market for labor and another

one for the goods that this labor will produce, whereas previously both of these were either very small or nonexistent.

Hence, what has kept wage labor and market exchange at the margins of economic production throughout most of human history is the absence of private property. And what enables them to take over the economy, to become the drivers of production and consumption decisions, is when one group of people manages to throw the bulk of the population off the land.

IT'S ALL ABOUT PROFITS

So now we know that in a capitalist economy most people are distributed into two great classes. Production is controlled by capitalists, who employ workers to produce goods and services. These are sold on the market as *commodities*. It is from the sale of commodities that both workers and employers derive their income. This is worth examining at a little more length.

Karl Marx gave a very intuitive description of the process through which a capitalist goes about their business. Suppose you're a capitalist with a sum of money that you want to use to start an enterprise. This sum of money is represented by the letter M. With this M, the capitalist then goes out and buys what she needs to produce goods or services — land, machinery, raw materials, and, of course, labor power — produces the commodity, and takes it to the market to sell. The commodities produced are denoted by C. If C is successfully sold, the capitalist is able to recoup the money originally spent on inputs M. This completes the cycle of production. We can represent this as:

$$M \rightarrow C \rightarrow M$$

The M at the end of the production period represents the same sum of money that the employer started with — the original investment. If the employer manages to recoup this amount from sales revenue,

she is in a position to start a new cycle of production and enter the market again to try her luck. If the original sum M is not recouped and revenues are less than the original value, there will be a drain on the employer's wealth. So at the very least, the capitalist needs to end up with the money she originally had, if she wants to stay in business.

But while it is important for her to recoup her original investment, of course this isn't all she needs. For one thing, she won't have made any money herself. For the capitalist to derive an income for herself, there has to be an addition to the original value of M — a surplus over the money she's paid out to others. We can represent this as ΔM . The ' Δ ' stands for the additional increment she has made over her initial investment — her profit. It is from this profit, the ΔM , that she derives her own income, and also the money with which she can expand her operations, perhaps buy new machinery, etc. So the new M actually needs to be of a greater value than the original one if she wants to do more than just cover her costs. A more accurate way of representing the cycle is therefore as follows:

$$M \rightarrow C \rightarrow M (+\Delta M)$$

The new increment is hardly a side note. It's actually the most important part of the production effort. For the capitalist, the whole point of the cycle is to end up with ΔM . If not for that, her entire effort becomes a kind of philanthropic endeavor, in which she pays others, but takes nothing home for herself. The ΔM is the capitalist's profit, and as everyone knows, it is the pursuit of profit that shapes the entire organization of production in capitalism.

We know now what the capitalist is after — the profit. We know that she owns the means of production with which she can acquire it. Once she has her material inputs in hand — the machinery, buildings, raw materials, etc. — all she needs is to find labor. If she is operating in a setting where peasants or farmers have not been stripped of their land, this is of course a major stumbling block, since the labor she

needs will not be available. This is why capitalism requires depriving the bulk of the population of the means of production, so that they have to go out looking for work, and make themselves available to employers. But since we are assuming that this expropriation has been accomplished, then finding a sufficient number of workers on the labor market is rarely a problem.

The capitalist now has to do two things. First, she has to get her employees to do the work that is needed to produce the commodity she wishes to sell. She can do this in a couple of different ways. The most typical in advanced industrial countries is by bringing them together under one roof in some kind of productive enterprise — a factory, a workshop, hotel, restaurant, nursing home, warehouse, etc. Here she provides them with the raw materials, tools, machinery, etc. that are needed to make the commodity, and with this, puts them to work. They put these implements to use and at the end of the production period they present her with the commodity she wishes to take to the market. In the case of services, they sell them on site to customers as they come in to purchase them. Either way, the capitalist has to be sure that her employees will provide her with the one thing she needs from them — the requisite labor effort that must go into production of the commodity. The process of acquiring this labor effort from workers, that is, the time during which they are at work producing the good or service, is called the labor process.

In advanced capitalist societies, the labor process is supervised by the employer or managers, to ensure that the employees work as hard as the boss needs them to. But in many parts of the world, especially in poorer countries, capitalists hire workers who do not carry out the labor process under one roof. Instead, they work at home, often working as a family and sometimes hiring a small number of workers themselves. This, the second method of production, is a kind of subcontracting, or contracting out. This is as much a capitalist form of production as the first one, since the basic organizing principles are the same — work is being done by

workers for a fixed rate, and the products are made for sale, not personal consumption. What is different is just the location of the labor process — it is decentralized instead of being located in one building or set or compound.

Now comes the second thing the capitalist needs to do — sell the product. If the sales effort goes as expected, then the initial investment will have paid off and there is profit, the ΔM . The capitalist is now ready to start the process anew, hire the workers back for the next production period, return to the market with a new batch of goods, and maybe earn another round of revenue. It seems simple enough. But as it happens, it is not that simple. What the capitalist typically finds is that the market is nothing like this peaceful fantasy. It is in fact more like a war zone. And the challenges of the market affect every part of the production process, forcing adjustments at every step, from buying inputs to marketing.

THE PRESSURE OF COMPETITION

What turns the market into something like a war zone is the fact of competition. When capitalists try to sell their product, they find one of two things. The most common is that they are not the only ones trying to market that particular commodity. There are other capitalists also trying to do the same, bringing their own goods for sale and hoping to recoup their own investments, just like the particular capitalist we happen to be following. An auto maker finds other automobiles also being sold, a hotel manager finds other hotels vying for customers, and textile producers have to contend with other manufacturers desperate to market their own product. And since they are all vying for the same consumers, they have to find a way of drawing the consumers toward their commodities and hence away from those being sold by others.

A second possibility is that the capitalist might not initially find competitors already on the market. She might be so lucky as to be

The drive to minimize wage costs while maximizing work extraction is the essence of how capital relates to labor.

the only producer of the good in question, and hence able to make easy sales at a high price. Her rate of return on her investment will probably rise to a level other capitalists in other sectors can only dream of. But this state of affairs is unlikely to last very long. The very fact that she has it so good, and is able to make a very high rate of return, inevitably will draw the attention of other capitalists. And when they are about to start their next cycle of production, with their money in hand, they will pause. They will compare the return they are likely to get in their own line of production with the higher one in the sector where our capitalist is the lone producer. The decision will very likely be to enter this high-profit sector so that they may also tap into the stream of easy profits that our capitalist is making. Or alternatively, it won't be capitalists from other sectors who enter the line but capitalists looking for a first-time investment, just like our capitalist did when she decided to enter the line as lone producer. Either way, the "sole producer" status doesn't last very long.

The point here is that, sooner or later, most every capitalist finds that if she wants to make her profits, it will have to come through winning the competitive battle. The sales effort thus becomes a highly fraught affair, in which the main goal is not just to find customers to buy a good, but to make them buy it from *her* instead of from someone else. The most important way to achieve this is by

lowering the selling price of the good, so that it is cheaper than the one being sold by competitors. Competition is thus carried out mainly through the reduction of prices. This price competition should be understood in one of two ways — either as selling the same quality good at a lower price, or as selling a better quality good at the same price. Either way, the seller is offering the customer a better bargain for their money.

But this is where the profound impact of competition becomes clear. The pressure to lower the selling price creates an immediate problem for the capitalist. If she keeps lowering her price to attract more customers, it means she is also reducing her profit margin. This is because while her selling price has gone down, her costs have not. It still costs the same amount to make the goods — she still has to pay her rent, pay back any loans she took out, all the raw material costs are the same and so is the wage bill. And if her profit margin keeps shrinking, it could end up threatening the very survival of her enterprise. There will soon come a point where she is unable to pay for her inputs or where her profit is so low that it doesn't make sense to stay in that particular line any more. She will think about closing shop and finding other investments for her money. If she is to stay in this product line, or stay solvent, she has to find a way out of this squeeze on her profits. She has to restore profitability.

THE COMPULSION TO MINIMIZE COSTS

The only way for a capitalist to maintain her profit margin while cutting her *selling price* is by reducing her costs. There are two dimensions to this. The first is the most obvious — when she goes out to buy machines, or find a building to rent, or to hire labor, she will choose the cheapest option that is available. She can't afford to be extravagant. But of course, not being extravagant doesn't mean that you buy garbage just because it's cheap. You have to make sure that whatever inputs you get are also efficient and productive. This

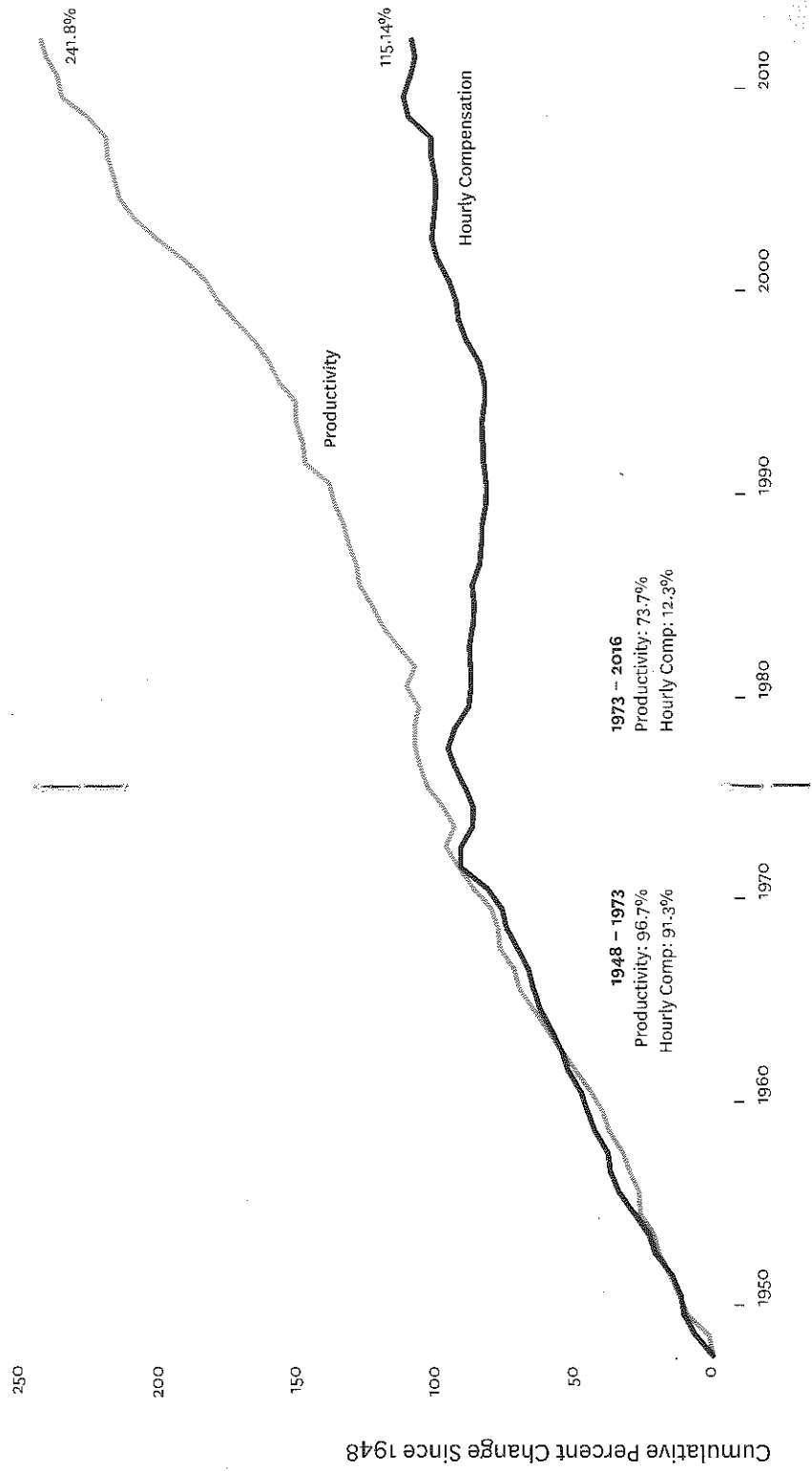
is the second dimension to cost reduction. The inputs have to be the cheapest ones available, but which will also give back a decent return, by performing up to standards set by the competition. There's no point buying a cheap machine if it keeps breaking down; it doesn't help to locate into a low-rent building if it doesn't have a reliable power supply; and low-wage workers don't help if they just stand around all day or lack the needed skills. What the capitalist needs is not the *cheapest* inputs per se, but the *best bargain*. What makes the inputs a bargain is not just how much they cost but also how much output they provide in return.

So the capitalist has to make sure that she is doing two things at the same time — spending as little as she can, while getting the most out of every dollar that she spends. This has a very important implication for how she relates to her workers. She doesn't just want the cheapest machine, but the machine that produces the most at the cheap price. So too, she doesn't just want to pay very little in wages, but also to get the *most output from the workers at that wage*. The capitalist wants to maximize the *effort* that her workers give her, at *whatever* wage she is paying them, and with whatever machines she has them working.

The problem is there is no way to specify the quantity and quality of the effort a worker is going to provide to her employer. When a capitalist hires her labor, the agreement is over two things — how long they will work, and how much money they will get for it. The agreement is over the *labor time*. The employer pays the worker for her time, and then hopes — or tries to ensure — that the *effort* expended by that laborer is up to the standard set by the market. Unfortunately for her, this is not so easy. First, she can't be sure that the worker will be as committed to this goal as she is. The worker might not want to work at the rate her employer prefers. She might prefer a more leisurely pace. The worker might even feel that the pace of work her boss is demanding can actually be harmful to her.

The gap between productivity and a typical worker's compensation has increased dramatically since 1977.

FIGURE 1 — GROWTH IN PRODUCTIVITY AND HOURLY COMPENSATION, 1948 – 2016



Note: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.

Source: EPI analysis of Bureau of Labor Statistics and Bureau of Economic Analysis data. Updated from Figure A in *Raising America's Pay: Why It's Our Central Economic Challenge*, Economic Policy Institute.

Second, the pace of work demanded by the employer can itself keep changing. What was an acceptable pace of work to the employer last month will not be so today, because a rival found a way of driving her workers harder, or maybe bought a new machine that lowers her costs. This sends every other capitalist scrambling to find new ways of economizing, and of getting more out of their own labor force. The goal posts, as it were, keep shifting. So just as workers get habituated to one pace of work, the order comes down that it wasn't enough. They now have to work harder, or faster, than they were last month. So capitalists have to treat their employees' effort as a variable — something that can't be predicted, and which they have to constantly find new ways of increasing. It's a variable because when they hire the workers, they don't have full knowledge of how much the worker is *capable* of delivering, and they have no real confidence in how much effort she will be *willing* to offer. This creates a constant struggle between them, so that the labor process becomes a battleground between workers and management.

The drive to minimize wage costs while maximizing work extraction is the essence of how capital relates to labor. Across the economy, regardless of product line or economic sector, the basic dynamic is the same. A capitalist who manages to get her labor force to work faster, harder, and better will have ended up with a much better bargain than one whose workers are less careful or not expending as much effort. She doesn't drive her workers because she is greedy, but because someone else might beat her to it and end up having an advantage on the market. Of course, this doesn't mean that all workers are reduced to working for starvation wages. In different sectors, the wage level differs with the level of productivity. The point isn't that workers in every sector end up with the same wage; it is that in every sector, workers are forced to submit to the same *pressure*, and the wages they get are kept as low as the market will allow.

Two very important implications follow from this. First, the relentless pressure to keep down wages while also getting the most work out of their employees *pits employers against their workers*. Another way of putting this is that capitalists and workers end up having very different interests, since, obviously, workers would rather have the highest wages they can get for themselves and keep to a humane work schedule. When the boss tells them to increase the output per hour, it means more fatigue; when she tells them to take shorter breaks, it means more drudgery or more stress; when she doesn't give them a raise for years at a time, it means that they are essentially handing over to her all the gains from their greater efficiency. The boss' gain is coming at their expense — hence, they have different interests. But this is where the second important fact comes in — even though workers might have different priorities than their employers, it's the employer who is able to set the basic terms. Or to put it differently, it's the *employer's interests* that typically win out. This is because she is the more powerful party of the two. She has the power to hire and fire — and the worker is rarely in a position to afford losing her job.

When we put these two facts together, we see the roots of one of the most basic facts about capitalism — even though workers and capitalists work together to produce their firm's revenue, how they go about doing it and how the benefits are distributed, is decided by the bosses. And this enables capitalists to set the terms of work in a way that they reap the *gains* of economic growth, while labor's vulnerability forces it to absorb most of the costs. Employers' power to hire and fire enables them to organize work in such a way that the benefits come to them, while employees are forced to adjust their lives around the demands of work. The result is vast wealth and power for one side, with stagnant incomes, insecurity, overwork, and collapsing health for the other.

Let's see how this works out in three critical areas — income distribution, economic insecurity, and the pace and duration of work.

INCOME DISTRIBUTION

The most obvious way in which employers benefit at the expense of workers is in how the gains from production are shared. The basic structure of employment in capitalism is that employers offer jobs at a certain wage, and employees are free to take that offer or refuse it. But while this seems like a fair bargaining situation between two parties, in this case the transaction is between two very unequal sides. People looking for jobs are doing so because they don't have enough to live on. They enter the labor market with little or no savings to fall back on. Employers, on the other hand, are by definition holders of wealth, typically with a healthy income flow, and also able to secure credit and loans if they need it. So the bargaining situation is between one person (the worker) who is desperate for an income, and another (the employer) who already has a stock of wealth at her disposal. Obviously, the employer is in a much stronger position than the worker. This inequality in leverage means that employers are able to set the terms of the employment contract to massively favor them over their employees. They are able to demand that they get the lion's share of the income that their firm generates. Workers are free to refuse this deal, of course — but at the cost of risking unemployment. So the choice for them is between settling for an unfair bargain, or having no income at all.

This imbalance between the two groups is profoundly important. The greater power enjoyed by capitalists enables them to get income over and above what they would get if they were on a more equal footing with workers. And this means that income includes a component that, in an important sense, is *extorted* from the workers — it's a kind of blackmail made possible by worker's desperation. Hence, a big reason why workers' share of income is low is because part of what *could* have come to them ends up in capitalists' pockets, through this extortion. But if this is so, then it's fair to say that capitalists' soaring incomes are that high at least in part because workers' incomes are low.

It is sometimes claimed that, even though it is regrettable that employers claim the lion's share of income, it is worth it because they reinvest that income. The reinvestment results in faster growth, and this growth results in rising incomes for workers too. Hence, as the saying goes, a rising tide lifts all boats. But the last half-century has shown that there is no reason to expect such an outcome. Whether or not workers share in productivity increases depends on a great deal on building their bargaining power against employers. Without it, the income gains go straight to the bosses. The history of wage growth in the United States shows this very clearly. In figure 1 we can see that post-war US history can be divided into two distinct periods. The first, stretching from 1945 to the early 1970s, witnessed a steady growth in wages, pretty much in line with productivity growth. This means that as US firms became more productive and brought in more revenue, wages went up right along with it. But this changed in the mid-1970s. From 1973 to 2016, productivity went up by 74 percent, while wages only increased by 12.5 percent. Where did the rest of it go? Into the hands of owners and CEOs.

There are two essential points here. First and most importantly, it explodes the myth that if we tolerate the build-up of huge inequalities, the benefits will “trickle down” to the workers. In fact there is nothing to guarantee such an outcome. Unless workers have some way of redirecting some of the income stream toward themselves, their bosses will use their greater power to grab it and use it as they see fit.

This brings up the second point — the main reason there was a break in income growth was that there was a decline in workers' bargaining power. The years during which wages rose in tandem with productivity was also the era during which unions had a foothold in the workplace. After the explosion of industrial unrest in the mid-1930's, trade unions finally were granted legal backing, enabling millions of workers to organize and bargain collectively around wages and work conditions — for the first time in American history.

Employers now had to negotiate the terms of employment, rather than setting them unilaterally. And the result was several decades of rising wages and growing incomes for workers. What was happening here was that workers were forcing employers to share some of the fruits of increasing revenue, and employers had to concede because unions had the power to shut down production if the bosses refused.

But by the middle of the 1970s, the power of unions was weakened to the point where they weren't able to exert the pressure needed to redirect revenues to their members. Membership continued to decline, and by the 1980s it had fallen from its peak of almost a third of the labor force in the 1950s, to around 10 percent. Private sector workers were once again at their employers' mercy. Profits continued to grow in the 1990s, but instead of being funneled into higher wages, that money now went to the owners and managers of capital. As the balance of power between labor and capital changed, so did the distribution of income. Or, to put it in the language of the famous metaphor, the tide continued to rise, but it only lifted the boats belonging to the rich. The poor were left to swim for their survival.

ECONOMIC INSECURITY

At the very core of employers' power over workers is job insecurity. We have seen that the reason workers accept the lopsided wage bargain is that they have little choice: they are told to either take the job as it is offered or risk starvation. This threat is effective only because working people have no way of getting access to the basic necessities of life, except through the labor market. Finding and keeping a job is the only way they can live. And both of these goals — finding a job and then keeping it — depends entirely on the whims of those who control the means of production, the class of employers.

Libertarians often say that while it's true that bosses can fire workers, workers can also "fire" their boss — by simply walking away from the job. But this is highly misleading. It's true that a worker is

free to leave her job — she isn't owned by the employer, nor is she typically indentured to her. But this formal freedom to walk away has very little significance, unless the worker has some other source of income *on which* she can exit. Where would this come from? They don't own plots of land, or their own businesses, or have huge stock portfolios to fall back on. That's why they go out looking for work. They can seek out another job, but of course every job will have a similar power imbalance between them and their employer. Plus, there is no guarantee that they will find a job at all. So the rational move is for them to stick it out — to try holding on to *this* job.

The workers' baseline insecurity is built into the system in two ways. First, the very existence of capitalism presumes that the vast majority of the people don't have access to the means of production. This is what we have been examining thus far in our discussion — the natural state of desperation in which most people live. The second mechanism that builds insecurity into the system is the process of economic growth itself. Growth in capitalism comes about as capitalists find ways of increasing their efficiency and productivity so they can sell at a lower price and expand their market share. Increasing productivity is the name of the game. But as firms become more productive, they find that they can produce more with fewer workers. It now takes fewer workers to make the same number of goods, precisely because productivity has gone up. Employers engaging in this kind of investment therefore typically react by also *laying off* part of their labor force, throwing them back on the job market.

This is why the system never runs out of labor. You might wonder why it doesn't: after all, in a growing economy, job opportunities are always expanding, and at some point the number of people looking for jobs should run out. The reason it doesn't is that, even as people are being sucked up into new jobs, the growth process itself is also throwing masses of employees back onto the labor market. The very process that generates growth — the increasing labor productivity — also replenishes the pool of labor for that expansion to continue.

Marx called the workers who were constantly thrown back onto the labor market the *reserve army of labor*; it is a kind of labor reserve, waiting to be sucked up into employment as capitalists need them.

What this means, in essence, is that capitalism not only depends on the creation of mass insecurity, but *reproduces* that very insecurity as part of its lifeblood. Or, to put it differently, precarious employment is *built into* the system. It is the natural state for workers: they hold on to their jobs only at the pleasure of their employers. And for most of the history of capitalism, the duration of tenure of a typical job has been very short.

Job insecurity is especially acute in many parts of the Global South, mainly because people from rural areas are still flocking to cities looking for jobs. Capitalism constantly throws workers out on the labor market through the process we just described — through the ongoing productivity increases, the introduction of new machinery and more capital-intensive production techniques, and so forth. But in regions where there is a large agricultural sector, there is also the constant influx of migrants who come to the city because they don't have their agricultural plots anymore. Sometimes this is because they have lost their land; other times they just come to the city looking for a higher income. But as they enter urban areas, they add to the reserve army of labor.

A baseline level of insecurity is forced onto workers by capitalism, all the time, everywhere, regardless of country or region.

The availability of so much cheap labor is a boon to employers in obvious ways. One very important option that it provides them is to never have to commit to long-term employment contracts with their employees, because there are literally dozens of applicants willing to work for a pittance for most jobs. Even in occupations where there have tended to be longer employment contracts, like auto, steel, and rubber, recent years have seen a turn to contract labor hired on a short-term basis. The result is that in poorer countries with still large agrarian sectors, job insecurity is much deeper and the scramble by workers to hold on to whatever job they have is much more intense. This is especially true because social welfare programs like unemployment benefits, free health care, and old age pensions are quite uncommon. The job becomes the only means of sustenance, even for short spells. And this, in turn, massively increases employers' bargaining power.

Even in advanced industrial countries, the situation has deteriorated in the recent past. First of all, the decline in unions has allowed employers to shift from long-term contracts to short ones. For decades, unions fought for, and won, restrictions on employers' unilateral power to hire and fire. They pushed hard to restrict firms' reliance on temporary or short-term workers, and in so doing shifted the balance toward more long-term employment, and, with it, greater benefits to workers. Of course, employers never stopped trying to recapture their power, and as the unions' influence declined in much of the Western world in the 1980s and 90s, so did the proportion of "good jobs." This turn in the labor market was made worse by the more general slowing down of the economy since the early 2000s, so that the chances of new jobs opening up tended to get weaker due to slow growth. In other words, job growth became very anemic. Hence, the spells between jobs became longer for workers who were laid off, making the sense of insecurity all the more acute.

Finally, the actual size of the reserve army increased massively when the countries of the Eastern Bloc transitioned to capitalism

in the 1990s. Workers who had not been part of the European labor market were now thrown onto it — sometimes directly as with the reunification of Germany, or indirectly, as with the formation of the European Union, which vastly increased labor migration on the Continent, flooding Western European labor markets with new entrants from the East. All these changes have made workers across the Western world start to feel a lot like their peers in the South — overcome with a sense that their well-being has become fragile, that their future is up in the air.

None of this is accidental. A baseline level of insecurity is forced onto workers by capitalism, all the time, everywhere, regardless of country or region. What has happened in the recent past is that institutions that had temporarily acted to decrease that insecurity are being taken apart. They are being dismantled by forces that seek to restore the status quo, because they benefit from it. Their actions are motivated by the logic of capitalism itself. And in poorer countries, the very expansion of capitalism has ripped rural communities apart, throwing peasants and farmers into urban labor markets, adding to the global reserve army, and pitting them against one another in a brutal fight for basic survival. This is the “free market” for billions of people.

THE PACE AND DURATION OF WORK

Material inequality and insecurity are both built into the capitalist economy. A third harm comes from the drive to get the most work for as little as possible. There are two basic ways in which employers try to squeeze out more work from their labor force: by getting them to work longer, but also, paradoxically, by underwork.

Overwork: The first strategy is to get each worker to work harder, faster, and also longer. This makes most sense when workers are paid a daily wage. It was a fairly common form of payment in the nineteenth century, when workers were given a fixed sum of money per

day for their work. It is also used today in certain economic sectors like agriculture and construction. Having paid them for the “day,” employers then have every reason to make that “day” as long as possible. If the worker is paid by the week, or perhaps monthly — as in cases where they are paid salaries — the duration of work per day is often left unspecified. In these instances, having spent the money, the employer will typically get her money’s worth by extending the duration of each working day as much as possible, and stretching the working week into the weekend.

A less obvious way of increasing the duration of work can be found in sectors where workers are paid by the hour. But it is also more common, since hourly wages are today the most common method of payment. This method is not to extend the working day or week, but the *working hour*. How can a fixed quantity of time, like an hour, be extended? Well, in the typical workplace, it is rarely the case that employees are actively working every minute of every hour. There is usually some amount of “down time” that is expected by the employees and hence absorbed by the employer. This could be in the form of time for bathroom breaks, lunch, or just a pause in work. The fact that there is some portion of every hour that is not delivering labor means that the actual working time is shorter than the amount of time that the employee is at work. This amounts to a gap, a hole in the working day, which the employer then tries to fill up with actual work. In the US, this is what has happened in many sectors as unions have gotten weaker. In the auto industry, the shift was from a “50-minute hour” in the 1960s to something close to a “57-minute hour” by 2000. This amounts to a prolongation of the working day, even as the nominal length of the day remains the same.

These examples are all ways of getting employees to work longer. The second technique for extracting more work is by getting them to work *faster*. The goal here is to ratchet up the intensity of labor. Suppose employees in a textile factory produce 100 shirts a day, with the day being eight hours. Increasing the intensity of work means that,

with the same machines and in the same eight hours, they would be goaded into producing a greater number of shirts, say 120. There are many ways to increase production, but in cases of this kind, it is by getting the workers to do exactly what they were doing before, only more speedily. In the twentieth century, when the working day was mandated to have a definite limit of eight hours, the most common way of getting more work out of employees was by this method — by getting them to work harder and faster, since the option of getting them to work longer was substantially curtailed. Indeed, whenever there has been any success in shortening the length of the working day, the response by capitalists has been to compensate by trying to increase the intensity of work.

Underwork: But the harm that the profit motive does to workers doesn't just come from overwork. It also comes from *underwork*. We often think of employers as making two basic decisions: hiring workers and then keeping them on the job, or firing them if they are not needed. But there is also an in-between status: keeping workers hired but working them irregularly. In sectors like retail, employers find that they can't anticipate what their workforce requirements will be day to day, because the flow of business is unpredictable. If they have too many workers in the store, and the flow of customers is thin, they end up paying their workers even though they are not actually needed at the time. In technical terms, wages shift from being a variable cost to a fixed cost for that *duration*. What employers seek is to have the freedom to call in or send home the labor as they see fit — day to day, week to week — so that they can turn wages back into a variable cost. For employers, this creates flexibility. For workers, it means that their schedule might go from, say, twenty hours one week, to seven in the next, to perhaps thirty-five the next, and then zero the week after.

The result is twofold. First, for millions of workers, it means that having a job isn't enough to make ends meet, because it only

gives them a few hours of paid work over the month. They have to switch to a portfolio approach, juggling two or three jobs at a time, so that when they are not getting enough hours at one venue, they can seek more hours at another. But this very strategy is undercut by the second result of underwork — the problem that workers can't plan their weekly schedule because they don't know when they will be called in at any particular establishment. And since they can't be sure when they will be asked to come to work at one place, they can't be sure when they will be able to make themselves available to the other. And this in turn makes it hard to hold on to a job, or even acquire one, because every employer wants her labor to be available when she needs it.

The second result of underwork is that the worker's entire existence is now swallowed up by the needs of her employer. With normal work, at fixed hours and a predictable schedule, employees not only know when they work, but as a result, also know when they do not. This has the enormously important consequence of allowing them to plan for activities outside of their employment that are essential to their physical and emotional well-being — entertainment, time with their friends and family, even vacations. But when work is not only unpredictable, but also so meager that the struggle to acquire it overtakes all other priorities, it means that the very idea of free time, as

The mainstream promise — that if you work hard and play by the rules, you will make it to the top — is simply a lie. The rules are what create the misery.

truly free, simply disappears. Never knowing when they will be called to work, employees can't afford to plan for any activity that might make them unavailable. They can't plan family trips, or take a day or two to go out of town; even going to see a film is nerve-wracking. The line between work time and free time is thus obliterated.

When you combine the effects of underwork with those of overwork, what becomes clear is that the tendency of an unconstrained capitalism is to erase the distinction between work time and free time. The unceasing drive to extract maximal value from labor at work has a direct impact on the quality of time workers spend away from work. On one side, when it results in fatigue or injury, time at home that could be spent developing other talents, or being with friends, or learning new skills, now has to be devoted to simple recuperation — recovering from injuries, trying to reduce tension, etc. In the other case, when there isn't enough work and the employee doesn't know when or even if she will be called in, she can't take the risk of indulging in other activities because she can't risk being unavailable when her employer needs her. Hence, in capitalism, even workers' time away from work is directly colonized by the workplace and its demands.

THE RULES ARE THE PROBLEM

The preceding discussion helps us understand why capitalism can create such enormous wealth and luxury, but still leave millions upon millions struggling to stay above water. When it comes to the basic conditions of their lives — how much money they have, their basic economic security, and how much they get to work — most people have no control over them. Even more, the decisions about them are made by people who have a direct interest in *limiting* workers' security on all these matters. And the incentive to limit this security is *built into the system*. It is the natural outcome of the profit-maximizing strategy pursued by every firm. Capitalists don't undermine their

employees' well-being because they are mean, greedy, or callous. They do it because this is how they keep themselves afloat, and how they grow. As long as firms compete on the market, their owners and managers will be *punished* if they don't squeeze the most out of their labor force. So they do what they have to, and its most natural result is that their profits come at considerable cost to their employees.

This is why the mainstream promise — that if you work hard and play by the rules, you will make it to the top — is simply a lie. The rules are what create the misery. The basic set-up of capitalism is simple — you show up for work every day, work hard, and do what you're told. The promise is that if you abide by these rules, you will be rewarded with the good life. And this promise is based on a very simple premise — that there is a link between effort and reward. If you work hard, the hard work will pay off. But the secret to capitalism is that *there is no reliable connection between effort and reward*. The people who work in nursing homes, or fast food, or Amazon warehouses, or in hotel kitchens — they create massive profits for their employers. But they not only see very little of it in their wages, they also have to deal with chronic job insecurity and terrible hours. They are *playing by the rules*. But the rewards are going to the employer, not to them. This is a basic fact about capitalism, and it is built into the system. It is the natural condition of an economic system in which the bulk of the population is given a simple choice — “work for what we offer you, or go without a job.” What determines people's economic fate in capitalism is not their effort, but their *power*. And employers always have more power than workers.

CHANGING THE RULES

Another way of summarizing everything we have said so far is this: capitalism *systematically generates injustice*. Most every modern theory of justice agrees that a humane society is only possible if people are granted basic material necessities and the freedom to

set their own goals and priorities. People need to have basic material security and the freedom to choose how they spend their time and energy. This doesn't mean that they have to be free of all constraint. In any large social system, people will have to accept some limits to their freedom and their social choices. But the authority to which they submit has to be accountable, has to be deemed legitimate, and can't be used to undermine the well-being of subordinate groups. But this is exactly what capitalism does — it consigns the vast majority to insecurity and arbitrary authority.

The employment contract is, in its essence, a surrender of autonomy to the boss. This means that workers agree to do what they're told while at the job — they lose control over how they work, how fast its pace is, when to come in and leave, when to take a bathroom break, etc. Workers give up their autonomy over key aspects of their well-being for the eight or ten hours that they are at work. But they also have little or no say in how much they are paid for that work. What all this means is that, in capitalism, being a worker means making a trade — giving up your freedom over vast areas of your life to an employer, both inside and outside the workplace, in exchange for employment.

Now, the simple fact of being under someone else's authority isn't itself objectionable. Think of a family. Parents have near total authority over their children, encompassing every aspect of their lives. But we don't typically object to this because we assume that parents will use that power to the benefit of their kids. In the case of the employment relation, however, employers aren't motivated by their employees' well-being. Their motivation is to maximize profits and minimize costs. Employees' interests are not part of the consideration. Indeed, as we have seen, profit maximization typically comes at the cost of employee interests. Hence, from the workers' standpoint, this is *nothing other than being subjected to an arbitrary authority*. They have no control over the boss's power, and that power is often used in ways that undermine their wellbeing.

This is how capitalism breeds injustice. And that is also why it generates *resistance*. Employees resent having to take whatever wage their boss is willing to give them; they hate being pushed around while at work; they chafe at the fact that they work hard, but can't be sure if they will still have a job tomorrow, and so on. So they try to fight back, to get a better deal for themselves. The most common means toward this is on an individual basis. This is only natural, since they compete on the labor market individually and are hired on an individual basis. Everything about the job encourages them to act on their own. So what means does the lone worker have at her disposal?

The ultimate weapon is to threaten to walk away — to quit unless the employer offers her a better deal. And for some workers, this can be effective. But it only works if that worker is hard to replace — if she has a very scarce skill, is exceptionally able, or is especially valuable in some other way. If this is the case, then the boss will probably have to relent and at least consider the demands from this employee. But another way a worker can resist is not by *demanding more*, but by *offering less*. So, instead of walking into her boss's office and insisting on a slower pace of work or shorter hours, she can simply decide to *work slower*; or to take as many sick days as she can get away with; or to not work as carefully as demanded — in other words, to shirk, and thereby to reclaim some of her time. In more extreme cases, she can take out her frustrations by actively sabotaging the workplace — this is where the expression “throwing a wrench in the works” comes from.

But all of these methods are either minimally effective, or effective for only a few lucky employees. So, while the boss will probably offer the highly skilled employee a better deal, the fact is that the vast majority of workers are easily replaceable. So if the typical employee strolls into her boss's office and threatens to quit, she will simply find herself out of a job. And while it is certainly possible for the individual worker to shirk in some way, if she does so for any period of time without getting her colleagues to join in, her actions

will be very visible, she will be easy to spot, and she too will soon be on the street. Hence, for the vast majority of people working for a wage, or even for a salary, individual level solutions are simply not an option. They remain stuck in their jobs, have to settle for the wage they're offered, accept the schedule they're given and show up every day to do it all over again. The reason is as simple as it is obvious — it is easy to replace one disgruntled employee, or even five or ten.

The only viable solution is a collective one. The most direct avenue is through organizations that enable collective action. Workers find that making demands individually isn't feasible because one employee is easy to replace. But replacing ten is harder and a hundred harder still. When one worker labors at a slower pace, it's called shirking. When a thousand do it, it's a job action. And while the one can be punished, the thousand have to be negotiated with. It is this simple fact that inspired the modern labor movement in the early nineteenth century and has not only kept it alive, but at the center of every successful effort at improving the situation of working people in every corner of the world. Even today, we have not found any better vehicle for defending the well-being of poor and working people than trade unions, because unions are still the most effective means of collective action.

The other way in which workers have been able to find collective solutions is more indirect — through state policy and protection. Instead of getting basic goods by negotiating for more money with the boss, they can acquire them as *social rights*, from the state. Take the example of health care. Most workers can't afford decent medical care on the market because it is too expensive. One solution is to rely on a union to demand higher wages, or to demand that the employer pay into a medical plan. But another route is to push for a national health service, like there is in much of Europe, which offers medical care as a right — paid not by the patient at the point of consumption, but by the state from its tax revenues. This can be extended to many other essential goods — childcare, housing, education, etc.

Both of these strategies have this in common — they reject the idea that people's fate should be left to how well they do on the labor market. In other words, they refuse to let the market determine our lives. They insist that people have to come *before profits*. And so the Left has always tried to build organizations of labor, fight for economic goods as rights, not as privileges, and build social institutions that deepen those rights. But it's not a simple task. Precisely because these institutions are based on labor's greater power, and because they end up weakening the power of capital, any such movement immediately triggers a response from the ruling class. Always and everywhere, employers and the wealthy have resisted attempts by the poor to create institutions for more economic justice.

So the next question is, how do we get there from here? How can we create institutions that advance the basic interests of working people? These are questions that we take up in the next pamphlets in this series. ▲

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