

Report to Davos summit: Rising inequality threatens “market capitalism”

By Nick Beams
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The year 2016 was characterised politically by the emergence of deep hostility to the official political and economic establishment as a result of rising social inequality. This was manifested most sharply in the Brexit vote in Britain and the election of Donald Trump to the US presidency, with right-wing nationalist forces being the main beneficiaries to date due to the reactionary anti-working class policies of what passes for the political “left.”

This shift has found expression in a warning sounded by the World Economic Forum, which hosts its annual gathering of world business and political leaders in Davos, Switzerland next week. The annual “risks report” prepared for the meeting concludes that the growing concentration of income and wealth at the very top of society is the biggest single risk to the stability of the economic and political order over which the millionaires and billionaires assembling in Davos preside. The report identifies “rising income and wealth inequality” as the most significant force driving global politics over the next decade.

The report cites the weakness of the economic “recovery” following the financial crisis of 2008 as one of the reasons for the anti-establishment backlash, but warns that boosting growth is not sufficient to shore up the credibility of the capitalist system.

There is a need to revive growth, “but the growing mood of anti-establishment populism suggests we may have passed the stage where this alone would remedy fractures in society: reforming market capitalism must also be added to the agenda,” the report states.

It continues: “The combination of economic inequality and political polarization threatens to amplify global risks, fraying the social solidarity on which the legitimacy of our economic and political systems rest.”

The report notes that the policy of quantitative easing by the world’s central banks—the pumping of trillions of dollars into the global financial system—has “exacerbated income inequality” by boosting “the returns enjoyed by the owners of financial assets, while workers’ real earnings have been growing very slowly.”

Productivity growth has been slow to recover from the crisis and structural rates of unemployment remain high, particularly among young people in Europe, while in the United States there has been a marked decline in the labour participation rate, signifying that large numbers of workers are dropping out of the workforce.

The report points out that “in contrast to the pre-crisis era, when China’s rapid expansion bolstered overall growth rates, there is no market game-changer on the horizon,” with China in a gradual slowdown as its economy moves away from investment-led growth.

“In sum, it is difficult to identify routes that will lead back to robust global rates of economic growth,” the Davos report concludes.

In line with other studies, the report points to rising inequality in the US, with the incomes of the top 1 percent rising by 31 percent between 2009 and 2012 compared to less than 0.5 percent for the rest of the population.

“Middle-class income stagnation,” it states, “is particularly affecting youth; recent research shows that 540 million young people across advanced economies face the prospect of growing up to be poorer than their parents.”

In examining longer-term trends, the report dwells on the impact of new technologies associated with the advance of computerisation and the Internet. According to one study it cites, some 47 percent of jobs in the

United States are at risk from automation, affecting more than 80 percent of low-income work.

“Technology is also contributing to the changing nature of work, with secure and predictable jobs giving way to more sporadic and short-term self-employment,” with research suggesting that the number of people in so-called “alternative work arrangements” in the US increased faster than overall employment between 2005 and 2015.

In fact, the rate at which this is taking place is increasing. A recent study has found that 94 percent of the 10 million jobs created during the Obama administration were temporary, contract or part-time positions, with the proportion of the workforce engaged in such occupations rising from 10.7 percent to 15.8 percent. The number of full-time jobs today is 1 million below the level at the start of the recession.

The increased use of technology provides the material foundation for the advance of living standards. But under the profit system, it is the means for driving down the living standards of the mass of the population.

According to statistics prepared by the Organization for Economic Cooperation and Development (OECD) and cited in the World Economic Forum report, up to 80 percent of the decline in labour’s share in national income between 1990 and 2007 was the result of the impact of technology. This trend will only have accelerated in the past decade.

The report warns that one way in which technological change could prove disruptive is via the labour market, with incomes pushed down and unemployment pushed up in affected sectors and regions, leading to “disruptive” social conditions. This is in line with the overall finding of the report that “the most important of global risks is the pairing of unemployment and social instability.”

While pointing to the rise of populist and nationalist movements, the report does not offer much in the way of in-depth analysis. But it does at least indicate one of the most significant factors, noting that “the economic policies of historically mainstream parties from the right and the left have converged in recent decades,” making it possible for “once-fringe movements” to rise by “portraying the established parties as part of the same technocratic political class, focused on self-enrichment.”

The overriding fear of the World Economic Forum, though not stated explicitly in the report, is that popular opposition will shift to the left. As other commentators have noted in this, the centenary year of the Russian Revolution, there is a parallel between the conditions that prevailed a century ago and those of today.

Summing up its findings, the report concludes that it is a “febrile time for the world,” where “deep-rooted social and economic trends are manifesting themselves disruptively across the world,” and “persisting inequality, particularly in the context of comparative economic weakness, risks undermining the legitimacy of market capitalism.”

The World Economic Forum, which begins in the alpine resort of Davos, Switzerland on Tuesday, will involve the usual round of networking by business chiefs, political leaders and the heads of NGOs, as lucrative deals are made and relationships established. Of course, it will produce no solutions to the deepening social, political and economic malaise. How could it, as the forces gathered there preside over the very social order that has produced the crisis?

But for the global elites, the taste of the champagne, the delicacy of the canapés and the flavour of the haute cuisine may be somewhat tainted by the smell of death wafting up from the grave opening up before them.

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