

INEQUALITY AND CONCENTRATION OF CAPITAL

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Abstract: Inequality in capital, property and income is a major determinant of modern society. An enormous concentration of the capital is accomplished. The number of the rich, and extremely rich, is increasing. On the other hand are those who have less and the poor. There is also an increase in the number of global plutocrats. Growth dynamics is slowing down. The future is uncertain. The purpose of this paper is to see the growing social inequality as a problem nowadays. Historical, deductive-inductive, structural and comparative analysis are applied. The distribution of wealth is one of the most debated issues today. But do we know enough about its long-term development? Does the dynamics of accumulation of private capital inevitably lead to a strong concentration of wealth and power in the hands of a few? Do equalization of growth rate, competition and technical progress lead to less inequality and greater stabilization in the advanced stages of development? What do we know about income and wealth development and what lessons can we learn from it?

The history of the distribution of wealth is always deeply political and cannot be reduced to pure economic mechanisms. The history of inequality depends on the way economic, social and political actors see what is unfair and what is not, as well as on their relative power and the resulting common choices: distribution is a common product of all actors.

The dynamics of wealth distribution reveal powerful mechanisms that alternate between convergence and divergence, so there is no natural spontaneous process that would prevent destabilizing, non-egalitarian tendencies from permanently prevailing.

We start with the mechanisms that move towards convergence, i.e. towards reducing inequality. The main force of convergence is the process of disseminating knowledge and investing in training and education.

The law of supply and demand, as well as the mobility of capital and labor, which is a variant of that law, can be equally relied upon in that direction, but the impact of this law is less powerful than the spread of knowledge and skills and is often ambiguous and contradictory. The process of disseminating knowledge and skills is a key mechanism that simultaneously enables general productivity growth and reduction of inequality.

From a strictly theoretical point of view, there are potentially other forces moving towards greater equality. Technological rationality should automatically lead to the victory of human capital over financial capital and real estate, capable managers over shareholders, skills over nepotism. Somehow it would automatically lead to democratic rationality.

The issue of wealth distribution will always have a subjective and psychological dimension. The answers offered are always imperfect and unfinished.

Changes are logically possible and to some extent real, but their impact is far smaller than we can imagine.

Keywords: inequality, capital, income, wealth, profit, concentration.

1. INTRODUCTION

Intellectual and political debates about the distribution of wealth have long been based on a number of prejudices and not enough facts. For some, inequality is always growing and by definition the world is unjust. For others, inequality naturally declines or the balance happens spontaneously, so nothing needs to be done in order not to take risks and not to upset that wonderful balance.

But by patiently searching for facts and examples and carefully analyzing the economic, social, and political mechanisms that can be explained, the focus can shift to useful questions. The dynamics of wealth distribution reveals powerful mechanisms that alternate between convergence and divergence. The main force of convergence is the process of disseminating knowledge and investing in education and training.

The key problem is that this force of equalization, especially the force of convergence between countries, no matter how strong, can sometimes thwart and overcome the strong forces in the opposite direction, in order to spread and strengthen inequality.

It is obvious that the lack of adequate investment in education can exclude entire social groups from the benefits of economic growth or may harm them while benefiting others.

In other words, the main force of convergence - the spread of knowledge is only partially spontaneous and natural; it largely depends on education policy, access to training and skills acquisition.

By adopting the production methods of rich countries and gaining skills that can be compared to others, less developed countries make up for the lack of productivity and increase their incomes. That process of technological convergence may be driven by open trade borders, but it is essentially a process of disseminating and sharing knowledge — a public good, not a market mechanism.

The reality today is that inequality in the distribution of capital is much more domestic than international, and this leads to a clash of rich and poor in all countries.

Depending on whether the net income from abroad is positive or negative, the national income of each country can be higher or lower than its domestic production.

Globally, income received from abroad and outflows abroad must be balanced so that income is by definition equal to output.

This equality between annual income and production is an accounting identity, but it reflects an important reality. It is not possible for the total income to exceed the amount of new wealth produced in a single year (generally speaking, any country can borrow money from abroad). Conversely, the entire production must be distributed in the form of income in one way or another in the form of salaries, fees, bonuses i.e. as payments to employees or others who with their work contribute to the production process (earned income), either in the form of profits, dividends, interest, rents, benefits (i.e. as payments to owners of capital).

At the level of a company, country or globally, output and income can be broken down into the sum of capital income and earned income. But what is capital? What are its boundaries and shapes and how has its composition changed over time? There are a number of reasons why human capital is excluded from the definition of capital. Human capital cannot be owned by anyone, nor can it be exchanged on the market permanently. But capital is not an immutable concept; it reflects the state of development and social relations that prevail in a given society.

Capital in all its forms always plays a dual role, on the one hand as a custodian of value, and on the other as a factor of production.

Income is a flow, it corresponds to the amount of goods produced and distributed in a given period (usually a year).

Capital is a fund. It corresponds to the total amount of goods owned at a given time. This fund arises from the acquired or accumulated wealth during the previous years.

In order to obtain the value of capital in a given society, capital must be divided by the annual national income.

The global distribution of income has a greater inequality in the distribution of production because the countries with the highest production per capita show a tendency to appropriate part of the capital of other countries and thus gain more capital income from countries with lower production per capita.

In other words, rich countries are doubly rich: they produce more at home and invest more abroad, so that their national income per capita is greater than their production.

The mechanisms by which rich countries own part of the capital of the poor can influence the promotion of convergences.

If rich countries abound in savings and capital, then there is not much reason to build large buildings or add new machinery (then it could be said that the marginal productivity of capital is very low), in which case investing a part of their savings in poor countries could be effective for everyone.

In this way, rich countries, or at least their people who own capital, will have a better rate of return on their investments, and poor countries will increase their productivity.

According to the classical economic theory, this mechanism, based on the free flow of capital and the equalization of marginal productivity of capital on a global scale, should lead to the convergence of rich and poor countries and possibly reduce inequality by competing market forces.

However, this optimistic theory has two main drawbacks. This mechanism does not guarantee convergence of income per capita globally. At best it can lead to convergence of production if there is perfect capital mobility and full equality of qualifications and human capital between countries. Nevertheless, the possible convergence of production does not imply convergence of income in any way.

To answer the questions we have asked, we need to become familiar with the concepts and main patterns that characterize income and capital inequality that are in effect in different societies and different eras. Income can always be analyzed as the sum of earned income and the sum of capital income. Earned income also includes the income of the self-employed, which has long played a key role, which even today is not negligible. Earned income also takes various forms and includes income derived from ownership of capital independently of any work and as opposed to legal classification (rents, dividends, interest, royalties, profits, capital gains).

By definition, in any society income inequality is the result of these two components: on the one hand, earned income inequality, and on the other hand inequality of capital income. If each of these components is unevenly distributed, then the total inequality is greater. Perhaps, one can theoretically imagine a society in which inequality

in terms of work is high and inequality in terms of capital is low or vice versa, in a society in which the two components are very unequal or equal.

The deciding factor is the relationship between these dimensions: the extent to which high-income individuals can enjoy high capital income. This relationship is a statistical correlation, and the higher the correlation, the greater the overall inequality, under other unchanged conditions.

The correlation between these two dimensions is often weak and negative, especially in societies where inequality in terms of capital is so great that owners of capital do not have to work. How are things and what will they be like in the future?

When analyzing income inequality it is crucial to distinguish between these dimensions and components, first for normative and moral reasons (the question of justifying inequality is asked differently about earned income, inheritance and return on capital).

In the case of earned income inequality, these mechanisms include the supply and demand of different skills, education, and different rules and institutions that affect the labor market and determine earnings.

In the case of capital income inequality, the most important processes include savings and investment, transfer and inheritance laws, the functioning of financial markets and the real estate market.

The first rule we see in practice when trying to measure inequality, inequality in terms of capital is always greater than inequality in terms of earnings.

The distribution of ownership of capital and the income derived from it is always more concentrated than the distribution of earned income. This rule without exception is found in all countries and eras for which data can be found.

The existence of this rule tells us something very important about the nature of economic and social processes that shape the dynamics of accumulation and distribution of wealth.

It is easy to imagine the mechanisms that would lead to the distribution of wealth that would be more egalitarian than the distribution of earned income. Let us assume that at a given moment earned income reflects not only the permanent inequality of earnings between different groups of workers, based on the skill level and hierarchical position of each group, but also short-term shocks (for example from wages or working hours in different sectors that vary from year to year).

The accumulation of wealth could correspond to the motive of caution (as a reserve in case of negative shocks), whereby the inequality of wealth will be reduced in relation to earned income. Although the accumulation of caution when it comes to short-term shocks undoubtedly exists in the real world, it is not the main mechanism for explaining the accumulation and distribution of wealth.

Obviously, the small difference between the rate of return on capital and the rate of economic growth can produce powerful and destabilizing effects on the structure and dynamics of inequality in a given society in the long run. In a sense it derives from the law on cumulative growth and the law on cumulative yields.

In any case, the rate of return on capital is determined by two forces: on the one hand technology (what is capital used for?), and on the other hand by the volume of capital (too much capital kills the profit on capital). In complex and realistic models, the rate of return on capital depends on both the power of negotiation and the relationship between the parties.

Depending on the situation, the rate of return on capital may be higher or lower than the marginal productivity of capital.

In a complex economy in which the use of capital is numerous and diverse, a certain amount of capital can be invested not only in agriculture but also in real estate, production or services, but it can be difficult to determine the marginal productivity of capital. In principle, it is a function of financial intermediation (banks and financial markets) to find the best possible use of capital so that each available unit of capital is invested where it is most productive and to bring the best possible return to the owner of capital. In practice, financial institutions and stock exchanges are generally far from that ideal and are often characterized by chronic instability, speculative waves and bubbles. It should be noted that it is not easy to find the best possible use for each unit of capital, even within the borders of one country. Short-termism and creative accounting are the shortest path to maximizing immediate private capital returns. Too much capital kills the return on capital: whatever the institutions and rules governing the capital-labor division, it is natural to expect that marginal productivity decreases to the extent that capital increases.

In the case when there is no structural growth and when the growth rate is equal to zero, we come across a logical contradiction similar to the one described by Marx. If the savings rate is positive, i.e. if capitalists tend to accumulate more capital each year in order to increase their power and maintain their advantage uninterruptedly, then the income / capital ratio will grow indefinitely. If the growth rate is close to zero, the long-term capital / income ratio will tend to infinity, then the return on capital must be lower and lower and tend more towards zero otherwise the share of capital will swallow the entire national income.

2. CONCLUSION

Undoubtedly, one of the most important issues in the coming period is the development of new forms of ownership and democratic control of capital. There are many fields and sectors in which the dominant forms of organization and ownership have little in common with the two ultimate paradigms of clean private capital and clean public capital. Obviously there are a number of interfaces of an organization that make it possible to use the information and competencies of each individual in a useful way. The market and the ballot box are not two poles of collective decision-making: new forms of governance must be found. The key is that these different forms of democratic capital control depend on the degree of economic awareness that individuals have.

In order for democracy to take control of capitalism one day, it is necessary to start from the principle that concrete forms of democracy and capital must be found.

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