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Working Paper No. 27, Processes in Capital Accumulation Leading Towards Inequality

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Abstract: This inquiry considers, compares, and contrasts two different theoretical explanations of processes leading towards capital accumulation and also inequality. First considered is Immanuel Wallerstein's *Historical Capitalism*. In this book he advances and stresses that processes leading towards capital accumulation are inherently unequal, as these processes are based upon commodification, proletarization, and jurisdiction. The second part considers the views advanced by Thomas Picketty. In his *Capital in the Twenty First Century,* Picketty offers a fundamentally different understanding of what drives and leads towards capital accumulation and income inequality. In contrasts to Wallerstein, Picketty explains that the dynamic generating capital accumulation simultaneously generates income inequality, as the returns to holders of capital prove greater than the economic growth contributing towards wage increases for labor.

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This inquiry considers, compares, and contrasts two different theoretical explanations of processes leading towards capital accumulation that also contribute towards inequality. First considered is Immanuel Wallerstein's *Historical Capitalism*. In this book he advances and stresses that processes leading towards capital accumulation are inherently unequal, as these processes are based upon commodification, proletarization, and jurisdiction. The second part considers views advanced by Thomas Picketty. In his *Capital in the Twenty First Century,* Picketty offers a fundamentally different understanding of what drives capital accumulation and also what simultaneously contributes towards income inequality under conditions of capitalism. In contrasts to Wallerstein, Picketty explains that the dynamic generating capital accumulation simultaneously generates income inequality, as the rates of return to holders of capital prove greater than the rates of economic growth contributing towards wage increases for labor.

Wallerstein and Processes Integral to Capitalism

The accumulation of capital is accomplished through different processes. But most importantly, Wallerstein (1983, 12) notes that in the capitalist system a unique feature is that capital is accumulated with the intention of turning the surplus into and additional, expanded capital. All economic systems have accumulated capital, according to Wallerstein, even rudimentary systems. This includes ancient hunter gatherer societies, where food and tools could be gathered for future use. Wallerstein (1983, 13) stresses the reinvestment of capital as the defining feature of capitalism. The predecessors of the capitalist system each give way to capitalism's capacity to further the accumulation of capital at the top of society. Wallerstein devotes attention to three key mechanisms – commodification, proletarization, and jurisdiction – to describe the capitalist system.

Wallerstein describes the beginning of the commodification process. Wallerstein (1983, 14) stresses the capitalist needed labor and markets in which to sell goods at a profit. Prior to the development of the capitalist system, society had not produced enough markets in which the total process could be capitalized and profit realized. Interference in this process came in two forms, according to Wallerstein (1983, 15) First, societies might consider such capitalisation immoral to undertake or irrational. Second, the infrastructure lacked capacity to sustain recurrent commodification, whether in direct production, marketization, or holding onto money as capital. A rigorous financial system would need to be developed before complex financial products could be sold, for example.

Wallerstein (1983, 15) advances the process of commodification. Social transactions were absorbed into capitalism, as well as production processes. This development of processes establishes contradictions, which Wallerstein (1983, 18) views as the foundation of the spread of capitalism. The capitalist as Wallerstein sees needs a market in which to sell, but creating markets raises costs for the capitalist such as wages for labor. Therefore, Wallerstein (1983, 19) describes capitalism as an expanding system, commodifying people, things, and ideas in an effort to find the next market with the widest profit margins. Wallerstein introduces the commodification of labor as the second major process of the development of capitalism.

Wallerstein (1983, 22) establishes the historical notion that labor-forces had been fixed, such that producers had limitations on their ability to accumulate capital. Since production is a function of labor input, having fixed labor in the feudal system, therefore, according to Wallerstein, limited the ability to accumulate wealth. This drove the establishment of the wage-labor dynamic. The proletarization of the workforce has been therefore the shift of labor from sufficiency to wage labor.

In dealing with the process of expanding labor sources to increase profits, Wallerstein (1983, 23) establishes the semi-proletarian society. Wallerstein (1983, 23) argues the proletarian society should not be viewed as the exploitation of the individual, but rather the exploitation of the *household*. The institution of the household allows for complex considerations for the working class. Production in the capitalist system can be both commodified through wage labor, or produce no wages, such as residential production. By allowing households to receive some surplus from internal production, capitalists can lower wages, as Wallerstein (1983, 26) notes wage income would then represent a smaller portion of total household production. Therefore, as more workers entered the market, the lower profits could be earned by the capitalist. To increase profits, Wallerstein (1983, 28) notes dividing laborers was necessary. He introduces then the development of the institution of gender and age discrimination as a consequence of proletarianization, in an effort to limit the opportunities of the labor force. This inquiry briefly explores Karl Marx's theory of labor and contrasts it with Wallerstein's.

Discussing then the accumulation of capital, Marx [1867] (2015, 114) argues over-selling in the market does not yield general accumulation of wealth, contrasted with the beliefs of Wallerstein. When producers are able to sell above their value, this contradiction of values exists in the entirety of the economy, such that no single person may consistently oversell their commodities. However, Marx (2015,117) establishes the process of accumulation of capital, stressing the buying and selling of labor as a commodity. Marx notes that labor as a commodity contains two essential conditions. First, labor is sold as a piece of time. The laborer must be the owner of their labor, and sell it at a feasible price. Selling labor as a collective unit, or selling the entirety of a self as slave labor, removes the laborer from the owner of a commodity of labor, and turns themself into an actual commodity. The second condition Marx stresses is that the labored classes *only* sells their labor. To sell a commodity other than labor, one must be an owner of the means of production. Selling oneself whole begins the institution of a slavery system of economic production, as opposed to the market based system which Marx finds as predominant in the time of his writing. The laborer, then, has no other means to earn wage income than selling their labor.

This contrasts briefly with Wallerstein's understanding of labor. First, he understands household income to come from both the income earned from wage and non wage production. In addition, the market wage is considered by Marx in that the capitalist lowers it to the point of only providing a subsistence wage to the laborer. However, Wallerstein views wages a a function of market supply and therefore, the proletarization of the labor force. Wallerstein views this as a contradiction, that proletarization expands despite that wages would decrease if proletarization was limited. Having explored the processes of exploitation of labor, Wallerstein advances his understanding of capitalism by establishing it as a global phenomena.

Capitalism as it seeks to expand capital accumulation wedges beyond borders of nation which have readily accepted it into further areas of the world, manipulating the jurisdiction of nations. Moreover, Wallerstein (1983, 31-33) notes, the unequal exchange in world markets leads to further accumulation of wealth. Wallerstein establishes prices are not only a result of market supply and demand, but also force. Unequal exchange is hidden in the capitalist system by a false sense of separation between economic systems and political systems. The political systems work to allow vertical integration between geographic zones, in a way that a portion of surplus gets shifted from poorer regions to regions with established economic and political force. Wallerstein notes political pressure is used to force specialization upon workforces in exploited regions, decreasing the value of their wage labor. Wallerstein (1983, 39) uses colonization to further his understanding. In seeking low cost labor, firms establish production in poorer nations. Further, by bringing production to regions without proletarization, societies then become semi-proletarized. As established already, this leads to downward forces of wage labor.

Wallerstein provides a context and process to understand the development of capitalism as a system in the last centuries. The commodification process is central to Wallerstein's view, extending to the commodification of labor as well as the manipulation of jurisdiction to influence the level of profit which can possibly be achieved. The inquiry now turns to Picketty and his work, *Capital in the Twenty-First Century,* to examine the historical construction of the capitalist system and how it has impacted capital accumulation.

Picketty on Capital

In his research Picketty describes capital accumulation and its relation to economic growth. Picketty examines capital accumulation historically, arguing that it is a fundamental feature of a capitalist economy. Here I shall examine how his understanding relates capital accumulation and income inequality. In his efforts, Picketty relies upon historical data to support his arguments.

Picketty establishes his thesis comparing the rate of capital returns compared to the growth rate of an economy. Discussing the historical accumulation of wealth, Picketty (2014, 351) notes that the return rate for capital historically exceeds the rate of economic growth. The historical rate of return for capital Picketty argues is approximately 4-5%. Meanwhile, the rate of annual growth for preindustrial society has been less than 1%. Even when growth has achieved its highest levels, it does not reach the lowest level of capital returns (see Figure 10.9). Further, when capital grows faster than income, wealth from savings increases beyond that from income, which forces wealth to accumulate to the historical holders of capital.

Does this lead to infinite capital accumulation, to the point that all income in society is captured by returns to capital? Picketty (2014 , 228) posits structural growth prevents all growth to becoming capital returns. Further, Picketty addresses the fact that capital should have a falling rate of return. As more and more capital gets reinvested, the marginal return for every unit of capital should bring less and less return. Again, Picketty argues structural growth allows for stable returns for capital, as well as growth in wage income. This prevents the contradictions of capital in that either capital should have decreased its return or it should have growth at such a rate as to account for total income produced.

The presence of capital accumulation historically as presented by Picketty supports the assertion of Wallerstein that capitalism was developed as a means to reproduce surplus with already amassed surplus. The share of wealth of the top decile has increased, stresses Picketty (2014 , 339), noting the changes from the eighteenth to the twentieth centuries. In this period the top decile raised its share of capital from eighty percent of total wealth to nearly ninety percent. A common theme from Picketty, and his explanation for the rapid accumulation of wealth, begins with the reinvestment of capital obtained. Wallerstein (1983, 12) notes capitalism is unique in that capital is accumulated for the purpose of accumulating more capital. The mechanism from Picketty supports the assertion.

Picketty (2014, 351) introduces the method of continual capital accumulation. Given that the return of capital is greater than the rate of economic growth, capital owners will increase their wealth relative to the increases in income. Economic growth will be observed to some degree in the wages of the laborers. At one point, Picketty lets the return to capital be a historic rate of five percent, and economic growth, one percent. Given this ratio, those who derive income from their return on capital can consume four-fifths of their income. Assuming capital owners reinvest the remaining one-fifth, capital continues to grow at the same rate as the economy as a whole. However, given large stores of capital, Picketty (2014 , 351) stresses accumulation of capital increases faster than economic activity. Large stores of capital provide income that provides a remaining total of, perhaps three percent. This allows capital to grow at a faster rate than the economy as a whole. One can see then, that by slowing economic growth, the capital/income ratio will grow. Capital owners then will advance their level of wealth in comparison to those who do not have wealth saved to any significant degree. This could be used to support Wallerstein's claim those semi-proletarization is preferable to total proletarization for the capitalist. Keeping economic activity low will grow capital in relation to wages more than a robust economy.

Is capital accumulation as a consequence of capitalism an economic law? Observations of Picketty contribute to this discussion. In much of his book, Picketty analyzes the European experience with capital. However, the American experience can be used for the question above. Picketty (2014 , 347) notes that the United States in the early nineteenth century approximated the level of Sweden in

1970; moreover, the broad distribution and egalitarian nature of the country served as a point of pride for the population. In fact, as capital grew more concentrated, it worried economists. Through the nineteenth century, the top decile of wealth holders in the United States grew their share from sixty percent in 1810 to eighty percent in 1910 (see Figure 10.5). Furthermore, despite drastic changes to population, industrialization, and urbanization, the rate of growth of capital remained relatively constant. This indicates perhaps capital accumulation is an inherent force of a capitalist system. Although rapid changes occurred, capital continued to accumulate at a predictable rate of increase.

This rate of increase is demonstrated as a consequence of capitalism in other ways. Despite a generally stable increase in growth, capital returns and concentration fell in the early part of the twentieth century (see Figures 10.6, 10.10). Noting the temporary decrease in capital accumulation, Picketty (2014, 396) stresses the impacts of the World Wars. At one point economic growth grew faster than returns on capital (see Figure 10.11). Capital in this period often manifested itself through ownership of land, factories, and buildings. Picketty expands on decreasing capital holdings, emphasizing older generations in the mid century often had less wealth than younger generations. Due to wartime destruction, returns from owning buildings and factories was virtually eliminated. As a consequence, capital passed from generation to generation fell. Previous capital owners who experienced the war did not have time to accumulate wealth. Therefore, wealth increases were more spread evenly. However, this quickly readjusted to historical trends (see Figure 10.10). The rate of return on capital once again surpassed the growth rate, pushing the accumulation of capital into the ownership of the owners of capital. The data suggests the rate of return to capital will find an equilibrium above that of the rate of economic growth. Even a catastrophic event such as the World Wars, which decimated a large amount of capital holdings, did not have impacts lasting more than a few decades.

Picketty (2014, 372) addresses the processes which account for the general movement back toward inequality of income, and why capital accumulation did not return immediately to its previous levels. First, he notes the passage of time. Picketty argues that simply since the end of the Second World War, society is moving toward inequality, and the passage of time will bring back the distributions seen in earlier decades. Stressing the emergence of the 'society of managers,' Picketty (2014, 373) notes that the capital accumulation has been seen in the top twenty to thirty percent of the population, as opposed to the top decile. Picketty (2014, 373) notes that the increases in taxation on capital limited accumulation; in other words, government policy diminished the returns to capital which prevented the further accumulation of capital at the historic rate. In particular, Picketty emphasizes even a thirty percent tax on capital returns has profound effects, lowering the return to three and a half percent from the historic five percent. Picketty stresses the total stock of capital remains unchanged; instead, it is more evenly distributed among the upper and middle classes.

Picketty's work emphasizes the rate of return of capital. Because capital grows faster than the economy as a whole, capital tends to accumulate. The position that Wallerstein makes is that in capitalism, capital is accumulated in order to accumulate more capital. Picketty's work demonstrates the process of increasing capital.

Conclusion

This inquiry has sought to establish that with his book, *Historical Capitalism,* Immanuel Wallerstein presents the processes of capital accumulation as an unequal process in the capitalist system. This is addressed through the processes of commodification, proletarization, and jurisdiction, which are developed to provide profit for capital holders. The second half of this inquiry examines Thomas Picketty's *Capital* as a concrete analysis of capital accumulation. Though taking a different approach than Wallerstanding; nevertheless, Picketty's findings also support the claim that the processes driving capital accumulation also lead towards income inequality.

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