Why inequality is growing in rich countries

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On what depends economic inequality

1. on the type of technological progress.
2. on the wage rate increasing below, equal or above the productivity of work.

- Three types of technological progress according to productivity of capital (K/Y)

1. Capital-using -productivity falling;
2. Capital-saving -productivity increasing.
3. Neutral -capital-saving counterbalances capital-saving technology.

On what depends the wage rate

- It depends on

1. the supply of labor, and, so, on birth rates and on immigration.
2. the state regulation of labor.
3. the level of organization of workers and the power of the employers and the rentier capitalists.
4. the competition of firms of other countries that count with cheap labor.

Given a constant profit rate and a neutral technical progress

- inequality will vary according to wages increase. If they

1. increase below productivity, inequality will increase;
2. increase with productivity, inequality will be constant;
3. Increase above to productivity, inequality will decrease.

- The first alternative prevailed.

Technical progress is key if we fix wages or fix the profit rate

- In their models the classical economists fixed the wage rate, at the subsistence level, and concluded for a falling rate of profit and the collapse of capitalism.
- In my model of growth and distribution, I fixed the profit rate because:

1. It is this that we see historically, not considered the economic cycles.
2. Men didn’t find an economic alternative to capitalism, and, so, capitalism cannot colapse.

Types of technological progress TP

- Technical progress may be classified according to the variation of the productivity of capital or capital-output relation K/Y.

1. (K/Y)↓ - capital-using (machines replacing labor)
2. (K/Y)→ - neutral
3. (K/Y)↑ - capital-saving (new machines replacing old)

- Given a constant profit rate, when

1. TP is capital-using, wages are falling or are increasing below productivity of labor.
2. TP is neutral, wages are constant
3. TP is capital-saving, wages are increasing more than productiviy.

Inequality and technical progress in history

	Technical Progress	Profit Rate	Wage Rate	Inequality
1800–1870	Capital-using	Falling	Constant (below productivity)	Constant*
1871–1914	Neutral	Constant	Increasing with productivity	Constant
1914–1980	Capital-saving	Constant	Increasing with productivity	Falling
1981–today	Capital-using again	Constant	Constant (below productivity)	Increasing

Thus, from 1980s, the increase of inequality was caused by

1. Technical progress being capital–using (productivity of capital falling);
2. The profit rate remaining constant;
3. Salaries and bonus of technobureaucrats increased
4. The wage rate remaining constant, despite labor productivity continued to increase.

Capital-using TP from 1980s was the great surprise

- I expected that technical progress would be increasingly capital-saving (new machines replacing old ones) because
1. the constinuous advance of technology of the same machines;
2. new machines replacing labor were few.
- But I was wrong.
- Information technology involved a new and huge wave of substitution of machines for labor.
- This is the fundamental reason why wages are constant and inequality is increasing since the 1980s.

The dismal equation

Given this falling productivity of capital, the only way to keep the profit rate (which fell sharply in the 1970s) satisfying to businesses firms to invest and keep the economy growing

And given that the relative scarcity of knowledge labor made technobureaucrats or professionals to get higher salaries and bonus.

–wages should increase less than productivity.

Wages did increased below productivity in rich countries because

1. The supply of labor from immigration increased.
2. The competition of other countries that count with cheap labor increased.
3. The economic elites got stronger and adopt neoliberal reforms deregulating (flexibilizing) labor contracts.
4. Given the threat of unemployment, labor unions turned weaker.

On the other hand, globalization has led

rentier capitalists (stockholders) to divest from their own nations

because

now their dividends don't originated anymore only from the profits achieved by business enterprises in their domestic market, but, increasingly, from profits in other countries.

The inclusion of Mexico IN NAFTA was a key episode in this venue.

The consequences

of increased inequality, stagnant wages and gobalization are

- a growing social discontent;
- the fracture of a once reasonably solidary nations.
- the rise of extreme right political parties in Europe and of Donald Trump in the US.

What to do?

- The fundamental objective should be to return to a regime of rising wages, while keeping the profit level satisfactory.

- This can be achieved, even in the framework of a capital-using technology, if the growth rates, which have been modest if not dismal for long, increase again.
- For that, rich countries should devise productive sophistication (reindustrialization) strategies that a developmental and social state (not a neoliberal state) is able to achieve.

What is a developmental and social state?

- It is a state that intervenes moderately in the economy.
- That combines market with state coordination
- That

1. Plans investments in the infrastructure;
2. Adopts an active macroeconomic policy to achieve the right macroeconomic prices.
3. Leave the competitive sector of the economy as free as possible, to be coordinated by the market.

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