The 1% and the Rest of Us

by Tim DiMuzio, Tom Mills

Tim DiMuzio discusses his book, 'The 1% and the Rest of Us: A Political Economy of Dominant Ownership' with NLP's Tom Mills.

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Tim DiMuzio is lecturer in International Relations and public policy University of Wollongong in Australia. His book, *The 1% and the Rest of Us: A Political Economy of Dominant Ownership*, examines the insular lives of the global super rich, the socio-economic system they head, and their restless drive to dominate society and nature. NLP's Tom Mills spoke to him about the book, its approach to political economy and the consequences for left political strategy.

Who are the 1% and what do they want?

This is a very good question and as it turns out, you have to make an analytical choice. Obviously the term stems from the Occupy movment but it was not altogether clear what was meant by the politically expedient term save 'the wealthy' or 'the rich' or for some probably the 'capitalist class.'

The problem is that most people have varying ideas of what constitutes wealth and who the 'rich' might be. So in the book (*The 1% and the Rest of US*) I decided to look at how investment banks and other financial institutions conceive of the 1%. Their term for the 1% is 'high-net worth individuals.' These are individuals that have at least US$1 million invested in income generating assets like corporate shares, government bonds and real estate. As it turns out, their numbers have grown over time but they are still a tiny fraction of global humanity.

In the latest World Wealth report by Capgemini and RBC Wealth Management, there were 13.7 million high-net worth individuals. As a percentage of the global population (roughly 7 billion) this means that they constitute .2% of humanity or .7% of adults. So in reality, this class of what I call dominant owners is far smaller than the Occupy movement realized – that is, if we use the definition of high-net worth individuals used by financial institutions and there's little reason why we shouldn't.

What they want is a separate question and I try to avoid individualizing wealth holders. The first reason is that we have very little evidence on high-net worth psychology. It is true that there is some evidence of their psychology gathered from surveys – for example, *The New Elite* by Jim Taylor *et al* – but the data is difficult to evaluate since people can always lie. So while we can't really get inside the heads of the 1% as a whole, what we can do is examine their practices and the logic they are following. One practice that's certainly going on is competitive consumption for status. I use the example of 'yacht envy' in the book where billionaires aim to outdo each other in yacht size and amenities every year. But we have to remember that most high-net worth individuals are in the category of having US$1 to US$5 million dollars, so they are nowhere near consuming on the level of ultra-high net worth individuals – those with at least US$30 million in investible assets or more. What the bottom grouping of the hierarchy seem to be doing is also competing for status but doing it by going into greater debt to keep up.

So competitive consumption for status is one practice that is certainly going on. But it varies among the 1% since there is a hierarchy of wealth within the 1% category. Many at the bottom of the pyramid are simply concerned about maintaining their livelihoods and ensuring sufficient financial returns for the future.

The other very important point addressing what they want is to consider the financial structures that they are intimately involved with. Not everyone in the 1% knows the intricacies of finance or investment and many will have various sources of wealth. Take Bill Gates for example. Most people would associate Gates's wealth with Microsoft and to some extent they would be correct. Last I checked, Gates was worth US$83.6 billion. But only about US$10.2 billion comes from Microsoft stock. The rest of his money is invested in other income-generating assets like the Canadian National Railway. So every time a Canadian jumps on a train they're giving over a portion of their income to Mr. Gates and his family. All this is simply to say that most members of the 1% will have financial experts or functionaries that will oversee their investments and help plan strategies to maintain and increase their wealth.

So just by this practice alone we know that the 1% always want more money since the goal of investing is never to lose money but to make more of it. In the framework I use we call this differential accumulation. No corporate CEO or hedge fund manager wakes up in the morning with the goal of making less money today than he or she did yesterday. And anyone who thought that way would eventually be found out and sacked immediately. So whether they are actively involved in investment decisions doesn't really matter, people like Gates and the rest of the high-net worth individuals are participating in the logic of differential accumulation whether they can speak the language of finance or not. They want the value of their owned income-generating assets to increase, not diminish and they likely have an army of portfolio managers trained to do this very task. Differential accumulation is like an iron law of capitalism.

Your book is rooted in a particular approach to political economy which sees capital as a 'mode of power'. What are the key ways in which this approach differs to other radical critiques of capitalism and what are the consequences in terms of political strategy?

Again, a very good question and somewhat difficult to answer given the litany of critical works on global capitalism. I have many sympathies with the Marxist tradition as anyone who reads my book will know. But you are correct that my work departs from Marxist or heterodox economics (who are typically some variety of Keynesian) and certainly diverges from the fantasy land of neoclassical economics.

The fundamental departure stems from the fact that Marxists conceive of capitalism as a mode of production between industrial workers and capitalist owners of the means of production. This is a very narrow view of what's actually going on in the realm of accumulation. In the Marxist schema people are stripped of the means of production and forced to go to work for someone else who has the means of production if they wish to survive and socially reproduce themselves and their family. This much is historically true – there is a division between owners of income-generating assets (the minority as we've seen above) and non-owners (the vast majority of humanity). This is the fundamental distinction in capitalism but we could also say the division is between a minority of creditors and a majority of debtors. But while this much is true, Marx makes a big mistake in identifying capitalism with the industrial revolution and exploitation with the factory floor. Consider Marx's analytical conception of 'capital'.

In his most famous work, Marx conceives of workers working for a set amount of hours. During this time the worker's energy is being used by the capitalist who hires him to produce goods that are intended to be sold on a market for a profit. But, says Marx, the worker is not being paid the full value of what they produce during the working day. This is the origin of surplus or profit in Marx's schema. The problem is that it's one thing to state this and another thing to demonstrate it in a scientifically convincing way. How does Marx do it? The answer is he doesn't and no subsequent Marxist working in the tradition has done it either. The likely reason is that it's impossible because Marx fundamental unit was *socially necessary abstract labor time*. But the capitalist world is a world of prices and Marx has to show how units of labor time – seconds, minutes and hours – are transformed into prices. There are other big problems in the Marxist framework such as the analytical separation between people who supposedly create value and those who just circulate it or consume it. It turns out there's no objective way to decide who is 'productive' and who is not in society and doing so I would argue

is practically and politically dangerous. We might all remember the Nazis deciding who was 'useful' and who was not.

The perspective of capital as power which I adopt in my work conceives of capitalism as mode of power not a mode of production. In this conceptualization we are primarily looking at how power is organized and how it creates and recreates a given hierarchical order. There's really a lot more to say about this and Nitzan and Bichler provide a brief genealogy of the rise of the capitalist mode of power in their seminal work on the subject. But to restrict myself to a few comments here, what we are concerned with in the capital as power framework is ownership (much of it absentee), the capitalization of income-generating assets and how the largest capitalized entities – governments and corporations – shape and reshape social reproduction for the benefit of owners. They do this by often directly or indirectly sabotaging the creative potential of society. This might sound a bit abstract but maybe a quick example will suffice to illustrate the approach.

Take the Ford Motor Company, a publically listed company currently capitalized at about US$60 billion. What is being capitalized when investors own or pay money for shares in the company? Any elementary financier will tell you that you are capitalizing Ford's expected future profit or earnings. But earnings (how Ford makes profit after costs) are not simply a matter of industrial workers producing cars but an entire field of power relations inside the factory and out. Think of everything that will bear on corporate earnings: 1) can people walk to work or take public transport or are they in car-dependent suburbs?; 2) can we convince people to buy a certain type of car through advertising and what will our advertising strategy be?; 3) what government regulations might we have to abide by and which ones can we influence or circumvent?; 4) can we use offshore banking to avoid taxes?; 5) can we skimp on safety measures to save costs (see the seminal article by *Mother Jones* about the Ford Pinto where at least 500 people burned to death in their cars because it wasn't cost effective for the company to add a cheap safety feature)? The list could go on but the point should be simple: the market value of the company – its capitalization – is contingent on its earnings and earnings are not a narrow offshoot of production but a broader power process across society.

What are the consequences in terms of political strategy? This is a very good question that can't be fully answered here but maybe I'll start with a real world experience. When I was doing my Masters coursework at York University in Toronto, Canada, Jonathan Nitzan, who was my professor, asked the class on the very first day to imagine a successful revolution against capitalism whereby we now had the power to govern society. He asked a very simply question: what policies would you implement? Or put another way, how would you govern? The room fell silent. Not a peep. It was then that I realized that those of us who are critical of capitalism are quite good at critiquing the system but short on answers when it comes to changing it. I also realized that Marx was only partially right when he said in Thesis 11 that 'philosophers have so far only interpreted the world, but the point is to change it'. Marx should have added that in order to change the world, you must have a proper interpretation of the practices that are actually going on. I think the interpretation I give in the book is fairly accurate but there's always more work to be done – for instance I'm now researching the world monetary order and how this encodes inequality both within and between nations. In the conclusion of the book, I argue that we need to form an internationally connected but nationally organized Party of the 99% to fight for some crucial goals – outlined in the book - that would benefit the majority of humanity. Even if the Party didn't take legislative office in the beginning, it might help push some of the traditional political parties in directions they wouldn't otherwise go. There's some evidence for this – for example, universal health care in Canada was institutionalized nationally by the Liberal Party who had very little interest in it until Tommy Douglas (a democratic socialist) enacted it in Saskatchewan at the Provincial level. There's also the example of the interplay between Martin Luther King Jr. and Malcolm X. King is reported to have said that Malcolm X made a significant contribution to the peaceful civil rights movement because he demonstrated to the white power structure what the alterative was likely to be if civil rights failed: a militant and perhaps more militarized African-American population.

In your overview of historical political economy you cover a number of well-known figures including Marx and Adam Smith. Thorstein Veblen though, who seems a major influence, will I think be less familiar to people. Who was Veblen and what are the major insights you take from him?

On some level it's very strange that Veblen's work isn't better known. Strange because he was such a towering and influential figure during his time (1857-1929). Thorstein Veblen was an American economist of Norwegian decent. His most famous work is *The Theory of the Leisure Class* which is still taught today – though in sociology rather than economics courses. But his two other major works: *Absentee Ownership* and *Theory of the Business Enterprise* are perhaps his best works and certainly the works that have influenced my research and Nitzan and Bichler's own work.

Veblen's writing is interesting because he was researching during the emergence and growth of the large publically listed corporation in the United States and saw what was actually going on: investors were capitalizing these large monopolies like Standard Oil and Carnegie Steel. Veblen knew that what mattered to the owners of these corporations was expected future profits because their shares (or ownership claims) would rise or fall based on corporate earnings. Veblen didn't explicitly say that earnings were a matter of corporate power but he certainly seems to suggest it though his concept of sabotage. When we think of sabotage what comes to mind is typically someone breaking something. But this isn't exactly what Veblen means. What he means is any technique that incapacitates human potential or possibility. Private ownership, itself is an act of sabotage and exclusion. Once this is accomplished, you have the potential to earn an income stream depending on what you get control over. The patent system is the perfect example here but sadly there are many more. Back in about 2000 there was a massive debate about HIV/AIDS drugs for poor people in the global south. It turns out that a few governments reverse engineered patented HIV/AIDS drugs produced by the big pharmaceutical companies. These agencies started selling high quality but generic copies to infected patients. The drugs were super cheap to make and certainly helped the less fortunate but this was cutting into the revenue stream of Big Pharma and appeared to be against their 'intellectual property rights'. So this is what Veblen is trying to get at with the concept of sabotage – we have the potential to produce cheap drugs to help HIV/AIDS patients (what Veblen called industry) but to do so would threaten the profits of the owners of Big Pharma (what Veblen called business, the entity doing the sabotaging). This battle between the 'rights' of corporations and their owners versus what we can do as a human population continues to rage.

Thomas Piketty has been very influential in getting people to think about capital, inequality and capitalism as an historical form. How significant do you think Piketty's work is and how does it relate to the Capital as Power approach?

There's little doubt that Piketty's work – particularly his gathering of data – was a major contribution to the debates on inequality. His idea is straightforward (and somewhat banal): if the return to capital exceeds the rate of growth, we'll continue to witness growing inequality. Fair enough. But make no mistake about it, Piketty is steeped within the neoclassical tradition. So he's not questioning capitalism or private ownership or sabotage or how money is created in our societies and so forth. He basically says, okay, it looks like inequality will continue to worsen over time and if we don't want to have that happen then we ought to impose some sort of wealth tax so money can be redistributed to the less fortunate. It's a good liberal position but totally at odds with the capital as power approach.

The capital as power approach isn't about tinkering on the margins. It's like you have a system of slavery and Piketty is saying, the system's fine, but maybe we shouldn't whip the slaves so much and give them an extra break here and there. The capital as power approach says that whole system is rotten and we ought to find a different logic to follow other than the logic of differential accumulation that chiefly benefits what is in reality .2 percent of the global population.*Moving on to the question of the 99%, what do you see as the central questions for resisting the power of the 1% and building an alternative?*

Here we really have to think strategically and be on the same page. So long as the 99% remains divided on crucial questions you can forget about systemic or needed structural change. The most critical question I identify in the book is whether or not it can be said that these owners *earn* their income/wealth. How do we know that they do? What theories might we have to demonstrate it? As I examine in the book, we don't have any convincing responses from mainstream accounts or even from Marxists.

Your readers might want to think of it this way. Hedge-fund manager David Tepper made US$3.5 billion in 2013. The median income in the United States was about US$55,000. So the wonderful thing about numbers is

that we can now do a ratio of these two figures and it looks like this:

1: 63,636

What this means is that every time our ordinary worker makes another dollar, Tepper will make another 63,636 dollars. Neoclassical theory says this compensation is directly related to the contribution made to production/society. Just on an intuitive level, it's hard to imagine someone being 63,636 times more productive than another human being.

Of course there are real differences in talents, skills and abilities. No one should deny it. But they certainly aren't that drastic and evolution doesn't work faster in one human than another to such a degree. Consider for example, the differences between a professional marathon runner and an average Joe who will walk a marathon. Obviously there will be a massive difference in skill and ability and talent. So what do you think the ratio will be?

The world record for male marathon running is 2:02:57hrs set by Kenya's Dennis Kimetto in Berlin. If average Joe walks a marathon how long would it take? Estimates vary but if we walked at 20 minute miles it would take about 8.7 hrs. So what's the difference between a highly skilled marathon runner and average Joe? Turns out the ratio is:

1: 4.35

We could all agree that Kimetto is a little over 4 times faster or better than average Joe and deserves to be the world record holder. But in no way is Kimetto 63,636 times more talented than average Joe.

So something is seriously askew when we look at these ratios of inequality and I believe it's the task of critical political economy to challenge what I call in the book the superman theory of wealth accumulation – the radical antisocial belief that wealth is earned solely on the basis of individual knowledge, talents and skills. Since this type of thinking is engrained in much of Anglo culture I believe that we have our work cut out for us in popularizing the idea that all wealth is social and can only ever be social. Only once we realize this can we start to think about how wealth might be distributed in a democratic and free society.

Tom Mills *is a researcher at the University of Bath and a co-editor of New Left Project.*

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2 Comments on "The 1% and the Rest of Us"

- **Steve Lawless, on 03 July 2015 - 07:38**

  Excellent article and prompt for further reading. Labour theory of value always raises lots of questions.

- **Bruce, on 03 July 2015 - 13:53**

  “no way is Kimetto 63,636 times more talented than average Joe”

  Yes he is. In fact he’s better. There are a handful of people with a chance of beating Kimetto in a given race, but billions of people who could beat median Joe. The odds of Kimetto winning a race are about a billion times greater than the odds of median Joe winning a race. So Kimetto is a billion times more talented

  (And if he earns of the order of 10 million from running in his lifetime, while median Joe earns 1 cent from running, then his rewards for that talent will also be a billion times more).

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