

# USA: Competition, Inequality & Class Struggle

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## **Persistent Inequalities:**

### **Wage Disparity Under Capitalist Competition**

**By Howard Botwinick**

**Haymarket Books, 2018, 370 pages, \$28 paper.**

PERSISTENT INEQUALITIES, BY former union organizer and continuing workplace and political activist turned political economist Howard Botwinick, was first published in 1993. Then, in the United States socialism and Marxist theory were still largely confined to academia and a small socialist movement on the defensive.

With the revival of socialism, the green shoots of worker self-activity by workers in (commodified and state-provided) social reproduction and communications, and rising resistance to racism particularly in the criminal justice system, the book's re-publication in an affordable edition by Haymarket Books is timely and badly needed.

While most of the text is unchanged with some updating and an afterword to bring developments up to date, the theory and practical observations more than stand the test of time for a generation (or more) of activists seeking sound analysis of capitalism's continuing inequalities.

Botwinick has crafted "a theory of competitive wage determination that is highly systematic but not rigidly deterministic" as he puts it. (67) Given the debates on the left today concerning the nature of Marxism this is in itself an important contribution to a version of Marxism that sees human agency, organization, and struggle as a central element in Marxist analysis without being voluntarist. [1]

Still, you may wonder, why does a theory of wage determination matter when we face much bigger problems than mere wages? As mundane as it might sound at first, this is a theory that explains the underpinning of racial and gender income inequality in capitalism and all that flows from that, and a framework for the deployment of the power of organized workers — and hopefully, the interrelationship of these two.

It is also the case that "wages" in this work are shorthand for all the conditions of labor in capitalist production. Botwinick's application and development of Marxist theory beyond where Marx himself took it, of course, is not meant to be a panacea for a working class that is internally divided, unequal, and poorly organized. Rather it provides a method and analysis for approaching these problems in a way that other economic theories haven't.

## **"Competition," "Monopoly" and "Productivity" Theories**

For example, neoclassical or mainstream economics, a major target of Botwinick's critique, tells us that capitalist ("perfect") competition will equalize the wages of workers with similar skills over time.

Despite the fact that this is obviously not the case, neoclassical economics continues to dominate the field. Then there is the seemingly opposite theory of monopoly capitalism with its Marxist variant, in which wage inequalities are explained by the lack of competition and the ability of giant corporations to pass on wage increases to customers via “administered” pricing.

But if that were the case, a Wal-Mart warehouse worker with skills similar to those of an auto assembly line worker for any one of the ten or so giants that dominate that industry would make about the same wage. Instead he or she makes about half that of a worker on the assembly line whether it’s in Detroit or Dixie.

The fallacy of monopoly theory, that a small number of large firms in a given industry or market explain higher wages, should be clear from the fact that two of the growing giants in retail who have pushed rivals like K-Mart and Sears out of the market, Wal Mart and Amazon, far from passing on wage gains to customers, engage in price cutting competition with all the firms in the field and do so on the basis of persistently low wages.

The reason lies in the reality of competition and different strategies for cost reduction, not in the absence of competition. In monopoly theory, those in highly competitive industries with lots of small firms are doomed to low and stagnant wages for all time. The same is true of monopoly theory’s not too distant cousin, dual or segmented labor market theory, which concludes pretty much the same thing.

Here labor markets are “segmented” into two realms, to put it somewhat crudely, one of big firms that can afford big wage increases, and the other of small firms that can’t. Contrary to this theory, however, such well-known low-wage sites as hospitals and hotels have themselves gone through intense concentration and centralization in recent years and still pay low wages to most of their non-professional workers.

While these theories were often presented as alternatives to the alleged rigidity, fundamentalism and orthodoxy of Marxist political economy, they are themselves highly static.

In the Introduction, Botwinick writes parenthetically of chapter 2 which introduces the debate over these different theories: “Nonacademic readers who may want to immediately proceed to the author’s own arguments can skip this lengthy chapter with little loss of continuity.” This is one of the few times I will tell the prospective reader to ignore Botwinick’s advice.

Chapter 2 shows how neoclassical theory, and its left monopoly and dual labor market alternatives, ignore the realities of competitive war, the essential tools in that battle, and hence the dynamics of capitalism that, in fact, allow for a considerable role for class struggle throughout the economy.

While most activists may not be familiar with these theories in any detail, monopoly theory in particular continues to have a stronghold on the “common sense” of much left analysis. If there is something static about monopoly and dual labor market theories, much the same can be said about conventional labor economics where wages are claimed to be determined primarily by productivity.

Presumably, industries with higher productivity should have higher wages. But this is by no means the case. To continue the comparison above, the auto assembly industry paid about \$29 an hour in 2010 with an annual average productivity increase of three percent a year from 1987 to 2009. General warehousing paid almost half that at about \$15 in 2010, but had average annual productivity growth of five percent over the same period.

## **Capital Just Can’t Stand Still**

If size, number and relative productivity do not tell the whole story, what does?

To try to summarize Botwinick's complex analysis in a few paragraphs would be a fool's errand. Rather I will outline some of the major elements in the dynamics of capitalist competition that give the theory both its analytical power and practical application. After that I will give examples of how this relates to the questions of union and workers' strategy on the one hand, and race and gender inequality in a capitalist context on the other.

In analyzing wage differentials among workers with similar skills, Botwinick locates "three key dynamics":

- The ongoing processes of capitalist competition and technical change that create different conditions of production, productivity, and profitability within and between industries;
- The continuing regeneration of a reserve army of unemployed workers; and
- The uneven efforts of workers to raise wages. (8)

We can see in the three "key dynamics" that real capitalist competition, in combination with the downward pressures of the reserve army of labor, and the uneven efforts of workers to raise them, are constantly in motion. Furthermore, these dynamics play out by the interaction of specific factors that apply to any industry regardless of the size and number of firms.

Here I will cheat and turn to the end of the text (301) where Botwinick summarizes these key factors in wage determination in the context of dynamic competition which he cites as topics for further empirical research:

Level of capital intensity (K/L or the capital/labor ratio)

Level of fixed capital equipment

Share of wages (total labor costs) in total unit costs

Size of workforce within average plants in the industry

Level of unionization across the industry as a whole.

Capital in real competition is anything but static. Seldom do these dynamics and conditions remain the same over time. Under the pressure of competition, no matter what the size or number of firms in the industry, all these factors change and interact. This in turn impacts the potential for as well as the limits to increases in total labor costs.

To get or stay ahead of the next firm, the capitalist has to cut costs per unit of production, which more often than not means more and better capital equipment to squeeze out more labor productivity in order to undercut the competition. When you change the proportion of capital in your costs you affect the rate of profit, even if in most cases you get higher productivity.

This means that profit rates in a given industry are constantly changing as the age and efficiency of each firm's capital becomes different. Since not all firms will have the same profit rates at any one time, one or more of the most efficient firms will set the pace. These are the "regulating capitals," the most efficient and most able to grant wage increases. This competition and its impact occurs not only within an industry, but also between industries as capital in its fluid form seeks a greater return by moving from one industry to another.

What is important in Botwinick's Marxist analysis of these changing factors, however, is that they

can have contradictory affects depending, as he repeatedly argues, on the level of organization of the workers and to some extent the size of the work force as well as on the size and mobility of the reserve army of labor — that is, on the two active but contradictory human factors that both propel and limit the ability of organized workers to “take labor out of competition” in order to raise wages.

For example, where a firm invests in more capital equipment and raises the capital/labor ratio, thus lowering the proportion of labor costs per unit, it opens the possibility of increasing wages or improving conditions if, and these days it is a big if, the workers are well enough organized to force such an increase, and if troops from the reserve army of labor are not deployable in sufficient numbers at similar skill levels to undermine the workers’ actions.

This depends not only on the size of the reserve army nationally, which these days is very large, but its mobility and suitability within reasonable distance of the firm’s struck or affected facilities. As many industries have moved out of urban centers, the rapid mobilization of replacement workers may be more difficult in some situations.

### **Employers’ “Cost of Obstruction”**

Here Botwinick introduces a concept you may not be familiar with when you think about union bargaining power. This is “the cost of obstruction,” meaning the cost to the employer of attempting to obstruct a wage increase.

Mainstream labor economics typically emphasize a firm’s “ability to pay” increased labor costs. Here, we are looking at the company’s cost of not paying more. This cost is most effectively inflicted, of course, by an all-out, well-prepared strike (or occupation) based on prior workplace organization.

The tendency in recent years of union leaders to substitute external pressure tactics or “leverage” has been proven to be an illusion more often than not. Only the cessation of production or service-delivery and hence income (whether immediate or long range) can impose serious costs on the employer.

In this context, as Botwinick argues, the fixed costs of the firm embodied in capital plant and equipment and its depreciation, along with other operating costs (fuel, energy, maintenance, inventories) which are necessarily in effect even during a shutdown, along with the eventual costs of restarting production, work for the union and workers.

In addition, the more long-run costs of losing market share or potential investment due to the loss of output during a strike can add to the costs of obstruction. The bigger the firm and its fixed capital and operating costs, the greater the costs of obstruction. This turns monopoly theory on its head.

The other side of this coin is that higher levels of fixed capital and the capital/labor ratio means labor becomes a smaller proportion of total unit costs, allowing for potential wage increases even as the costs of obstruction rises.

But again, as Botwinick reminds us, actual outcomes rely on the state of worker organization, which depends not only on union density in the relevant industry and firm, especially the “regulating capital” of the industry, but on the quality of that organization represented by the leadership’s understanding of the system and accountability to the workers, union democracy, effectiveness of workplace or stewards’ organization, and the ability to overcome divisions within the workforce such as race and gender.

The countering human factor is, once again, the ability of capital to mobilize workers from the reserve army of labor to sustain production well enough to minimize the “costs of obstruction” over

time.

Finally, there remains the fact that some capitalists and their managers will be willing to take even fairly substantial losses, i.e. to absorb the costs of obstruction, in the belief that this will serve their interests better in the long run. As this would entail losing market share or possible new investments diverted to other firms or industries under the conditions of real capitalist competition, however, this is a risky strategy for capital.

Unfortunately, neither firms nor their owners and managers are the rational actors possessed of perfect knowledge imagined by neoclassical theory.

These dynamics are not limited to manufacturing or capital-intensive industries, for the simple reason that the factors listed above are constantly changing in more labor-intensive industries as well. The direction of changes in the capital/labor ratio or intensity, fixed capital, operating costs, etc., as well as their proportions, matter.

The warehousing industry provides an example. Warehousing has been transformed in the last two decades or so by the rise of logistics as a centerpiece for competition in almost all capitalistically-organized industries. The warehousing workforce in the United States grew by nearly two-thirds from 2000 to 2016, but total fixed assets in this industry grew by one-and-a-half times, thus increasing at over twice the rate of the workforce.

While this is not a precise measure of the capital/labor ratio, it is an indication that it grew significantly. Indeed, we know that the average size of a warehouse grew by two to four times, new equipment including some automation was introduced, increasing the proportion of fixed capital.

At the same time, the nature of warehousing changed from storage to the rapid movement of goods in and out of the warehouse, whether at a Wal-Mart distribution center, an Amazon fulfillment center, the two major rivals for the position of regulating capital, or an independently-owned warehouse. Thus, both competitive pressures and rapid income turnover potentially raise the costs of obstruction.

The vast majority of warehouse workers, two-thirds to three-quarters of whom are Black or Latino in most logistics concentrations, are not unionized. While we don't know the relative profit rates, using Botwinick's extension of Marxist analysis what these changes in fixed capital indicate is that this industry is far more ripe for organizing than it was even a decade or two ago.

In addition, warehouses are key "nodes" in today's competitive and "just-in-time" supply chains, so that the cost of obstruction impacts not only the immediate facilities on strike but those up and down the supply chains as well. Furthermore, the location of most warehouses trends to be well outside major urban centers where large pools of the reserve army of labor are concentrated, so that the use of replacement workers is at least somewhat problematic. [2]

Obviously it isn't this simple as there are other barriers to organization, including state intervention and union inertia.

In this era of economic turbulence and periodic crises, conditions will change and not all moments will be equally opportune for new organizing or aggressive bargaining with employers. Furthermore, as Botwinick makes clear throughout, these same dynamics present limits on what workers can gain under capitalism given the necessity of profits and the long-term tendency of their rates to decline.

Nevertheless, his extension of Marx's analysis of wage determination under capitalism is a welcome relief from the rigidity and stasis of monopoly and dual labor market theory.

## **Race, Gender & Persistent Inequalities**

Botwinick is clear that the dynamics of capitalist competition provide the starting point for a Marxist understanding of the material basis of racial and gender discrimination in capitalism. Because the theory is presented at a fairly high level of abstraction, “a useful analysis of the question of discriminatory assignment [to lower wage jobs —KM] would require a much more concrete discussion of the social and historical forces that have led to particular forms of discrimination against women and people of colour within different capitalist nations.” (9)

Nevertheless, quite aside from occupational differences and skill levels, the persistent inequalities that flow from capitalist competition provide a key to understanding the hierarchy of employment and income inherent in capitalism, not only between classes but within the working class itself, that reproduce the unequal racial and gender “assignments” rooted in the long history of patriarchy, slavery, Jim Crow, and present-day structural racism.

The origins of racism and sexism precede the development of industrial capitalism in patriarchy and slavery, but it is the rise of capitalist competition that provides the new and changing unequal forms of wage labor that workers compete to fill. These in turn tend to shape the competition for housing, education, and other aspects of social existence.

Typically, the “assignment” of labor is controlled by capital, but sometimes by the actions of other (usually white, male) workers as in the case of exclusionary craft unions or rigged seniority systems. This in turn means that it is not only the struggles of workers generally against capital, but struggles by oppressed groups within the working class for equality, that affect the distribution of wages and the conditions that follow from that.

The slippery history of how racism in particular is reshaped to fit the changing contours of U.S. capitalism since the end of slavery have been well documented in works by Jones, Roediger, Roediger and Esch, among others. For a discussion of gender, social reproduction, and capitalism from a Marxist-Feminist perspective see Brenner. [3]

But the analysis of capitalist competition developed by Botwinick gives us a key part of the underlying material basis for understanding the survival and reproduction of racial and gender inequality and oppression, and their inseparability from actually existing capitalism.

Without the objective analysis of the dynamic of capitalist competition that produces inequality, however, we can fall into the trap of seeing race and gender discrimination as simply subjective or ideological or somehow a random historical development independent of capitalism. As Botwinick puts it in the Introduction:

First, there is the generation of jobs with substandard working conditions and below-average wage rates. And, second, there is the discriminatory assignment of a disproportionate number of people of colour and women to these low-paying jobs. (9)

This generation of low-paying jobs is the result of capitalist competition on the one hand, and the impact of the reserve army and hence the availability of desperate workers on the other.

For some time, the reserve army, in which workers of color are overrepresented, has grown beyond even those under-and-unemployed at any one time to include growing numbers of prime-age males, in particular, who have dropped out of the work force.

As a result, the competition among workers for employment and the impact on restraining wages remains intense even during periods of economic recovery or growth. On the other hand, growing

industries like health care, hospitality, food service and warehousing have become the low-wage sites of the contemporary “assignment” of Black and Latino men and women to the work force.

The simultaneous growth of better-paying “information” industries such as those dominated by Google and Facebook and expanded by burgeoning high-tech start-ups are notable for the absence of women and Black workers in their skilled jobs and “hip” workplaces, despite the growth of an educated Black middle class in recent years and the continuing existence of both a latent and available female workforce. [4]

Racism and sexism, in short, are still at work. At the same time, however, the very dynamic of capital competition that creates the low-wage jobs into which women and people of color are disproportionately “assigned” also opens the potential for organization as firms become more capital intensive, as most of those in the industries mentioned above have.

Furthermore, the integration of much of the private sector workforce into the “just-in-time” supply chains that tie the economy together offers more potential power, and hence greater costs of obstruction. It is indeed worth noting also that much of the strike activity of the last few years has occurred precisely in the commodified or state-provided sectors of social reproduction and emotional labor: education, hospital (especially nurses), and hotel workers where the norms of “lean” production have become dominant in one form or another.

There is of course no salvation in political economy by itself, as Botwinick makes clear throughout. There is, however, the analytical basis for more focused research and clearer organizing strategies for labor and the means for women and people of color to break the barriers of economic inequality.

Persistent Inequalities is a vital guide for those in the growing socialist movement as well as in a labor movement on the defensive, and reviving social movements that are grappling with the problems of organization, possible sources of power, and the interrelations of class, race and gender in the context of the capitalist system we hope to transcend.

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## Kim Moody

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## P.S.

Solidarity

<https://solidarity-us.org/atc/202/inequalities-persist/>

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## Footnotes

[1] For a recent statement of this trend in Marxism see Jeffery R. Webber (2019) “Resurrection of the Dead, Exaltation of the New Struggles: Marxism, Class Conflict, and Social Movements” *Historical Materialism* 27(1): 5-54.

[2] For a more detailed analysis of this industry see Kim Moody (2017) *On New Terrain: How Capital is Reshaping the Battleground of Class War* (Chicago: Haymarket Books), 59-69; Kim Moody (2019) "Labor and the Contradictory Logic of Logistics," *Work organisation, labour & globalization* (in press).

[3] Jacqueline Jones (1998) *American Work: Four Centuries of Black and White Labor* (New York: W. W. Norton & Company); David R. Roediger (2008) *How Race Survived U.S. History: From Settlement and Slavery to the Obama Phenomenon* (London: Verso); David R. Roediger and Elizabeth Esch (2012) *The Production of Difference: Race and the Management of Labor in U.S. History* (New York: Oxford University Press); Johanna Brenner (2019 "Marx for Today: A Socialist-Feminist Reading" *Against the Current* 199 (March-April 2019), 27-32; Johanna Brenner (2000) *Women and the Politics of Class* (New York: Monthly Review Press).

[4] Consider, for example, the hundreds of thousands of teachers and nurses who have left their occupations out of frustration with the degradation of their professions, many of whom could easily be trained as designers, programmers, coders, etc. in these burgeoning high-tech industries, but are not.