

DIETER KLEIN

# Where Is All the Wealth Going?

In the past years all over the world people have been getting the feeling – and it seems stronger than ever before: We are living in an unjust world; the chasm between rich and poor is getting deeper by the day; dangers from war and destruction of the environment are rampant. But at the same time a large section of the population believes that there is no alternative to accepting traditional market »reforms« that reach into the often already empty pockets of wage-earners and the socially disadvantaged and give in abundance to the major players in the international markets – in the name of national competition for investments or the location of concerns in Europe.

A myth is being propagated that there is nothing left to uphold the welfare state at the present level and certainly nothing at all to improve services or adequately support

The myth that the welfare state is running out of room for manoeuvre evades one simple question, one so simple that it usually is not even posed or purportedly has been answered already. The question: What happens to the wealth resulting from increasing productivity per man-hour, from the training and knowledge of millions of gainfully employed people, from the continual introduction of new technologies, from the world-wide division of labour, modern organisational structures and new modes of operational?

Thought strongly influenced by the power of private corporate media represses the paradox that the growth of the gross domestic product (GDP) is indicative of increasing wealth in the western world; but in spite of this, mass

the so-called developing countries in their struggle against hunger, poverty, disease and environmental degradation. Of course, in times long past, there had been something to spread around, but now there is just nothing left. We have to walk through the valley of tears – for the benefit of the economically powerful. Then they would invest, so we are told. Work would come to the unemployed and prosperity to us all. But this recipe has been tried for the past three decades – to no avail.

Still the powers that be see abundant reserves for the continuation of their anti-social policies. In Germany they are now setting out to get Europe to adopt another batch of measures to do away with the European model of the welfare state, with certainly more to come.

Berlin, October 2003

## Cuts in social services in Germany

€ 3,1 billion cost reduction in health services, of which ca. € 20 billion had to be borne by the insured parties.

Reduction of non-earnings-related unemployment benefits to the level of welfare aid (€ 297 in West Germany, € 285 in East Germany monthly). This raises the number of people on welfare from 2.8 million to 4.5 million.

Reduction of employers' contribution to the state retirement fund at the expense of employees (hitherto they had made equal contributions), who are supposed to take out more private retirement insurance. Shortening the period people are entitled to draw earnings-related unemployment benefits from 36 months down to 12 to 18 months (phased according to age).

How do you imagine society will be in 10 years? (Germans entitled to vote, in %)	
	true
Society will get colder, more egotistical.	71
The rich will keep getting richer, the poor poorer.	70
Money will become ever more important.	68
Only the strong and powerful will prevail.	54

(Source: Institut für Demoskopie Allensbach, in: Frankfurter Allgemeine Zeitung 16 August 2000)

income, prosperity, the level of public services necessary to sustain life and the standards of social security achieved up till now are considered untenable. The reported GDP is rising, but in contradiction to this governments are withdrawing from the provision of public goods. In accordance with the General Agreement on Trade in Services (GATS), this affects health, education, childcare, care-taking, culture, the environment, local public transport and many other areas.

Conventional wisdom has it that there is nothing left with which to defend the welfare state. On the contrary, privatisation processes undermine public services that

hitherto had counteracted the exclusion of many people from access to important public goods. A radical movement to safeguard natural public goods such as air, water, soil, animals, plants and the climate – above all through the ecological transformation of our way of life – is nowhere in sight.

The growth of wealth just seems to disappear in a sort of Bermuda triangle. But where does all the wealth really go?

## Scandalous social polarisation

First of all, wealth does not just disappear, it is redistributed from the bottom up and is concentrated in the hands of high finance and big business. This statement is certainly not new. It is the main answer of the Left to this question, but not their viewpoint alone. It is shared by the majority of the population, and it also the insight of the new global movements critical of power and capitalism who self-confidently attack the growing injustice in the world.

According to information of the UNDP [United Nations Development Programme] in 1996, 358 billionaires possessed the equivalent of total income of the countries with the poorest 45% of the world population. The World Food Report for 2002 states that in this year 36 million people died of starvation. The World Bank reports the number of abject poor at 2.81 billion.

Only 5% of US-Americans possess 60% of the national wealth. In 1998, the 13,000 richest families of the USA had nearly as much money at their disposal as the 20 million poorest households. The average annual salary of top managers in the 100 largest US concerns in 1999 was US\$37.5 million each, more than 1000 times the salary earned by the average employee. (Krugman 2002) In Germany 0.5% of the adult population owns 25.7% of the total wealth. 3,700 super-rich possess a total of € 612 billion. The poorest 25% of German households have no monetary wealth at all. They are in debt equivalent to 1.5% of the net monetary wealth of the country. According to official data of the German government, 1.1 million children live below the poverty line (Merrill Lynch 2000; Bundesregierung 2000).

The reason for this increasing gap between top and bottom is the distribution of property in bourgeois-capitalist societies. Wealth as ownership of productive assets is highly concentrated. The concentration of monetary capital, material resources, information, knowledge, interpretative and decision-making power in internationally operating concerns, major banks and institutional investors has reached new proportions in several waves. Economically powerful actors are increasingly withdrawing their wealth from financing solutions to urgent social and ecological problems.

Two hundred trans-national corporations produce 27.5% of the global gross national product. Their turnover surpasses the total of all other national economies with the exception of the ten largest. Measured by the turnover of global corporations and the gross national product of nation-states, of the 100 largest economies in the world 51 are corporate empires and 49 are national economies (Institute for Policy Studies 2001).

Hence, the whereabouts of wealth is first and foremost a matter of distribution. The majority of the population is hit by the revocation of previously achieved social standards because an elite minority appropriates ever larger portions of produced wealth.

**First of all, the well-founded question of what happens to growing wealth can be answered in the Leftist tradition. The increased predominance of people and institutions with economic and political power combined with the weakness of wage-earners and people reliant on social transfers has been making society poorer because an increasing proportion of wealth is being concentrated in the hands of a small upper class. Reversing this scandalous process, redistribution from the top down remains on the alternative agenda. This calls for:**

- **comprehensive democratisation that subjects each and every form of property to the criterion of its contribution to a self-determined life in social security for each and every person;**
- **fair taxation that, above all, puts a larger burden on enormous private wealth, speculative capital gains and profits of globally operating concerns and banks;**
- **social orientation of budget policy and extension of rights of co-determination to employees in the operation of the companies where they are employed.**

### Wettlauf

Hat man viel, so wird man bald  
Noch viel mehr dazu bekommen.  
Wer nur wenig hat, dem wird  
Auch das wenige genommen.

Wenn du aber gar nichts hast,  
Ach, so lasse dich begraben –  
Denn ein Recht zum Leben,  
Lump,  
Haben nur die etwas haben.

Heinrich Heine

## »Prosperity costs« produce losses

In the second round of our dealings with the problem of what happens to the wealth of society the question is whether the hypothesis that wealth is polarised is the whole answer or perhaps only half of it. In the vein of critical ecological discussions we must ask: has the dis-

posable wealth of society in the form of material goods or services perhaps not been growing at all for quite some time or even in an upward economic trend only insignificantly? Is this not at least probable in phases of modest economic growth, as has been the case since the end of the 1970's? Has not at least a growing portion of net domestic product been consumed by grave structural mistakes in such a way that the prosperity effect of economic development has been declining for some time?

Lutz Wicke, former scientific Director of the Federal Environmental Agency, calculated for 1984 that even as far back as then, environmental damage in the Federal Republic of Germany (only West Germany) amounted to at least DM 103 billion annually; that is the equivalent of 6% of GDP at that time.

Wouter van Dieren points out spectacular decreases in the net domestic product in a number of countries he investigated – Mexico, Indonesia, Costa Rica and Zimbabwe – caused by damage to nature, which do not appear in the calculation of the gross domestic product as negative factors.

Renowned ecology experts are of the opinion that the gross domestic product is growing only numerically because businesses pass on some of their costs to society and ultimately to future generations. They destroy the environment and hence the living conditions of coming generations. These are the unpaid »prosperity costs« that will weigh on future increases in wealth. We must differentiate between those »prosperity costs« that are unpaid for the time being and »paid prosperity costs«, for instance expenditures to offset or repair environmental damage, expenses for health care as a result of socially or environmentally induced illnesses, costs of flexibility due to commuting between home and job – whereby the distances keep getting longer and more expensive –, not to mention costs incurred through traffic accidents and costs for advertising that exceed the expenditures to procure useful information.

The gross domestic product designated at a level including such paid prosperity costs is inflated. These expenditures do not produce any real gain. Prosperity does not grow by treating illnesses caused by stress at work or fear of losing one's means of livelihood, or when billions of dollars or euros are thrown out the window for idiotic advertising, or in our throwaway society something new is replaced by something brand-new, or when the water quality of polluted lakes is improved, or victims of traffic accidents are laid to rest. Because all this »work« produces income, these paid »prosperity costs« have the arithmetical effect of increasing the gross domestic product. But in many cases real prosperity declines. The welfare effect of the expended work declines because of flawed social developments. This is especially true of armaments. The increase in the expenditures for armaments in the world by 31% bet-

ween 1999 and 2002 did not fully make up for reduction in expenditures due to the disarmament after the end of the block confrontation. But in the near future the re-introduction of war as an ostensibly suitable method to solve social problems in the imperial strategy of the USA and its allies will result in expenditures for weapons far surpassing those during the Cold War.

**If it is correct that the real increase in gross domestic product is nowhere near what the – currently very modest – nominal growth rate would lead us to suspect, then this has far-reaching consequences. Not even a reversal of the current redistribution from the bottom up – which is nowhere in sight – to a distribution from the top down could in and of itself solve the problems confronting us. Then ecological transformation and profound changes in our way of life will be crucial to our survival – above all to save the natural environment from destruction but also to stop portions of produced wealth from disappearing. Then alternative lifestyles in accordance with nature would gain new significance.**

**Of highest priority is the search for new and different types of regulation with strong claims to legitimacy: policy-making decisions made democratically from the »bottom up«; economic, technological and structural policy; mid- and long-term financial planning and social policy, all of which would be able to bring about radical changes in the overall economic structure setting the course for the social and ecological transformation of society as a whole.**

## Losses from squandering potential for work

Nature is one great source of social wealth. It is in danger of being ruined and destroyed. The human capacity to work is the other great source of wealth. But it remains largely untapped even in the rich industrialised countries due to scandalous social inequality of access to education, not to mention illiteracy in the so-called third world. It is being strangled by multifarious tendencies to reduce human beings to the common denominator of their usefulness for exploitation of capital, instead of developing their individuality and creativity. They are only allowed to consume – on a reduced level, of course – and additionally are put under suspicion of dodging work.

### Questions:

»Does a hospital have to be run like a steel mill? Should a theatre have the same structure as a department store? ... Do I have to rationalise myself like a corporation, do I have to turn myself into a one-man stock company to keep up with the times?«

Dirk Kurbjuweit

Here is certainly one of the secrets of what happens to social wealth: in Germany there are ca. 7 million people unemployed, worldwide ca. one billion people without paid employment or who earn too little to support themselves. They do not have the chance to do anything to contribute to wealth, rather they are forced to eke out a living from it. The calculated gross domestic product keeps rising in spite of unemployment but its growth is depressed by unemployment and its underlying structures. The distribution of gross domestic product is deformed by unemployment. The more people who are excluded from increasing wealth and at the same time – at least in the (still) welfare-states of western Europe – are dependent on transfer income, the greater the portion of the gross domestic product that has to be used for their sustenance, even though the income of each individual is reduced – and the smaller the portion of gross domestic product available for other public services. No matter whether societal wealth exhibits negative growth in times of crisis or stagnation or whether it grows, even if more slowly, unemployed people get less of it than they would if they themselves were gainfully employed.

When unemployment rises, fewer people make contributions to social insurance schemes. This, in turn, limits its capacities and effectiveness, or the contributions have to be increased. Both recipients of benefits and contributors see themselves in a losing situation, their perception is of wealth loss. Current politics reacts to this situation first and foremost by further reducing social benefits. Empty coffers seem to allow no alternative.

**The reduction of growth in wealth due to unemployment can be countered by alternative labour market policy: job creation not by reducing wages or making cuts in social services, but rather through**

- **better education for everyone,**
- **strengthening mass purchasing power,**
- **public investments in infrastructure, strengthening the investment capabilities of municipalities,**
- **support for founders of new businesses and owners of small businesses, especially those that create jobs,**
- **reducing working hours with variable wage adjustment,**
- **creation of more part-time jobs under the same (labour legislation) conditions as full-time employment,**
- **voluntary alternation between gainful employment to secure livelihood, taking care of family and continuing education with social security through,**
- **gradual introduction of a basic income above the relative poverty line as a civil right,**

- **retention and defence of gainful employment in public services in local communities,**
- **public funds to support projects, cooperatives and businesses in the non-profit sector that create employment.**

**Making insurance compulsory for all citizens and all sources of income of wealthy people would make it possible to finance social security systems in solidarity, even before unemployment can be appreciably reduced.**

## **National debt as loss of economic and socio-political room for manoeuvre**

Another consideration that affects what happens to produced wealth is the effect of increasing national debt. Servicing this debt, which is imposing increasing burdens on state budgets, restricts their room for manoeuvre in economic policy – not least for the provision of public services necessary to sustain life. In the Federal Republic of Germany, between 1965 and 2001 the interest payments on the national debt amounted to € 1,051.1 billion. They nearly reached the debt level itself of € 1,195.7 billion in 2001. This corresponds to 58 % of the gross domestic product in 2001. (Meyer 2002: 10) A considerable portion of the gross domestic product – in 1998 € 68.4 billion, in 1999 € 69.8 billion, in 2000 € 67.5 billion and 2001 € 66.5 billion – flows each and every year to the creditors of the state, above all to major banks and investment funds. The result of this strong decline in public ability to act caused by these shortfalls is used as an excuse for further privatisation and deregulation. This, in turn, leads to further restriction of access of an increasing number of citizens to public goods formerly at their disposal such as health care services, care-taking of children and the elderly, education, adult education, culture etc.

The suspension of the wealth tax in Germany led to tax shortfalls between 1997 and 2002 amounting to ca. € 50 billion. The loss in revenue for the state budget due to the recent reform of taxes on profits came to € 30 billion in 2001 and 2002 alone. The corporation tax was changed in such a way that instead of the € 23.6 billion revenue the government took in in 2000, corporations got tax refunds of € 400 million in 2001 and 2002, whereas tax revenue from this source amounted to only € 0.9 billion.

The neo-liberal recipe to reduce the national debt is to »economise« wherever possible, especially on public spending for the needy.

**The alternative recipe could be – to economise on armaments expenditures, on subsidies for global players, by protecting the environment and devising**

**a better labour market policy. But, above all, by stabilising public revenues through levying a taxes on wealth, large inheritances, speculative gains and profits of the large joint-stock companies. Not imposing taxes on exorbitant wealth and giant corporations is a social scandal.**

## **Financial and foreign exchange markets as a Bermuda triangle**

An answer that is commonly given by critical economists and others in the global movement with a negative view of capitalism to the question of what has happened to the produced wealth is that a considerable portion of it disappears in speculative transactions on the international financial markets as if into a Bermuda triangle.

If the financial markets would primarily fulfil their original function, namely to collect free assets from suppliers of money and channel them as loans into productive investments providing employment, then the financial markets would be suspected of withdrawing capital from production and services. But as things stand, this is not the way it works.

The problem is that the character of modern financial markets is shaped by the transition from the priority of financing investments to one of speculation with stocks, bonds and foreign currency. Especially since the 1990's, trade of this sort has come to dominate financial transactions.

Rising share prices may be able to stimulate growth temporarily. This is what happened in the second half of the 1990's in the USA and it had growth-promoting international repercussions. In expectation of nearly unlimited future markets in the New Economy founded on information and communications technologies, an enormous number of loans were taken out and shares issued.

Global corporations like Enron, WorldCom, Xerox, AOL Time Warner, Merrill Lynch and many others forged their balances to inflate share prices and increase the income of top managers, which consisted to a considerable extent of share options. The temporarily meteoric rise in share value also seduced many »ordinary people« into buying stocks. The result was an enormous speculation bubble. Joseph Stiglitz, Nobel prize laureate for economics and former World Bank Senior Vice President and Chief Economist, wrote on the devastating consequences of this kind of »alienation«: »We still don't know how much of the so-called private capital investments of the 1990's were just thrown out the window; but even if we assume that only a fraction of the loss in the value of shares can be put down to bad investments, then the figures must go into the billions of dollars.« (Stiglitz 2003: 48)

The collapse of the stock markets led to economic stagnation, internationally to the reaction to cut back social services and ensuing further impediments to growth and employment. At least in phases like this, the effects of the international financial markets can lead to massive losses of wealth.

**The demand of ATTAC to introduce a Tobin-tax on speculative capital transactions on the international financial markets remains on the agenda.**

## **The demographic problem**

A popular, but misleading interpretation of the ostensible or real disappearance of produced wealth is the reference to demographic change. The increasing share of elderly in the population supposedly devours so much of the domestic product for pensions, medical care and care-taking of the infirm that there is not enough left for other things. Taking care of the elderly gobbles up wealth – is what this approach comes down to. And the conclusion: Either the pensioners of tomorrow have to make higher contributions to the pension schemes and hence consume less today, or the level of pensions would have to sink; or – as things stand now – both would be inevitable.

One thing is clear: really huge problems of redistribution will arise when, for instance, in ca. thirty years in Germany there will be 70 (instead of 40 today) people over age 60 for every 100 people capable of gainful employment. But this is less than a doubling of the so-called age burden. Between 1960 and 2000, this »age burden« even quadrupled – and this with a rising pension level and considerable increases in the incomes of the gainfully employed. This comparison is an indication that the aging of society must by no means automatically lead to losses for pensioners and contributors to pension schemes.

If it does come to such losses, which the contributors and pensioners alike perceive as a disappearance of wealth, other circumstances must coincide with changes in the age structure of society: rise in unemployment, reduction of mass income, non-inclusion of large – especially those better-off – sections of the population in the government pension scheme, more and more wealthy people being able to opt out of financing the welfare state because the government provides them with tax cuts and loopholes, as well as restrictive immigration policies of the »fortress Europe«.

So wealth does not just trickle away because more people reach a ripe old-age.

Provision of benefits for pensioners could remain oriented on safeguarding the standard of living in future. Important prerequisites would be a successful policy to

reduce unemployment, raise mass income and, not least, a change in the current attitude of hostility to children prevalent in many societies in the western world to perceptible child-friendliness.

**The inclusion of all gainfully employed people – self-employed, freelancers, civil servants and even members of parliament – in the state pension scheme and raising the income threshold for compulsory insurance contributions without giving the economically better-off claims to higher pensions in accordance with their higher contributions, all this would broaden the basis of solidarity of the state pension scheme. The guarantee of a basic tax-financed income (on a level higher than current welfare aid in Germany) could eliminate poverty among old people.**

**A common immigration policy in the European Union – opening it for people in need and not only for specialists in high demand on the labour market – would also reduce the percentage of elderly in society.**

## Conclusion

There are many reasons to counter the myth of the disappearance of the cake to be shared with a provocative question: What has happened to the resources that are missing in every nook and cranny, especially where the needs of the socially disadvantaged are concerned? And in whose hands are they and how do they use them to what ends?

Scheue dich nicht, zu fragen, Genosse!  
Lass dir nichts einreden  
Sieh selber nach!  
Was du nicht selber weißt  
Weißt du nicht.  
Prüfe die Rechnung.  
Du musst sie bezahlen.  
Lege den Finger auf jeden Posten.  
Frage: Wie kommt er hierher?

Bertolt Brecht

Here we have established:

- The produced wealth is increasingly concentrated in the hands of a small elite upper class and above all in trans-national corporations, major banks and investment funds. The downside of this concentration of wealth is absolute poverty, hunger and disease in the so-called third world and social polarisation in the rich countries of the west as well.

Redistribution from the top down is still on the agenda! Justice is modern! Tax justice is part and parcel of this: Is a one-off capital levy for European billionaires not a demand that is long overdue? A capital levy for great

wealth everywhere in Europe where there currently is none, inheritance taxes on big inheritances and taxation of profits from speculation and stock-market gains would be first steps toward more tax justice.

- The disposable wealth could be far greater than it is. Costs caused by destruction of the environment and armaments, by socially and ecologically caused illnesses, by overstretching traffic infrastructure, excessive advertising and wastefulness in our throwaway society devour part of growth in productivity or in phases of economic stagnation even erode the substance – with no gain in quality of life. The dominance of profit in the economy and society is the fundamental cause of the chasm between economic development and the plummeting welfare effect.

A new model of society is long overdue – not flexible people marketing themselves as entrepreneurs of their own manpower and sole provider of all means essential for life. A sustainable model could be: People who can lead a self-determined life in social security, peace and solidarity with others because each and every one enjoys social equality to partake in basic conditions necessary to sustain all life.

- Because the most important criterion of society is profit, work as the great source of wealth has hardly even been tapped: millions are unemployed, large sections of the population are scandalously disadvantaged in access to education, in the so-called developing countries millions more are illiterate, information and knowledge are being privatised and people are being reduced to their usefulness for the exploitation of capital.

Work to sustain material existence for each and every person and socially equal participation of all in education are central demands for an alternative route of development!

- The material wealth in the western world is sufficient to meet the financial obligations to the »south« that the »north« took on at many world conferences but failed to fulfil. This wealth suffices for life fit for human beings in west and east as well.

To achieve this goal, we must change the way things are regulated. It is crucial to renew democracy from the bottom up, enable individuals to participate in the decisions influencing their daily lives in the community, create the social and ecological framework to counterbalance market mechanisms and fashion a strategically sound social policy on a national and international scale.

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