

## Session 8

### What is a successful Social Contract

#### The Precariat under Rentier Capitalism: A Perspective on Today's Dangerous Class

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Every age has had its stupidity about what is work. The past century was the most stupid of all. All work that was not labour disappeared from economic analysis, statistics, political rhetoric and economics textbooks. This distortion is key to understanding what is happening in the world of work in the 21<sup>st</sup> century.

We are in the midst of the Global Transformation –the painful construction of a global market system. It is analogous to Karl Polanyi's "Great Transformation", which was about the construction of national market systems in the 19<sup>th</sup> and 20<sup>th</sup> centuries. In both cases, the initial phase –which Polanyi called "dis-embedded" to mean that the economy was uncontrolled by society– was dominated by financial capital.

In the Global Transformation, finance has been bolstered by the economic ideology now known as neo-liberalism, an agenda of market liberalisation, commodification, privatisation and the pursuit of national "competitiveness". Its advocates have also sought to dismantle all mechanisms of social solidarity, since they stand against market forces.

Meanwhile, a global labour market has been taking shape, in which the labour supply to the open economy has quadrupled. An extra two billion people have become part of the open labour market, most habituated to a living standard of about one-fiftieth of what a west European worker would have regarded as the norm in the 1980s. This has created downward pressure on real wages in all OECD countries, especially as productivity has been rising much faster in emerging market economies, notably China.

In response, OECD governments have tried to make their countries more attractive to foreign investment. Led by the USA and UK, they have pursued labour market flexibility policies, which has meant making employees less secure in their jobs and wages more variable. The Italian and French governments are only the latest to pursue this strategy. In each case the politicians are making the error of not offering any *quid pro quo*, except for the unproven claim that the reforms will boost employment.

Meanwhile, a silicon revolution based on information technology, automation and robotics is reshaping the world of work and labour. It has made the relocation of production and employment much easier, depending on costs and prospective profits, and increased capital's bargaining power, further intensifying the downward pressure on wages and benefits.

Some economists and commentators believe the technologies will generate mass unemployment and a jobless future. But this is only the latest manifestation of "the lump of labour fallacy". There are more jobs today than at any time in history. But more of the productive jobs are elsewhere. According to estimates by Mckinsey Global Institute, there are more than one billion more people in employment today than a decade ago.

The pressure on real wages has meant that in many countries, including the USA, Germany, France and the UK, real wages have stagnated over the past three decades. And the growing income

inequality has been underestimated because lower-paid workers have been losing non-wage forms of remuneration and access to state benefits as well.

Across the world the share of income going to labour has been shrinking and the share going to capital growing sharply. What is most extraordinary is that the share going to forms of rent – income from assets and property – has shot up most. We are in the age of *rentier capitalism*, shaped by an intellectual property rights regime.<sup>1</sup> In this context, the 20<sup>th</sup> century income distribution system has broken down. Real wages will continue to stagnate, while within national labour markets wage differentials between and within sectors and occupations will increase.

The labour market looks even bleaker if one considers what might be described as five snakes' jaws. Traditionally, when productivity rose, wages rose in parallel. But in the globalisation era, when productivity rises, real wages stagnate. Plotted on a graph, it looks like a snake's jaws opening, the productivity jaw rising, the wage jaw sagging. Workers are no longer sharing in the gains.

Second, it used to be that when total employment rose, average wages rose. Not any more. In countries such as Britain and Spain, rising employment has been correlated with declining average wages, mainly because new jobs are paying lower wages.

Third, it used to be that when profits rose, real wages also rose. Not any more.

Fourth, it used to be that when total employment rose, tax revenue from employment rose as well. In the UK, the government was puzzled in 2014 to find that, despite rising employment, tax revenue from employment fell. The reason was that many of the new jobs were paying so little that they did not reach the tax-paying threshold.

Finally, it used to be that if wages fell unit labour costs fell. Today, in numerous countries, unit labour costs have been rising despite stagnant or falling wages.

The combination of neo-liberal policies, globalisation and the silicon revolution is generating a globalised class structure. At the top is a tiny *plutocracy*, billionaires who stride the globe, sucking in rental income and manipulating politics. They are aided by an *elite*, consisting of multi-millionaires who also receive most of their income from capital. They are detached from nation states, avoid tax and do not support welfare states.

Below them in the income scale is a *salariat* –a shrinking number of people in stable, full-time employment with good pensions, employment security and many non-wage benefits. Before globalisation took off, this type of employee was expected to account for most of total employment. Not any more. Their numbers are shrinking.

Alongside them are what I call *proficians*, people with technical skills who do not seek employment security, but operate in the gig economy, doing projects on a contract basis. They earn a lot, but have a stressful way of life.

Below those groups in terms of income is the old *proletariat*, consisting mostly of men in full-time stable manual jobs. The welfare states, Socialist and Labour Parties and labour unions were built by and for them. But their numbers have been shrinking everywhere, and their political and economic strength has been dying.

Below them in terms of income, a new class has been growing rapidly, the *precariat*.<sup>2</sup> Underneath it is an under-class, a lumpen-precariat, consisting of abject homeless people, with social illnesses that kill them prematurely. The precariat is not an under-class. It is wanted by global capitalism.

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<sup>1</sup> The evolution of rentier capitalism is elaborated elsewhere. G.Standing, *The Corruption of Capitalism: Why Rentiers thrive and Work does not pay* (London, Biteback, 2016).

<sup>2</sup> G.Standing, *The Precariat: The New Dangerous Class* (London, Bloomsbury, Third edition, 2016). It is a contention of this analysis that economists should not measure 'class' by reference to level of income only. Class is about relations of production, relations of distribution and relations to the state. Someone earning

The *precariat* may be defined in three dimensions. First, those in it have *distinctive relations of production*. They are being habituated to accept a life of unstable labour, in and out of casual jobs, on contract and so on. In the UK, casual and temporary employment is much higher than EUROSTAT statistics show, because anybody employed for under two years is automatically temporary; they can be dismissed without cost to the employer. In the UK, for example, the number called self-employed has been booming, but their average income has been falling and is much lower than those classified as employed. Many so-called self-employed are really dependent contractors, working for one “client”. Meanwhile, over one million people are on “zero-hours contracts”. They are full-time employees, must be available full time but are paid only for the hours they labour, which is often zero in any week or month.

The latest development to affect the *precariat* is *crowd labour*. It is forecast that within the next decade one in every three labour transactions will be done online. Those involved are *taskers*, doing tasks rather than being employed. Platforms such as Uber, Airbnb, Task Rabbit and Handy are creating a concierge economy, while Amazon Turk and others are creating a global crowd labour system, involving the virtualisation of many services. Reforms of professional regulations in many countries, replacing licensing for self-regulation, have made that easier.

This highlights something that is more important than unstable labour. The *precariat* has no occupational or corporate narrative to give to their lives. And they must do much unremunerated work that is not labour. They must apply for numerous jobs, retrain again and again, network constantly, and queue and fill in numerous forms in seeking benefits. All this is work and should be called that. A final aspect of this dimension is that the *precariat’s* modal average education is above what is needed for the type of jobs they usually obtain.

Second, the *precariat* has *distinctive relations of distribution*. They must rely mainly on money wages, which are falling, volatile and unpredictable. In the UK, although real wages have stagnated since the 1980s, they fell more than in any other EU country except Greece after the financial crash of 2008.

The *precariat* lacks non-wage benefits, such as paid holidays, sick leave, maternity leave and occupational pensions. They live on the edge of unsustainable debt. To compound their insecurity, they lack many rights-based state benefits, and face poverty traps, compounded by what I have called *precarity traps*, arising from the fact that when they lose jobs or incomes benefits start only after prolonged delay, if at all.<sup>3</sup>

Third, the *precariat* has *distinctive relations to the state*. This is the first time in history when millions of people are losing civil, cultural, social, economic and political rights, as described in a recent book.<sup>4</sup> It means that many who are nominally citizens are losing rights that make up citizenship. They are *supplicants*.

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2,000 euros a month from labour is not in the same class position as someone earning 2,000 euros from capital or rent. Someone receiving a salary of 2,000 with a pension entitlement and medical cover is not in the same position as someone earning 2,000 on short-term contracts without any such entitlement. Conventional statistics do not capture these distinctions.

<sup>3</sup> If someone must wait for a month before receiving unemployment benefits, it makes no sense to take a low-paying casual job once you start receiving them, since on losing it you would have to wait another month before receiving anything.

<sup>4</sup> G. Standing, *A Precariat Charter: From Denizens to Citizens* (London and New York, Bloomsbury, 2014). The word “denizen” is a medieval term describing someone who, on entering a town, was given a more limited range of rights than the town’s citizens.

The *precariat* is growing all over the world. But it is internally divided into three factions. The first consists of people who come from old working-class families and communities. Being relatively uneducated, they listen to far-right, neo-fascist populists, who play on their fears and insecurity, blaming the second faction in the *precariat*.

That consists of migrants, ethnic minorities and the disabled. They keep their heads down politically, but could be mobilised if appropriate policies were presented. The British government, among others, has been cutting the entitlements of this group, in ways that are inherently regressive.

The third faction consists of the relatively educated, who when they went to university or college were promised careers and rising incomes as they advanced in a profession. They emerge from college realising they were sold a lottery ticket, which costs more and more and has a falling probability of yielding a career. Many have debts they cannot imagine repaying. This faction is not drawn by the far-right, but is looking for a politics of paradise, a new progressive politics. Most are not drawn to Labour, Socialist or Social Democratic parties.

We are seeing these factions playing crucial roles in recent elections. The first faction is supporting Donald Trump in the USA, Marine Le Pen in France, UKIP and the right wing of the Conservatives in Great Britain. The second faction is feeling powerless and bitter. The third has been withdrawing from party politics, but recently have been mobilised by anti-establishment characters, such as Bernie Sanders in the USA and Jeremy Corbyn in the UK.

Politics and labour market trends are intimately linked. Unless the insecurity and inequality being generated by labour market trends are reduced, the drift to populist politics will accelerate. In the UK, that is as true as in all other OECD countries.

In short, the old income distribution system has broken down. The *precariat* is suffering from anxiety, anomie and alienation, and is increasingly angry. The situation is socially and politically unsustainable.