There is one issue that has troubled me greatly in the past few months. This being, the distribution of capital within developed economies, specifically the United States. The average worker is earning less as a proportion of the total wealth produced all while the cost of living has grown. How can this be? And more importantly, why have workers stood idly by and allowed this to happen?

The distribution of wealth in the United States has reduced significantly over the past 80 years leading to the top 1% of earners holding 32% of the total wealth as of 2013. At the same time, the bottom 50% of earners held only 2.6% of the nation's wealth in 2013.[1] This growing gap in productivity and median wages which is contributing to this lack of wealth distribution is brutally apparent Figure 1 below.

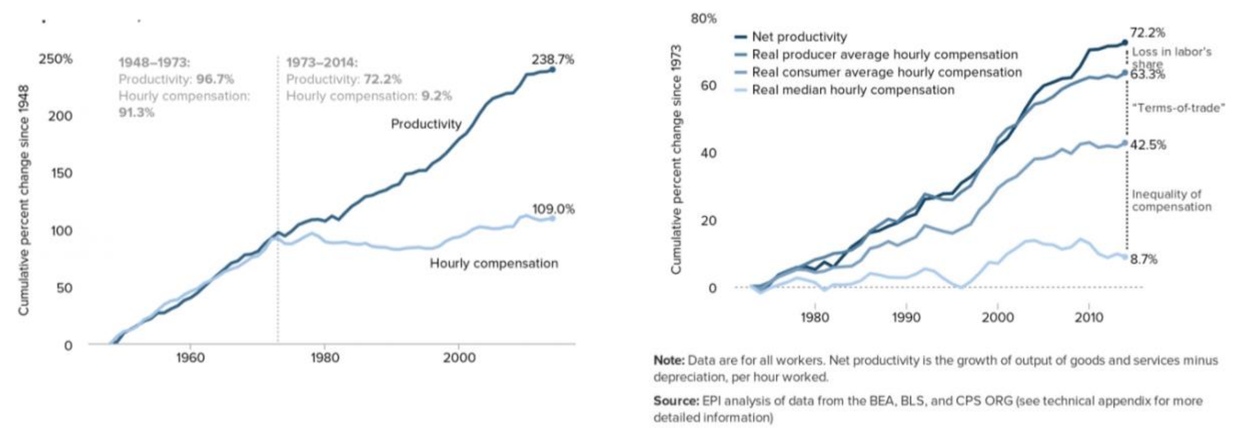

Figure 1: The Growing Wage - Productivity Gap in the U.S. (Source: Josh Bivens using data from Bureau of Labor Statistics)

On a similar note, as of 2022, the median salary in the US was around $54,000 with an average cost of living of $38,266 for a single person.[2] Comparatively, the average net income reported to the IRS in 1920 was $3,269[3] with the cost of living for a

[1] *Trends in Family Wealth 1989 to 2013*. Congressional Budget Office. 2016. 1

[2] *New to America: What is the Average Monthly Cost of Living in USA?*. Upwardli. 1

[3] Mellon, A. W. *Statstics of Income from Returns of Net Income for 1920*. Treasury Department Commissioner of Internal Review. 1922. 3

single male averaging $1,037[4], according to the National Industrial Conference Board. So, over the last century, the average worker's disposable income (that which he doesn't spend on necessities) has decreased from 2/3rds of his income to less than half. It is worth mentioning that these figures must be taken with a grain of salt as they vary largely dependent on the state, city, and gender of the worker being looked at.

Regardless, the trend which has emerged is startling. Over time, the median and average worker's compensation have decoupled with the cost of living, so for all intents and purposes, the worker is monetarily worse off today than he was in the late 1800s. Today's workers have less disposable income and are getting a smaller portion of the total wealth in the United States.

Karl Marx and his communist-supporting economists predicted that this growing gap is inevitable under capitalism. They went on to argue that this and the ever-deteriorating relationship between the proletariat (workers) and bourgeois (capitalists), which capitalism encourages, can only lead to a communist revolution led by the proletariat. Yet, there have been no such uprisings. In fact, there doesn't even seem to be much concern for the issue in general. There exist few news articles, research papers, and even conversations around this topic despite the issue's progressive growth. So, why have Karl Marx and the Communists believers been wrong thus far?

Now I will acknowledge that some of the lack of attention can be attributed to the media and education system being designed and controlled by the government and the societal elite. So there stands a chance that we now lie in a dead field of grass, awaiting a spark to bring about the chaos and eventually new life Karl Marx proposes. However, I

[4] *The Cost of Living among wage-earners: Cincinnati, Ohio, May, 1920*. National Industrial Conference Board. Cincinnati Public Library. 14

don't believe this is to be case. Instead, in the following pages I will propose that there exist two dominating reasons the problem of wealth distribution and our economic structure have little bothered the American people.

Firstly, the average American has been brainwashed into favoring capitalism. The classic arguments against Communism are its difficulty to organize and maintain on a large scale, and the transition from capitalism to communism being too difficult. While these may be valid, I believe few Americans could truly explain this. High schools hardly mention the terms communism or socialism, which is why I strongly doubt the majority of the population could even provide an adequate definition for these terms. Despite this, the terms communist and socialist are used regularly. They have been weaponized in the political atmosphere and by the media to become more of an insult than an academic term to describe an economic structure. This lack of scholarly thought and challenge around our economic structure likely stems from the U.S.'s wars in the 1900's which were primarily against nations converting to capitalism. This led to both propaganda and subconscious blame being placed on the concepts of socialism and communism for these countries' horrific actions.

Second, and more importantly, I believe we may be measuring "wealth" incorrectly. I will argue that wealth is not the amount of dollar bills one holds in his procession; it is the quantity and quality of satisfactions he can purchase with said purse. Thus, the answer to why we no longer seem to care about the distribution of wealth lies in mankind's progression as a whole. I will argue that as our society has become more advanced with cheaper goods, new technology, and better processes, more people can enjoy more goods and services for less and of a better quality. The result of this is less of a need for the capital in the country to be evenly distributed for people to live comfortably and be satisfied in their consumption. Marx did not predict the scope to which the world's standard of living would increase. So, does this mean that so long as the world continues to innovate and evolve for the better, workers will continue to be distracted from the growing monetary disparity as their quality of life increases making them feel wealthier, or will we yet reach a tipping point as Marx predicted?

Before we analyze the history of wealth and answer the questions "Why is Karl Marx wrong?" and "What does this mean going forward?", we must better understand what utility is, how it is found, and why we desire it.

What is utility?

In order to adequately analyze wealth over time we must understand what true wealth is. As mentioned before, wealth is the culmination of the quality and quantity of goods a person can consume that satisfy a person's desires. To measure the quality of a good we must place value on it by defining its utility. Everyone places a different value on goods and services as they seek to satisfy their individual desires through the consumption of these. These benefits realized through consumption are beyond physical, there is an emotional element to the utility we find in the consumption of goods. When I purchase an apple, I might find X utility in eating said apple. In a week, I purchase the same apple, but this time I have not eaten in 3 days, I now realize a utility of Y which is greater than X through the consumption of the apple. Another week later I purchase another apple, but I never eat the apple, instead I throw the apple out. I may find Z utility in scenario 3 which could be equal to or less than to 0 (no utility). Let's say I purchase a fourth apple a week later, this time I place the apple on my counter as a decoration and in doing so I generate W personal utility in this form of consumption (utilization) of the good which is greater than Z utility but less than X utility. As you can see, the same product can give the same person different levels of happiness or value through the many ways the person can use or consume the product. Depending on the level of happiness I find through the good's consumption, I may be willing to pay different prices for the good in hindsight. Unfortunately pricing the good perfectly requires both complete knowledge of quantifying my levels of happiness and most importantly perfect knowledge of the future and how exactly this good will be consumed, for what fundamental purpose, and in what mental/physical state I will be in. Thus, perfect pricing is impossible in the real world.

Adding to our understanding of utility, we must acknowledge Utility is the culmination of our past, current, and desired future situations (the purpose we consume the good for) as well as the person's personal mental and physical state at the time of consumption. A person who strives to find the best in situations and who has a history of poverty may find a higher utility and thus be happier in eating an apple than an person who has had a bad day and has a wealthy history of eating extravagant meals. Likewise, a person who is trying to lose weight may be happier in eating an apple than a person who doesn't care and is thinking about how much better a donut would taste. The situational and mental factors make up an individual in a given moment define both the utility they derive and their personal consumption behavior. Now that we have realized the fact that consumption and realized utility are driven and decided by the satisfaction of abstract individual impulses and the mental state an individual consumes the good in, the next challenge lies in categorizing these different impulses or needs that all humans seek to satisfy in their own consumption behavior.

Why do we consume goods and seek utility?

As we have seen above, consumption satisfies needs, these needs or urges are unique to the individual and are side effects of a person's lifestyles, experiences, mindsets, goals, and fundamental human nature. We must now look at the core reasons we consume goods and thus desire money in order to analyze how access to these has changed over time. Before I do this, I would like to emphasize the fundamental nature of these 4 categories. Any good can be one or a combination of any of the 4 categories depending on the purpose for which the good is purchased, consumed, and how utility is found. The first fundamental purpose for which we desire, purchase, and consume goods is for **Necessity**. Necessity being that which we feel we absolutely need to maintain our current situation. It is what we deem as the bare necessities for our current lifestyle, that which can be can not be substituted down without sacrificing an element of our lifestyle. At the most basic level, every human being needs freshwater, food, air, sleep, and moderate temperatures if they desire to continue living. After these, each individual defines their own needs based on the personal conditions, discussed in the paragraph above, which drive consumption and utility. Building on necessity lies the second fundamental category of utility: **Comfort**. Comfort is that which improves a person's situation. It may be a necessary good or service, but it must be elevated in some way such that a person could downgrade and still fulfill what they deem necessary in the moment. For example, food is necessary, but a person may prefer some foods to others. If an individual were offered stale bread or a fine steak to satisfy their need to satisfy hunger and continue living, they may choose the steak given that there are no barriers towards this selection. This upgrade in a person's experience is rooted in a human desire for freedom of choice towards preference in life. The third category I will introduce is **Luxury**. Luxury consumption is an unnecessary upgrade that is for purposes beyond our personal preference and comfort. It seeks to satisfy an incompleteness and distinguish a person by elevating their position in society, in the eyes of others, or in their own view of themselves. While it is not defined the emotions it encourages, luxury consumption appeals to our pride and inclination towards competition, power, and success. The fourth and final category that underpins the reason we consume goods, and thus desire money, is for **Control**. Control is similar to necessity in that it is oftentimes for the purpose of achieving a vision of what we want. The key difference is that control seeks to build what we desire in the future, however near or distant. Necessity seeks to maintain that which we currently have. Control can mean control over our physical self, over other people, or over inanimate objects/materials. Like Luxury consumption, Control can also appeal to our pride in making us feel powerful over others. This is an important caveat. Just because the emotions felt can be similar in satisfying any of these categories, that does not make them the same. A lot of emotions can be felt in the pursuit and use of goods for any of these 4 purposes, thus these are beyond pure emotions. These categories seek to define your most fundamental reason(s) for purchasing and consuming goods and services.

As mentioned before, a person's reason for deriving utility from the consumption of something may be a mixture of any number of these categories with a different weighting placed on each category depending on one's current situation and what they desire. Oftentimes, we seek to satisfy all four longings in our purchases, consumption, and derivation of utility. Let's take the example of purchasing a car. I can feel as though I need a reliable mode of transportation for my current lifestyle. I can also desire a certain level of comfort in my transportation from point A to B. Of course, I don't want to look dumb in front of my friends so I'm willing to pay more for my mode of transportation to look attractive to others. Finally, I want to have the ability to control where I go and the time it takes me to get there. I have thus decided to purchase a car that satisfies all 4 of these categories.

It was also stated that these categories are completely unique to each individual. To show the varying nature of these categories we will look at the example of a snake bite. If I were to be bitten by a venomous snake I would need to purchase and consume the antivenom because I desire to live longer. While another person who has not been bitten does not need and thus would not want to purchase or consume antivenom. So what is necessity for me is not necessarily necessity to others. It is now quite easy to see the variability of these categories depending on the individual and how these categories can be used in combination to explain all purchases.

The satisfaction of these categories along with the physical and mental factors involved in an individual's situation at the time he derives utility from a good determines how much utility the person will realize from the purchase and consumption of a good or service. These categories can also be referred to as the fundamentals money can buy.

We have now determined what utility is, how its derived, why we find different levels of utility, and what motivates us to continue to consume and seek utility. We can now look at how access to the four core categories, that motivate consumption and the acquisition of money, have changed over time.

We will begin with a look at the differences in the worker and capitalist's position in 1920 as this is the world in which Marx identified the fatal flaws of capitalism. The period after the Great War was one of plenty. The United States' production in 1920 had increased by more than 12 times that of 1860 while the population over that period had only tripled.[5] As mentioned before, the average single male had a disposable income of around 2/3rds his salary. Monetarily, there was plenty of money to go around, though these great strides in wealth and production were not without cost. Many workers worked eight hours a day, six days a week in physically demanding blue collar jobs. Unfortunately, these workers did not find relief from their situation in satisfying all four of their core reasons for consumption and working. People at the time had developed a predisposition towards frugality, thrift, and creating/fixing goods themselves.[6] These frugal habits and mentality towards spending most likely developed from a combination of the conservation required during the Great War and the great amount of time and effort blue collar workers were required to sacrifice in order to make a living. Understanding the mindset and situation of the average worker in 1920, we can make some assumptions about how fulfilled they were was according to our four core reasons for expenditure. If a person does not want to spend money, they will sacrifice desires towards comfort and luxury consumption. Thus, we can conclude that these workers who refused to spend what they didn't need to only satisfied that which they declared necessary in their respective lives. We can also imagine the mindset and emotions an

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[5] Higgs, Kerryn. *A Brief History of Consumer Culture*. The MIT Press. 2021

[6] Higgs, Kerryn. *A Brief History of Consumer Culture*

over worked, underappreciated individual felt while purchasing and consuming goods after he/she had lived their entire life refusing to spend and prioritizing saving. This attitude that defined this generation would make almost all consumption unenjoyable. If a person is frustrated with having to spend money on a good or service, their utility in consuming the good is going to be far less than if they were excited and happy to purchase said good. Thus, we can conclude that a combination of the values and the consumption behavior of the time led to both unenjoyment for workers to consume and an unfulfillment in the core reasons they purchased goods because of this mindset which blocked them from perusing consumption towards luxury, comfort, and oftentimes control.

Capitalists, on the other hand, were much better off despite having less of the total share of wealth in the country. Capitalists, at the time, were blessed with the gift of time and freedom. These people, who made up the societal elite, got to choose the industry and purpose towards which they commited their labor. Because of this freedom and the way in which capitalists acquire wealth, their mindset towards money was very different from that of the average worker's. They valued money less as it was easier to come by. Because of this, these capitalists had no problem in spending their money and were thus able to consume goods for all four purposes without concern. So, capitalists were able to both satisfy their consumption desires and find greater utility in consuming goods because of their laid-back mentality. This distinction in mindset created a stark difference between the lifestyle of the capitalist and the lifestyle of the average worker. This divide in consumption behavior would have further upset the working class who is both frustrated with his labor condition and now in his lack of consumption compared to that of the capitalist. On top of the differences in consumption, Karl Marx identified that the capitalist was incentivized to sell his goods at the highest price while also paying his workers the least possible amount to maximize profit. Both of these actions harmed the condition of the worker. So, the labor class was unhappy in his consumption behavior and was forced to endure a deteriorating working condition. For these reasons, Marx correctly saw a growing disordering in the relationship between the two social classes. Marx theorized that this dying relationship and growing gap in wealth distribution would lead to the downfall of capitalism in the form of a communist revolution led by the working class.

The world we enjoy today is far different from that of Marx. Technological and productive advances have changed the roles, industries, and working conditions available to the working class. These innovations have particularly transformed and automated the manufacturing and industrial processes greatly reducing the need for human labor in those sectors. As seen in figure 2, the reduction in blue collar work has pushed most workers into the service industry where labor is far less physically demanding. An interesting result of this is the generational change in consumption behavior shown in figure 3 on page 12. Unlike the mentality of the average worker in 1920, people today are

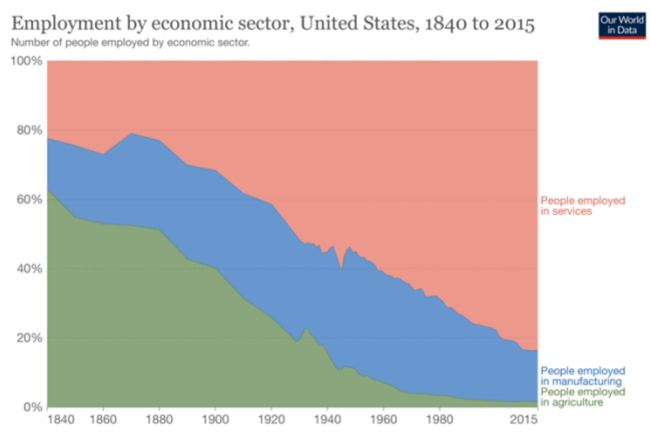

Figure 2: U.S. Employment by Sector 1840-2015 (Source: Ortiz-Ospina)

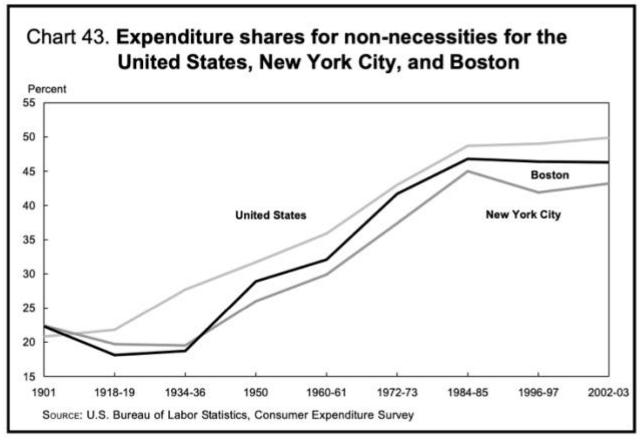

Figure 3: Percent of Income spent on Non-Necessities in the United States, 1900-2003 (Source: U.S. Department of Labor P.70)

happy to spend more of their income satisfying their unnecessary consumption desires (comfort, luxury, and control). Though this is likely the result of many factors, the polar change from physical to mental labor being the driver of income must not be overlooked. As discussed above, the amount of time and effort a person expends to earn a wage directly impacts how they are willing to spend what they have earned. Another important determiner of consumption behavior is the cost of goods. These technological and productive advances have reduced the cost of production while increasing the quantity produced allowing consumers to seek necessity, comfort, and control to a reasonable extent for less money. As shown in figure 4, the percent of income spent on food, clothing, and housing (the items which many people consider to be necessity) has fallen by nearly 30% in the past 100 years. This is particularly interesting considering the dramatic rise in home prices which has occurred over the same period. It turns out that this is driven by a huge reduction in the costs of food and clothing, a direct result of the technological and productive advances which have pushed human labor out of those industries.

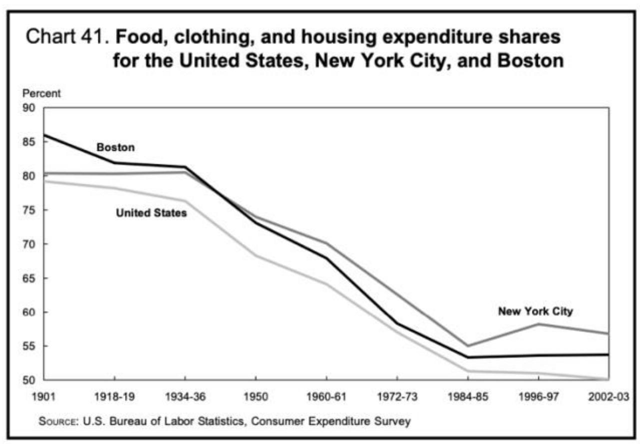

Figure 4: Percent of Income spent on Necessities in the United States, 1900-2003 (Source: U.S. Department of Labor P.68)

Surly, a poor man today with his climate-controlled house, comfortable clothing in all colors, supply of all the food he can fit into his stomach, access to all information and communication at the press of a button, and ability to travel anywhere in the world would be considered the richest of kings in the early 1900's. So, while the proportion of money distributed has decreased, the quality and quantity of goods available have increased far beyond this loss.

As discussed above, workers now enjoy a much different reality. Not only are they more able to spend a greater percentage of income on comfort, luxury, and control goods because of lower costs, but they are also happier to do so because of the generational change in consumption behavior and the mentality around spending. Being able to consume more for personal benefit beyond necessity tricks the worker into feeling far wealthier. They are now able to enjoy consuming beyond the bare minimum they define as necessity. So, while the distribution of money may have declined, the "wealth" the average worker enjoys has increased reducing their need for a more equal share of the money produced.

To summarize, great technological and productive innovations have fundamentally changed the labor required in the United States and have reduced the cost of goods and services. These two results of innovation have completely changed the consumption behavior of the average worker allowing him to fully enjoy the utility he derives from satisfying his four core reasons for consumption. So, Marx's error was in failing to predict either the degree of technological progress or its effects on the consumption behavior of workers.

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