Let There Be More and More Competition

Interview with Dr. Ravi Batra

What is the nature of inflation?
Inflation affects the poor badly and also hurts the middle-class. The global response to the pandemic was that governments increased their budget deficits sharply to ward off negative effects on production, employment and poverty, etc. The pandemic played out against a backdrop of years of low to zero interest rates along with huge increases in money supply. Some nations had even negative interest rates. In this atmosphere economic equilibrium occurs when:

Supply = Demand + New Debt

For several thousand years, equilibrium occurred when supply equaled demand. But now it requires supply to equal demand plus new debt. Such is the distortion needed to preserve monopoly capitalism, wherein a few producers dominate various industries. It is a distortion of the economy, because it needs the governments to run huge deficits to essentially buy goods and services from large suppliers. It is also symptomatic of corrupt politicians who constantly need money to get themselves elected.

Politicians feel that they need to allow the CEOs to raise their salaries every year regardless of their performance, so the CEO pay keeps rising. The CEOs in turn donate campaign money to the politicians to win elections. So, each party is happy with the status quo, while the masses suffer. This is why we find the real wages of production workers in the United States have been stagnant and even declining since 1974. Let us look at the pre-pandemic data. According to the economic report of the president issued in 2017, real wages of production workers were \$326 in 1974 vs. \$311 in 2017, whereas the index of worker productivity rose from 50 to 108. Thus, even as workers became over twice more productive, their real wages fell. How many production workers are there? They are about 75% of the labor force. So ,the living standard of as much as three fourth of the population actually fell over those 43 years from 1974 to 2017, while productivity jumped sharply.

Such is the fruit of monopoly capitalism. So, who benefited even as almost everyone else suffered. The answer is—the CEO as well as their patrons, the politician. We need more competition in many industries. Wave after wave of mergers even among large companies has stifled competition among private firms and created super-sized corporations.

As regards the post-pandemic economy, the CEO pay has not declined, but poverty is now the highest in over 50 years. The Federal Reserve and its supporters tout a low rate of unemployment as a mark of singular achievement since 1969, when the unemployment rate was 3.5 percent as compared to 3.6 percent in 2023. But they forget that the minimum wage in terms of today's prices was about $11 in 1969 vs. $7.25 at present; similarly, federal debt stood at less than a trillion dollars then vs. over 32 trillion now. Still, they cling to the status quo. Now you need supply to equal demand plus new debt, which becomes:

$$\textit{Supply} = \textit{Demand} + \textit{Total Borrowing}$$

In other words, past year's borrowing becomes new debt today. So for production or supply to be sold out, you need consumer demand plus federal and consumer borrowing every year. Otherwise, production will not be sold out and will result in layoffs.

Normally, when demand rises faster than supply, prices go up. But this time demand was generated by governments as they borrowed money to create artificial demand and essentially bought goods and services from suppliers. This was great for the suppliers, the monopoly capitalists. Since interest rates were also low people bought big- ticket items like homes and new cars on credit as well. Thus, so much artificial demand was created from all this borrowing all over the world that prices began to rise and inflation surged to the 1981 level.

What is your solution to inflation?

In a just society, the government shouldn't have to worry about buying goods and services from suppliers. The purchasing power of people should be enough to buy goods offered by suppliers so that there are no layoffs. But this means no budget deficits, and no money creation for some time. The federal reserve has gradually raised interest rates and that will eventually cool inflation, but for inflation to be completely wiped out, governments will have to balance their budgets.

Perfect competition will be the main key to generate a more dynamic economy.

What is the significance of people's purchasing power?

When suppliers do well in the market, profits and

... cont'd on page 71

Interview with Ravi Batra *cont'd from p. 59*
the value of their stocks continue to increase. In this way, stock markets have continued to boom whereas people are suffering. The suppliers do not feel the need to raise wages of those who work for them, because increased government spending adds to total demand for their goods. That is why productivity has sky-rocketed while real wages have plummeted. Let us define the concept of the wage gap as:

Wage Gap = Labour Productivity / Real Wage

Whenever productivity raises faster than the real wage, the result is a rising wage gap. This rising wage gap creates all sorts of problems: widespread poverty, and a constant need to increase government spending. Rising productivity means that supply goes up as each and every employee increases his and her production. Productivity is the main source of supply, and the real wage, or people's purchasing power, is the main source of demand. What we have is a situation where productivity rises fast but the real wage does not. To cover for this rise in wage gap since 1974, government spending has to be increased, increasing corporate profits that fuel the stock market further, without benefitting the general public.

In your article you mention two great economists, Kautilya and Keynes. Would you say fairness and humanity are significant elements of economics?
Yes indeed. In 1960, the average salary of a CEO in America was about 60 times the average real wage. Today, it is more than 300 times. Almost the entire increase in productivity since 1974 has gone into the pockets of suppliers. This system is pure corruption. Suppliers pocket higher profits due to increased productivity without offering a proportional increase in wages--whereas some of those profits are allotted to politicians in the form of campaign funds to keep that corrupt dynamic going. This has been happening since the early 1970s in the US. A just system will require that the real wage growth equals productivity growth of the economy so that everybody benefits from new technology, which is the main source of rising productivity. Also, this is an ethical system, because if your productivity rises you expect to be rewarded for it.

Profits continue rising for suppliers as productivity increases, but the working class gets poorer. Poverty is actually the highest in the last 50 years despite huge subsidies given to the very poor. Governments have to create competition for giant corporations and outlaw mergers among large firms. This is what Adam Smith recommended in his 1776 masterpiece, *Wealth of Nations*, and so do I in my *Common Sense Macroeconomics*.

For instance, there is no competition among large banks, and they have been charging very high interest rates from the poor. Today the average American has less than $1000 in savings, which means that people cannot meet any unexpected expenses from their savings and have to borrow with a credit card.

Whereas government lending rates have been hovering around 0, credit card companies have been charging 20% to 25% interest rates and more on their loans. Interest rates for the poor are even higher in countries like Mexico, and perhaps the highest in Brazil where the poor have to pay 100% interest on their credit card debt. In 2007, the profit margin of US credit card companies was just 5%; today it is up to 20%. The main reason for it is that governments have allowed competition in the banking industry to decline sharply.

So, an ethical economic system has two main properties. First, real wages should rise as fast as productivity, so that the wage gap stays constant. This can be done by allowing the minimum wage to increase proportionately with productivity. Second, the interest rate on credit cards should be such that no bank has a profit margin exceeding 5% on credit card loans. As I said earlier, in 2007 this profit margin was just 5%, and the banking industry in America had a profit of some $440 billion, which even now is a huge amount of money.

An ethical system requires strong competition among firms. The present-day monopoly capitalism has to give way to mass capitalism or economic democracy. This is the only way to restore prosperity and bring inflation under control. The rule of money in politics must disappear. Governments need to be honest to further a societal transformation.

Interview conducted by Rodrigo Bazúa Lobato and Trond Överland