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OK, Capitalism

Critical Comment on the Book "Capitalism, Alone" by Branko Milanović

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Abstract

A world-renowned economist, prof. Branko Milanović, recently published a new book on pervasive inequalities. *Capitalism, Alone* (2019) is another great piece in Milanović' intellectual opus – it provides some convincing and very relevant arguments on why deep wealth inequality continuous to linger in its place and how it is perpetuated by certain elements of liberal capitalism. On the other hand, when suggesting measures to counter these inequalities the book remains cautious and politically moderate, without seriously considering what should be its central proposal – *pre*-distribution of capital ownership. Nevertheless, like all good wines, this book should age well. The analysis will help my generation, the future political leaders, to better understand inherent problems of contemporary capitalism and to design policies that would structurally counter the inequality trends.

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I. Introduction

Professor Dr. Branko Milanović, one of the greatest economists working on economic inequality today, recently has another book out. "*Capitalism, Alone"* (Milanović, 2019) deals with certain idiosyncratic elements of western liberal capitalism that exacerbate the already unsustainable levels of inequality. His analysis is, as usual, on the spot. Nevertheless, the book is short on the political imagination that could actually get us out of that inequality pickle; Milanović remains excessively careful and moderate on the necessary policy recommendations, something that is characteristic, and was so throughout the history, of the vested generational attitude. In this review, we outline the main ideas in "*Capitalism, Alone"* and show where Milanović would benefit from the generational exchange of older experience and younger imagination.

II. The Analysis: Liberal Capitalism and its Inherent Vice

One of the major points Milanović makes is that capital income is increasing relative to labour income, while being very unevenly distributed in the general population. Gross Domestic Product or GDP shows the value produced in a given period. The second side of GDP coin is income – GDP also says how much people earned in that given period. Income is distributed among the citizens, while some groups in the population are receiving a greater share than others. A useful way to categorize these inequalities is by defining classes by the source of income.

Income from labour and income from the capital are two predominant sources of income in the liberal capitalist economy. In the past, it was thought that the ratio between labour and capital is roughly the same through time. Bowley's Law in economics states that wage share in the total income of a given country remains constant over time (Krämer, 2011). John Maynard Keynes described the law, which presumed about 70% is attained by workers and around 30% by capital earners, "as one of the most surprising, yet best-established facts in the whole range of economic statistics" (Keynes, 1939). As most of the "iron laws" in economics, Bowley's Law does not behave very law-like. The ratio between capital income and labour income in total income is not fixed - Milanović shows that since the neoliberal revolution in the late 70s, capital income is growing in the share of total income, today nearing the ratio one to one.

The increasing share of capital income would not contribute to economic inequality if capital would be relatively equally distributed in a population. Milanović shows that this is not the case. Capital ownership is extremely centralized, while capital income inequality is remarkably high even in the countries with relatively equal labour income inequalities. The Gini coefficient, the elemental measure of income inequality, is between 0.3 and 0.5 for labour income in the developed western countries, whereas capital Gini is between 0.85 and 0.95[1].

In addition to capital concentration, Milanović shows that economic inequality is exaggerated by the inequality in capital returns, mostly because capital portfolio of the upper income classes on average yields greater returns than the capital portfolio of the middle class.[2] The reason for the difference in the average yield between upper and middle class is in the composition of the capital ownership. The high-income class can finance adequate diversification and search for higher returns by investing into speculative financial instruments. The middle-class foremost investment is in real estate - an investment that is often financed by debt capital and the market that traditionally does not experience high return rates.

Another important element in rising economic inequality is the influence over political process attained by the upper classes through lobbying or supporting political campaigns. Both, in Europe and in the US, money progressively influences social politics. Buying politics through financing campaigns and lobbying is highly profitable investment for the very rich, because it yields great returns by guaranteeing rich-favourable tax policies, market deregulation, free trade agreements, privatization of crucial infrastructure, colossal public-private partnerships for large industries, reduction in the welfare state, and so forth. Milanović warns that this is one of the most concerning trends of past decades. The European and USA politics are more and more in the hands of the extraordinarily rich, and the social policies addressing the middle and lower-income class issues are underrepresented in the parliament (Domhoff, 2010; Ferguson, 1995; Cook et al. 1992). While we blindly rely on the functioning of political democracy, we also turn a blind eye to the process of degeneration of democracy into a plutocracy, a political system where economic power implies political one.

[1] Where the Gini coefficient value of 0 means perfect equality, while the value of 1 means that only one person has all the income and others have none.
[2] While the lower income class has “negative wealth”, meaning that it is, on average, in debt.

Milanović argues that one of the most relevant reasons for perpetuating economic inequality is inequality of opportunity. Inheritance and unequal access to quality education play central roles in maintaining unequal position of opportunity for citizens. Generational transfer of wealth is especially problematic, mostly because it is also ideological inconsistent with the self-proclaimed meritocratic value pillar of liberal capitalism. Despite this, we do not question inheritance. Most of the western capitalist countries are collecting incredibly low tax revenues from taxing inheritance, mostly because of very high exemptions, that is the value under which inheritance is not taxed at all. For example, in the US the exemption was $675,00 in 2001 and was raised to $5.49 million for an individual and $22 million for a married couple in 2017. Even Nordic countries like Sweden are withdrawing the inheritance taxes with only France staying strong on that policy.

"Capitalism, Alone" offers a causal chain that explains perpetuating economic inequality within existing capitalist systems. We could employ the useful Gunnar Myrdal's (1957) concept of cumulative circular causation (or self-reinforcing positive feedback) to understand the mechanisms underlying this process – the link between political and economic, which allows the rich to develop, establish, and further encourage institutions of intra-generational privilege, is turning healthy democracies into plutocratic societies, and the old political principle of "one person one vote" is slowly but surely being crowded out by money gaining voting power. Milanović is critical of this and explains it by isolating and studying individual elements of this cumulative causal chain. However, when it comes to political implications, the reader may experience some disappointment.

III. The Policy: More of Improved Same

Milanović acknowledges the fact that concentration of capital ownership is probably the most relevant factor behind perpetuating economic inequality in liberal capitalism - and consequently on the main issues behind the demise of political democracy. "*Capitalism, Alone"* deals with a few policies that would lead to a functioning economy and political system. A useful distinction is made between *re*distributive policies, where the welfare state taxes part of the earned market income of the highest earners and transfers it to the lower income individuals, and pre-distributive policies, where the market itself produces more egalitarian outcomes.

The main political recommendations in the book belong to the redistributive agenda. Milanović discusses the need for tax advantages for the middle class and the corresponding increase in taxation for upper classes, with the focus on high taxation of inheritance. He continues with the need of expanding the public program, with the focus on improving the quality of public schools, which should become financially accessible to all income classes to reduce generational transmission of advantage. Finally, he mentions the need to detach the financing of political campaigns from private interests by allowing exclusively public funding. This would reduce the ability of the upper class to control the political process.

He recognizes that the role of a welfare state in the global economy of 21st century is limited, as capital can move freely and search for lower cost environments either through international labour cost dumping practices or by bypassing worker rights through outsourcing on national markets. "*Capitalism, Alone*" flirts with certain, more structural policies that would build a more egalitarian capitalism with "*approximately equal endowments of both capital and skills across the population*" (p. 46, author's emphasis). He discusses policies that would encourage small and medium shareholding, and discourage larger, dominant shareholders. Milanović also favourably talks about worker ownership in pages 46, 47 and 48. Sharing ownership of productive capital in business enterprises seems like a good idea to oppose the causal chain of capital concentration; when employees of companies become co-owners of the companies where they work, the capital becomes more equally distributed, which means that the increasing share of capital income in the total income would flow in greater number of hands.

Despite some treatment of structural economic policies, "*Capitalism, Alone*" remains well on the well-beaten paths of redistributive policies as a suggested measure of decreasing economic inequality.

IV. Critical Review: A Generational Gap

The cultural terrain of contemporary political action is strongly defined by the generational gap in values and expectations. Older generations are predominately burdened by the political experiments of the past (often rightfully), however their historical memory may unnecessarily limit the political imagination of today. Younger generations, on the other hand, tend to be naïve in their understanding of the past; however, they are less limited in the political imagination for it[3].

The socio-economic policies of the past century that characterize mainstream left and liberal politics are policies that rely on welfare state, union bargaining, and regulation. While welfare is something that is necessary, it is certainly not sufficient for meaningful economic emancipation of the middle classes. One of the pioneers of progressive industrial policies, Robert Owen, has, some time before Karl Marx, warned that governments can never ultimately save and emancipate the worker in capitalism. Without ownership of capital, workers remain stuck in opposition, while the interests of capital coalition will prevail when necessary[4]. In response to redistributive focus of the well-meaning progressives, we would join Gothenburg University political scientist Bo Rothstein in asking whether "the political situation in most western countries is such that it will be possible to win a political majority for these polices?" and "are these proposals sufficient to remedy the huge increase in inequality?" (Rothstein, 2020).

The answer to both seems to be a decisive 'no'. The redistribution is often interpreted by the high earners as taking the deserved income from the productive and creative, while the opposition to welfare has the strongest and most successful since the beginning of the neoliberal revolution in the late 70s. For that reason, long-term addressing economic inequality in the 21st century means addressing very unequal distribution of capital ownership in western economies. Economic democracy, which implies employee ownership and workplace employee participation, seems to be the best answer to counter the structural elements of inequality today.

Economic democracy is not a utopia but a very tangible and functional alternative; employee-owned and employee-managed enterprises are a reality of the most developed economies of

[3] One great example here is 'socialism'. Political socialisms of the past were, almost without exception, state socialisms (or even state capitalisms, as some would argue). There is a great generational divide on the use of socialism: While the older generation is weary of its use because it sees the language as an institution of habit, a reflection of historical manifestations, the young generation sees in this historical usage a misnomer and prefers to look at socialism as a concept building on its original, democratic meaning (which is the opposite of what the older generation understands under the term).

[4] This is the story behind neoliberal revolution; when democratic body in 50s and 60s was increasing economic autonomy, people started pushing on political processes, demanding the end to the "big earners" for corporate capital, like the end to imperialist war activities of the US, end to pharmaceutical monopolies, end to privatized public infrastructure, etc.

21st century. In the USA alone, there are roughly 7,000 companies that adopt Employee Stock Ownership Plans or ESOPs, under which *all* working employees are included in the ownership scheme. In this way, around 14 million American workers (10% of the private workforce) are co-owners of the companies where they work (NCEO, 2020). Recent ground-breaking study by Rutgers Institute for the Study of Employee Ownership and Profit Sharing proves how successful such a policy could potentially be in lowering wealth gaps if applied on a macro scale. The study found that low-and-moderate income workers that work for an ESOP company have a median account value of $165,00 compared with the average American household's $17,000 in savings. Worker closer to retirement have 10 times more wealth than the average American of their age (Blasi and Kruse, 2019). This is not an isolated study of an isolated US employee ownership model. Researchers finding out about the effects of employee ownership manifested in different models all around the world are coming up with the roughly the same and completely unsurprising result – transferring ownership of companies into the hands of employees has strong effects on lowering wealth and income inequality (Carberry 2010; Freeman and Kleiner 2000; Buchele et al. 2010; Horowitz et al. 2011; Huertas-Noble 2015; Smith and Rothbaum 2013; Wright 2000).

Wealth inequality significantly alters economic freedom, and it was shown that this has effects on political processes (Islam 2018). However, saving democracy requires much more than preventing rich people from buying the candidates or lobbying for legislation. It requires cutting on the extreme levels of inequalities at their source, making space for bottom-up changes that yield greater self-determination, more individual autonomy, and more freedom to develop personal capacities, all of which to prevent susceptibility to dangerous populist politics (Golder 2016; Casassas and De Wispelaere 2016; Han 2016; Harell, Soroka, and Iyengar 2017). The above may be prevented by decentralization of capital ownership. Economic democracy, after all, "helps to strengthen political equality and democracy by reducing inequalities originating in the ownership and control of firms" (Dahl 1985, 4).

It is not only the limitations of the political proposals in *Capitalism, Alone* but also to an extent a limited understanding of certain other contemporary economic institutions like precarious employment, recent influx of refugees and migrants, commodification, automation, and environmental change. Milanović deals with these complex and often victim-heavy phenomena, which received a lot of detailed and critical attention in the recent literature, very superficially in the concluding part of the book, and draws political implications based on his instant, rigid economic analysis. He looks on precarious employment to be “more rational” (p. 194), sees the neoliberal commodification as our “willing, even eager participation” (p. 195), explains recent migration with “citizenship premiums” (p. 174), deals with automation as a neutral process creating as much (or more work) as it destroyed, and insists technological optimism when it comes to environmental change. The reductionism in this final chapter is surprising considering that Milanović is a serious thinker of humanist, liberal ideals. In his defence, the normative implications of the analysis are not always put forward directly, leaving the author to hang in the schizophrenic space between rigid economism and social philosophy, a wider understanding of contemporary human material conditions.

Branko Milanović is a slave to the fears and political attitudes of his own generation. He spends three modest pages discussing proposals on decentralization of capital ownership. The worry of getting these policies associated with the ‘s’ word is present despite being completely unfounded – the contemporary, 21st century experience with democratic firms is strong, present in most developed economies around the world, and proved itself to be very efficient. There is also the misunderstanding of certain predominately “millennial” economic institutions like precarity but luckily, it does not take a central stage in the book and remains on the fringes. One wonders why include it at all.

V. Conclusion: The Book That Awaits the New Generation

“Capitalism, Alone” is an important work in Milanović’s intellectual legacy. It adds to his opus another great empirical overview and a strong theoretical analysis of the great economic inequality we face. As such, it is an important piece of academic work. On the political side, it lacks imagination and confidence that would transcend the generational gap. This, however, may not be that relevant; what is needed, is time. Like all good wines, this book will age well. Milanović’s analysis will help my generation, Millennials, the future political and world leaders, to better understand structural troubles of current capitalism and design policies that would systematically counter the negative social tendencies. Like a policy that would democratize capital ownership and distribute it directly in the ownership of employees.

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