

What institutions make capitalism unjust?

2nd WINIR Conference,
“Institutions, Development and Globalization”,
Rio de Janeiro, September 11, 2015

Luiz Carlos Bresser-Pereira
www.bresserpereira.org.br

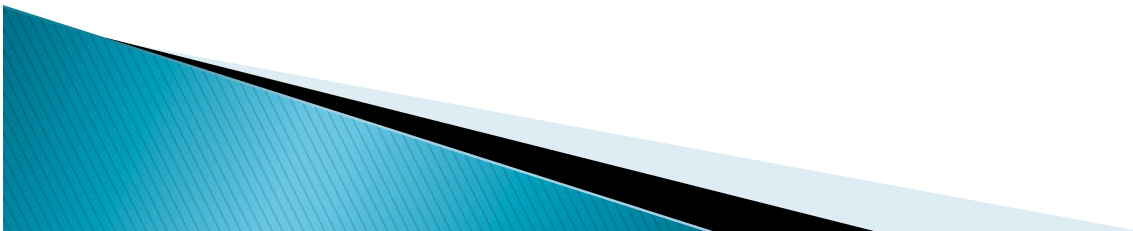
Justice in relation to rights and to power and wealth

- ▶ Justice, in the case of *rights*, is simply equality, is the absence of legal privileges, and, so, is a clear-cut concept, while, in the case of political and economic equality, the criterion of justice is more complex.
- ▶ I can assert with no doubt that is a condition of justice that all citizens have only one vote, or deserve the same respect, or are entitled to the same health care, but I cannot say is also a condition of justice that everybody have the same income, or the same political power. Differences of income or of power may have good reasons.



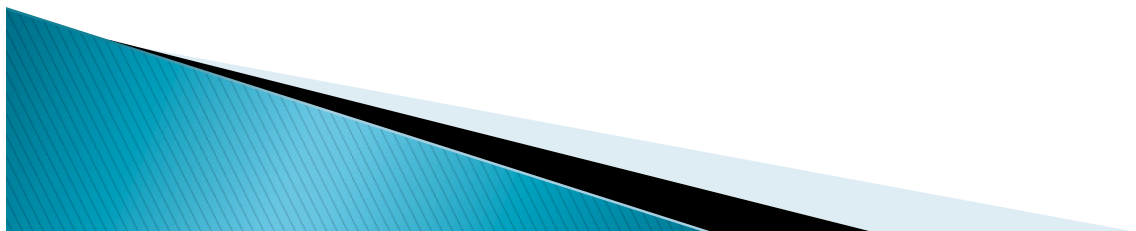
Democracy, merit...

- ▶ Political equality is what democracy offers when it follows the principle one citizen one vote, but we know that the quality of democracy varies from country to country and from time to time.
- ▶ As to economic goods and services, inequality remains immense, much beyond reasonable.
- ▶ The “good reason” always referred to explain or to legitimize economic inequality is **merit**, but differences in merit are unable to explain most of the economic and power inequality existing in modern societies.



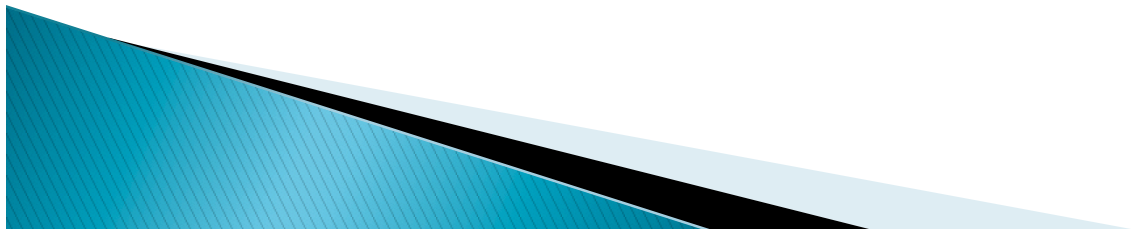
Three questions

- ▶ Are there re basic or structural institutions making capitalism intrinsically unjust?
- ▶ If yes, why do not think in different form or social and political organization that will leave capitalism behind?
- ▶ If this alternative is not available, would other institutions – “compensatory institutions” – be able to reduce the existing economic inequalities?



Intrinsic injustice

- ▶ Capitalism is definitely less unjust than the slavery societies of antiquity, the feudal societies, and the mercantilist and aristocratic societies that marked the transition to capitalism.
- ▶ The core institutions that define the social *structure* of capitalism – private property, market coordination, and wage labour – involve necessarily high economic inequality.
- ▶ Marx explained this in a definitive way when he developed the *surplus value* theory, where profits correspond to non paid labour, and, so, to exploitation.



Two wrong responses

- ▶ Marx developed his critique from the labour theory of value, which was not his theory but from the classical school.
- ▶ The critique was so serious, that:
 1. liberal economists searched for a new value theory, based on the marginal utility;
 2. socialists, beginning with Marx, believed that socialist revolution was looming ahead.
- ▶ Both were wrong.



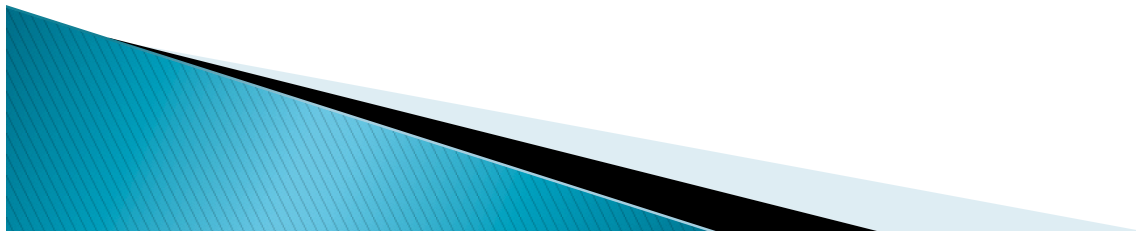
The failure of socialism and statism

- ▶ Soon the socialist revolution in Russia and China changed into statism, which later on failed.
- ▶ Statism and economic planning proved effective in making the national revolution, in educating the people, and in developing infrastructure and the heavy industry.
- ▶ But proved unable to develop the competitive sector of modern economies – to combine investment with innovation,
- ▶ which depends on the creativity and the innovation capacity of thousands and thousands, if not millions, of business entrepreneurs.



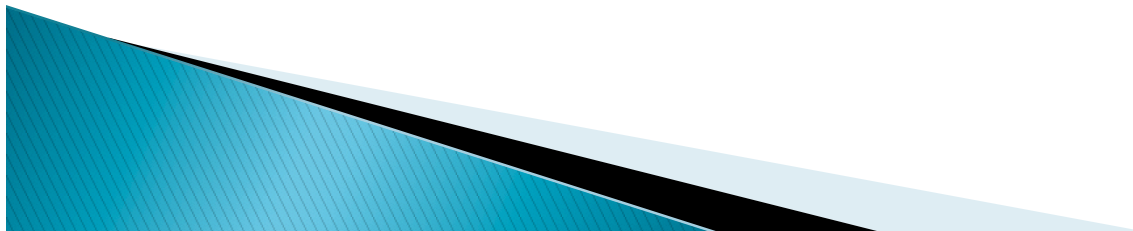
The intrinsic critique lost pragmatic meaning

- ▶ The prospect of a socialist revolution in the near future made the socialist movement strong and Marx's plus value critique, valid.
- ▶ Once this hope was lost, to insist in such critique lost pragmatic meaning.
- ▶ If, for the time being, there is no alternative to capitalism, the problem is not to see the as a form of exploitation profits, which are essential to capitalism, but to look for institutional reforms that make capitalism less unjust.



Constraints

- ▶ The essential constraint that the social reformer faces is to preserve a satisfactory rate of profit for business entrepreneurs.
- ▶ Business entrepreneurs are not anymore the enemy, and not even the adversary but possibly the partner, when the capitalist class is divided into a developmental and a liberal class coalition.
- ▶ And we should look for better models of capitalism.



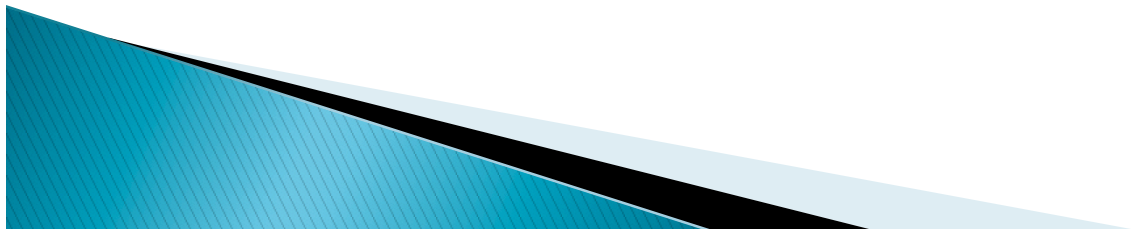
Different rates of economic inequality among capitalisms

- ▶ the centre of the American political spectrum is more to the right than the centre in the advanced European countries.

Table 1: Comparing inequality in three countries

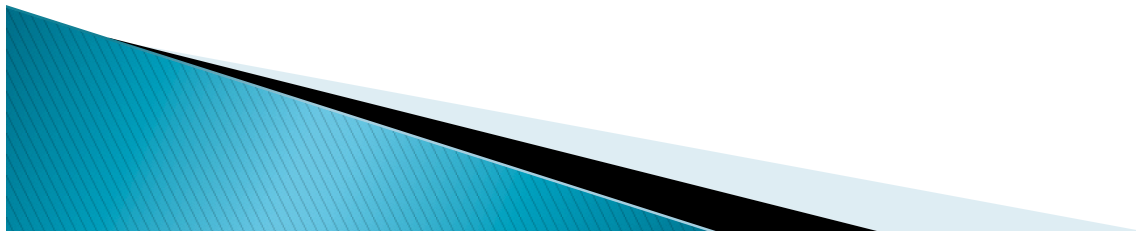
| | United States | Germany | Denmark |
|-------------------------|---------------|---------|---------|
| Gini coefficient | 0.40 | 0.29 | 0.25 |
| Relative income poverty | 17.6% | 8.4% | 5.4% |
| Top 10% vs bottom 10% | 18.8 | 6.6 | 5.2 |

Source: OECD. 2013 data for the US; 2012 for Germany and Denmark.



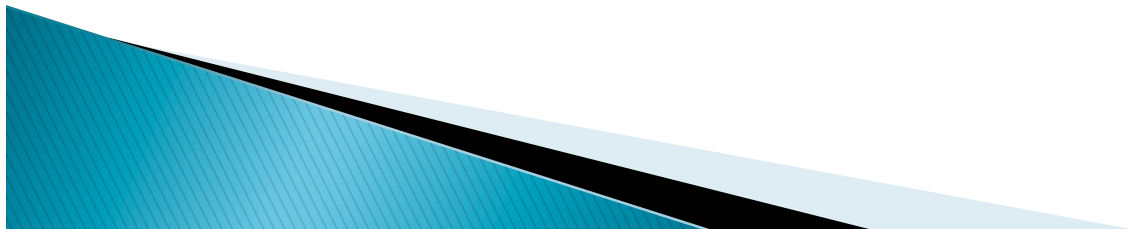
The basic cause

- ▶ First, in the second part of the nineteenth century, the American capitalism was so extraordinarily successful that there was no room for a strong socialist political party. Inequality was big, but the United States was a country that offered opportunity to all.
- ▶ Second, repression to the socialist political movement was very strong, mainly after World War I. According to the Wikipedia, the First Red Scare was a period during early 20th-century history of the United States marked by a widespread fear of communism.




After the Golden Years of Capitalism, the new historical facts that made capitalism more unjust

1. Profit squeezing in the late 1960s / early 1970s
2. Stagflation
3. From the 1980s, deindustrialization, the reduction of share of the working class in the labour force and de-unionization
4. Competition of NICs pressing down wages
5. Increase of the flow of immigrants also pressing down wages
6. The information technology revolution involving a great demand of engineers and other forms of skilled labour
7. ITR involving capital-using technological progress and also pressing down wages.
8. Accumulation of financial capital and its autonomy of productive capital (financialization) causing fall of the profit rate (long-term stagnation?)

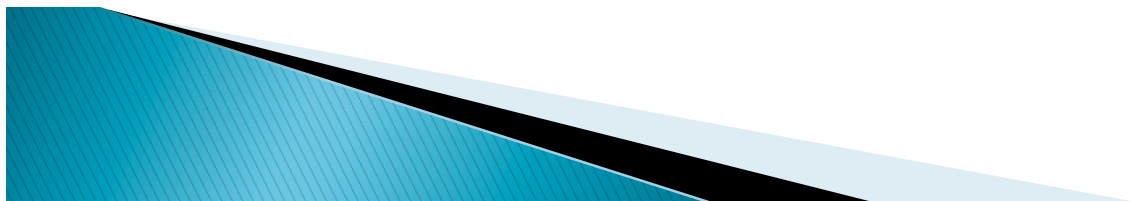


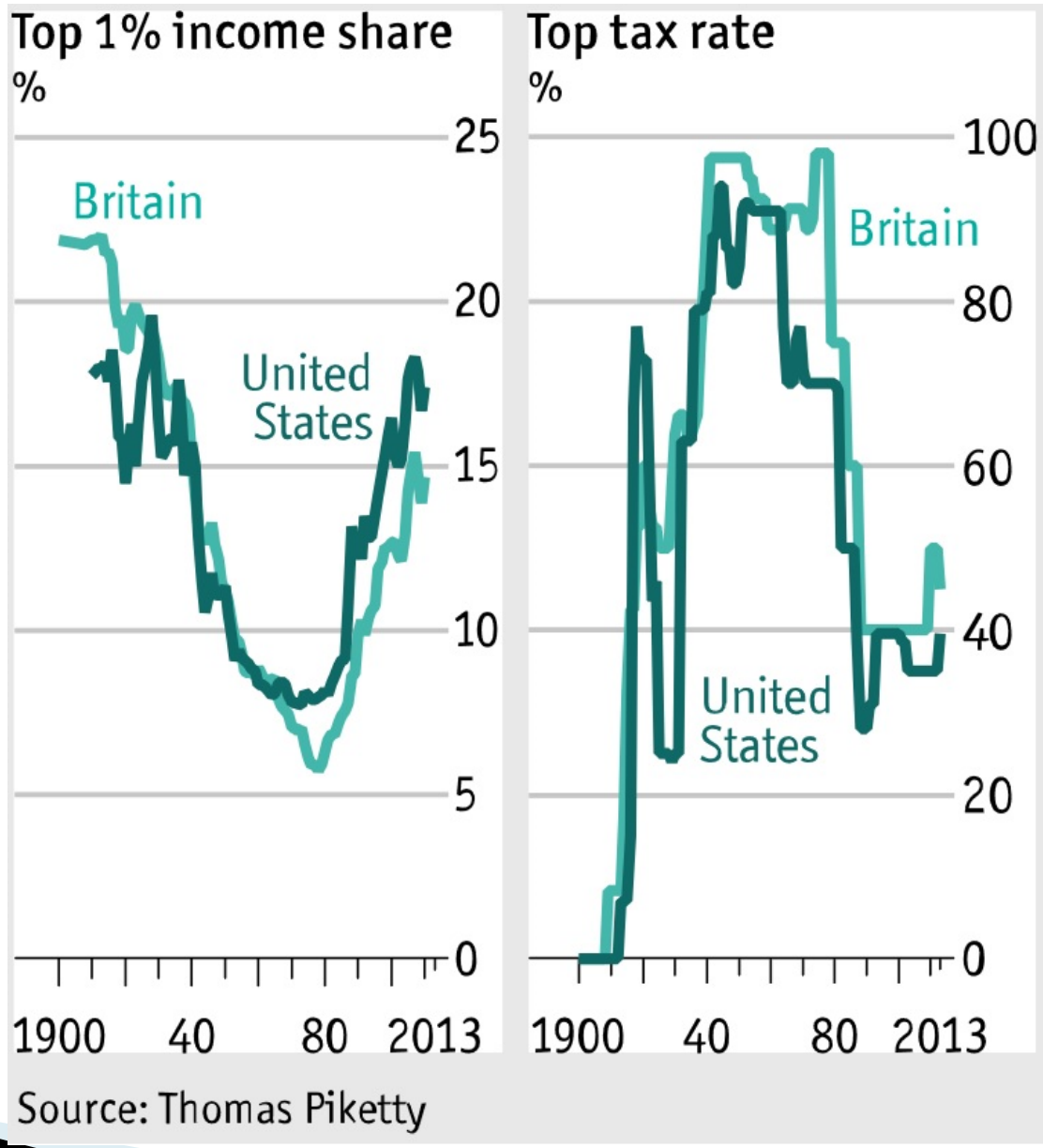
Institutions make capitalism more unjust

- ▶ The new historical facts already made capitalism more unjust. Institutions “helped”:
 1. turning taxes less progressive,
 2. failing to increase the minimum wage, flexibilizing labour contracts,
 3. defining a high “level” for the interest rate,
 4. reducing the size of the welfare state,
 5. privatizing monopolistic public services, and
 6. deregulating financial markets.
- 

Gini coefficient before and after taxes and state transfers (mid 2000s)

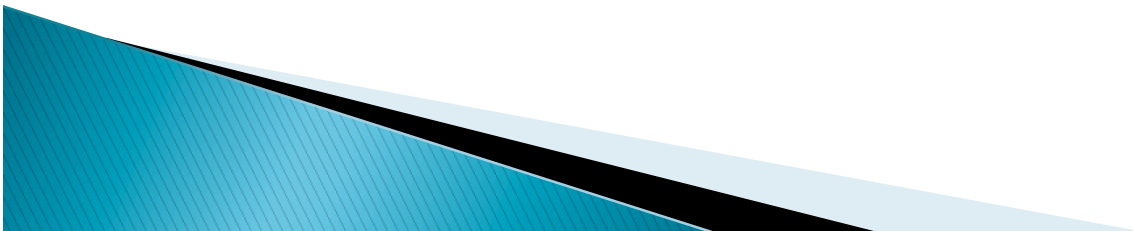
| | Before taxes & transfers | After taxes & transfers | Variation % |
|---------|--------------------------|-------------------------|-------------|
| Sweden | 0.49 | 0.23 | 38.8 |
| Germany | 0.44 | 0.28 | 27.3 |
| USA | 0.46 | 0.34 | 26.1 |
| Brazil | 0.56 | 0.49 | 10.7 |
| Bolivia | 0.44 | 0.41 | 6.8 |





Conclusion

- ▶ Capitalism is intrinsically unjust because its structural institutions– the private property of the means of production – make it necessarily unequal. But capitalism opened room for politics: initially, for liberal politics; later on, for democratic politics. And politics created institutions that made capitalism less unjust.



Fim

Luiz Carlos Bresser–Pereira
Professor Emérito da Fundação Getúlio Vargas
www.bresserpereira.org.br

