Revolution for Income Equality

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The transitions from feudalism and other pre-capitalist economic systems to modern capitalism have always and everywhere been celebrated for bringing a new epoch of human history. Freedom, democracy, and equality were the hallmarks of those celebrations. The French Revolution of 1789 raised the slogan of liberte, egalite, fraternite. The US has long celebrated its capitalism for producing a vast "middle class" that permanently overcame previous societies' tendencies toward extreme inequalities of wealth and income. Yet the recent decades-long rise in such inequalities inside most capitalist economies has led many today to see in capitalism not the enemy but rather the cause of rising economic inequality. Here we take up that argument and move it a step further to show how a transition to workers self-directed enterprises is a necessary change to solve the problem of rising economic inequality. Our thesis is that the many well-intentioned efforts over the last century to overcome extreme inequalities of wealth and income failed because they left intact the capitalist system with its inherent tendency to produce economic inequality.

The first step in understanding income and wealth inequalities is to grasp a basic truth about modern capitalist economic systems. The vast majority of individuals in those systems earn most or all of their incomes by doing labor for which they are paid wages or salaries. They earn little or no income from owning property: little or no rent from land, interest from money, dividends from shares of stock, and so on. In contrast, the rich minorities in capitalist systems get all or most of their incomes in the forms of rents, interest, dividends, and so on. They may or may not choose to work and add income from labor to their income chiefly from property.

The major payers of rent on land, interest on money lent, and dividends on shares of stock are capitalist corporations. Typically, corporate boards of directors (elected to their board positions by the major shareholders of the corporation) make those decisions. They allocate specific portions of the corporation's net revenues (sales less direct costs of producing whatever goods and services the corporation markets) to pay out rents, interest and dividends.

The major contributor to modern income and wealth inequalities is thus the set of decisions about allocating net revenues made by corporate boards of directors. The minority that already owns most of the income-earning property thereby obtains those distributions and thereby enhances its wealth. Wealth begets income that adds to wealth. Tincludehe minority that obtains most of the income from property includes that minority whose decisions determine what that income will be. Capitalism's resulting tendency to deepening inequalities of wealth and income reasserts itself repeatedly across the history of capitalist economies.

Like any tendency, this one occurs together with countertendencies. For example, growing economic inequalities can beget envy, resentment, and opposition. These may coalesce into a social movement that reverses that growing inequality. If that movement does so without altering the basic capitalist structure of the economy, we can expect the tendency to increase economic inequality to reassert itself sooner or later. In the US, social movements intensified by the Great Depression of the 1930s reversed the growing economic inequality of the period 1870-1929.

However, because those movements left the basic capitalist structure of the US intact, increasing economic inequality resumed after World War 2 and especially since the mid-1970s. Similarly, in all the countries of eastern Europe and Asia that were formerly called “actually existing socialist economies,” their post-1990 “transitions to capitalism” display again that tendency to increase wealth and income inequalities, indeed quite drastically.

Another countertendency arises from capitalism’s own responses to intensified wealth and income inequalities. In the US, for example, after the mid-1970s, as wealth accumulated quickly into fewer and fewer hands, competition among wealth managers and investment advisors intensified as all sought clients from a shrinking pool of the very wealthy. To secure clients, they promised rising returns obtainable only by taking bigger risks. Speculative bubbles emerged – in technology companies focused on the internet in the 1990s and in housing and real estate thereafter. When the dot.com bubble burst early in 2000, it temporarily reversed wealth and income inequalities, but the tendency toward more inequality soon reasserted itself since the capitalist structure of the US economy was not questioned, let alone challenged or changed. When the housing bubble burst in 2007, the reversal was also short. By 2011, rising wealth and income inequality had returned as the Obama “recovery” benefitted overwhelmingly the owners of income-earning property, especially holders of stocks and bonds.

This sequence—rising wealth and income inequality, speculative boom, bubble burst, temporary reversal of inequality, and then resumption of rising wealth and income inequality—has repeatedly punctuated the history of capitalism. The countertendency (lessening inequality) emerges from the tendency (rising inequality) within this sequence. We might thus say that capitalism’s tendency toward wealth and income inequality is itself contradictory. It is a basic quality and dimension of capitalism that can sometimes be absent for a while when conditions activate its contradictions or sufficiently strengthen its countertendencies. Yet the structure of capitalism points to what history confirms. Capitalism exhibits a recurring tendency toward increasing inequalities of wealth and income. Moreover, those inequalities can become extreme and socially disruptive in just the ways now in evidence across large parts of the world.

Sometimes, when economic inequalities become extreme and threaten to become more so, cultural and political forces are set in motion with goals beyond achieving merely another temporary reversal. Those movements then rediscover the ways in which the capitalist structure of economies keeps reasserting growing inequalities of wealth and income. A new and different demand arises, namely for a social change that takes us beyond the capitalist structure and thereby rids us of a central cause of the inequality and its social costs and consequences. The transition from capitalist enterprises to workers self-directed enterprises is such a change.

Workers directing their own enterprises could and likely would NOT distribute their net revenues in ways that deepen inequalities of wealth and income. They would not provide huge multi-million dollar pay packages to a few top executives while the mass of employees experience difficulties covering their lives’ basic expenses. They would not distribute major portions of their net revenues to share-holders because they could and would likely contest the legitimacy of income from property and indeed of private property in productive resources altogether. A transition from a capitalist to a WSDE-based economy represents a step toward the basic social change that can finally end the tendencies toward extreme inequalities of wealth and income that have provoked so many criticisms and oppositions by good people for so long.

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