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New Gilded Age or Old Normal?

by Craig Zabala and Daniel Luria

Of all forms of tyranny, the least attractive and the most vulgar is the tyranny of mere wealth, the tyranny of plutocracy.

—John Pierpont Morgan

In a recent issue of the *Economist*, the editors warned that growing inequality is tarnishing the image of capitalism:

Capitalism has suffered a series of mighty blows to its reputation over the past decade. The sense of a system rigged to benefit the owners of capital at the expense of workers is profound. In 2016, a survey found that more than half of young Americans no longer support capitalism. This loss of faith is dangerous, but is also warranted. . . . A revolution is indeed needed—one that unleashes competition, forcing down abnormally high profits today and ensuring that innovation can thrive tomorrow.¹

But are abnormally high profits combined with flagging capital investment, growing income inequality, and mass disaffection transient outliers, or are they problems endemic to capitalist economies?

It is tempting to see these outcomes as primarily a function of the rightward turn of the Republicans and their prioritization of tax cuts for the rich. But since the mid-1970s, inequality has increased under Democratic as well as Republican administrations and Congresses. In retrospect, *the four and a half decades from 1933 to 1978 were a historical aberration*. The longer-term trend toward more inequality in capitalist economies, which prevailed before this period, has resumed after it. That leads us to conclude that *there may well be no technocratic or tax policy fix for capitalism's tendency to generate ever more inequality*. This conclusion is obviously less optimistic than the one reached by Thomas Piketty in his seminal 2014 study of income inequality,² which argues for ameliorating income share outcomes by raising taxes on the rich.

A TALE OF TWO CRISES

The financial panic of 1929 at first seemed like many others in the pre-New Deal era, from the Panic of 1797 onward. But it quickly turned uncommon. The panic of 1929 triggered the Great Depression, with real GDP falling 30 percent in the United States and 15 percent worldwide from 1928 to 1932, while U.S. unemployment rose to more than 20 percent. Popular pressure and the mass mobilization spearheaded by industrial unions forced the Democratic Party to advance a broad set of initiatives that came to be known as the New Deal, implementing the Keynesian prescription of deficit spending and large-scale public works.

Federal government spending grew from 5 percent of GDP in 1928 to 10 percent in 1935 to 20 percent in 1942, and it has been above 20 percent every year since 1952, though spending after 1975 began shifting away from “discretionary” domestic programs. The larger federal government was a clear success: from 1933 to 1973, real GDP grew by an average of 5 percent per year. Moreover, these increases were broadly enjoyed, creating the U.S. middle class. Average real earnings nearly quadrupled, while the richest 1 percent's share of total personal wealth declined by more than half from 48 percent in 1929 to less than 22 percent in 1978. In percentage terms, the drop in the wealth share of the top 0.1 percent was even more dramatic.

Now compare these events with the response to the financial crisis of a decade ago. In the summer of 2007, a panic at Northern Rock bank in England cascaded across the capitalist world, ushering in a global banking crisis and a financial collapse in 2008—the most dramatic financial crisis since 1929. In 2008, Northern Rock was nationalized by the British Labour government. In the United States, Bear Stearns and Lehman Brothers became insolvent. Bear was acquired by JPMorgan, and Lehman declared bankruptcy. Bank of America purchased the insolvent mortgage lender Countrywide Financial as well as Merrill Lynch. Citi received a bailout from the U.S. Treasury, while Goldman Sachs and other financial institutions became bank holding companies to access funds from the Federal Reserve. That was merely the beginning of the retrenchment in U.S. capital markets, which included the sharp devaluation of derivatives tied to residential mortgages and defaults across a wide spectrum of credit products.

By late 2009, U.S. real GDP was down 4.3 percent from 2007, employment was 7.5 million (or 5 percent) lower, and average real household earnings were down \$2,500 (or 4.2 percent); they would fall by another \$2,500 from 2009 to 2012. Nor was the damage confined to the United States. The CIA's World Factbook offers a succinct and sober analysis:

The international financial crisis of 2008-09 led to the first downturn in global output since 1946 and presented the world with a major new challenge: determining what mix of fiscal and monetary policies to follow to restore growth and jobs, while keeping inflation and debt under control. Financial stabilization and stimulus programs that started in 2009-11, combined with lower tax revenues in 2009-10, required most countries to run large budget deficits. Treasuries issued new public debt—totaling \$9.1 trillion since 2008—to pay for the additional expenditures. To keep interest rates low, most central banks monetized that debt, injecting large sums of money into their economies—between December 2008 and December 2013 the global money supply increased by more than 35%.³

Partly as a result of the 2007-8 financial collapse, Americans elected Barack Obama by nearly ten million votes, and the Senate flipped to the Democratic Party, which already controlled the House. But despite the government being fully in the Democrats' hands for two years, a set of initiatives very different from those of 1933-35 was launched—a policy agenda focused on shoring up the major banks, insurance companies, and the financial subsidiaries of select industrial corporations.

The 2009 Obama stimulus program—despite being smaller than what most mainstream economists counseled—received not a single Republican vote. This was to prove a harbinger of the fate of every subsequent Obama program, including the Affordable Care Act—insufficiently ambitious (indeed, in some respects less ambitious than the plan shepherded through the Massachusetts legislature in 2006 by then governor Mitt Romney) yet still unable to generate any support from across the aisle.

The recovery from the 2008 crisis was, not surprisingly, anemic except for corporate profits (which rose 63 percent from mid-2009 to mid-2018). During the same period, real GDP grew just 2.1 percent per year, employment a mere 1.3 percent per year, and average real weekly earnings by less than 0.1 percent per year. Unlike the thoroughly Keynesian approach of the 1930s, which was mostly sustained until the mid-1970s, federal policy since 2008 has been focused on ensuring that the wealth of the rich was protected, with the majority more or less left to the mercy of the market.

THE GREAT EXCEPTION

The great exception in U.S. economic history, the brief period beginning in 1933, was not only an anomalous period of decreasing inequality but one that also established America's unrivaled economic and political dominance. That success was built upon a hard-to-reproduce, five-part perfect storm:

(1) *Expropriation*: The capitalism of the pre-New Deal era had regularly been plagued by the “panics” we now call depressions. The 1929–32 version was so severe that much of the wealth of the rich was lost, written down, and—crucially—allowed to flow back into the productive economy rather than being channeled into idle asset accumulation.

(2) *Demand stimulus*: FDR utilized, especially after 1936, a full-blown Keynesian economic approach to stimulate the economy, spending generously on both public works and relief in his New Deal.

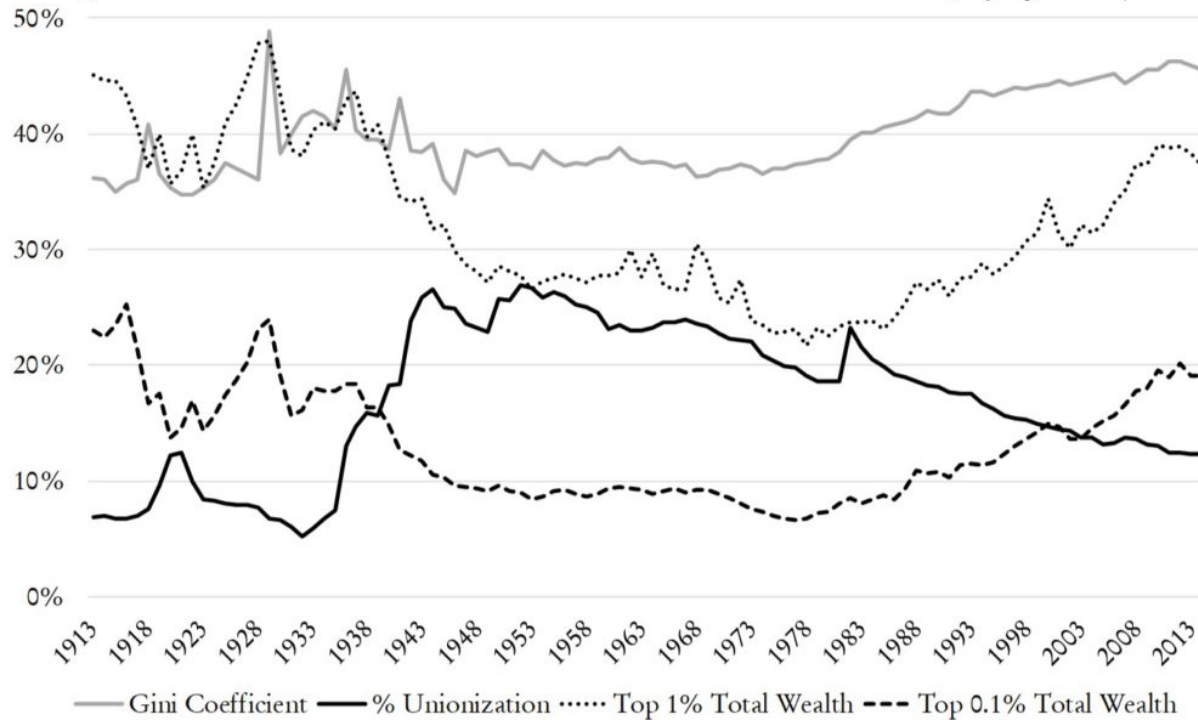
(3) *Unionization*: Trade unions have historically been the bedrock of social democracy, and their ranks expanded by 300 percent between 1933 and 1945. The UAW’s Walter Reuther was an ardent anti-Communist, and hence no friend of some of the most militant unionists, but he clearly favored a capitalism with many more public goods, including universal health care and higher education. He understood that the provision of these public goods was and is primarily a function of whether government can effectively oblige the rich and near-rich to pay the taxes to finance them. The labor movement was essential to most of FDR’s legislative victories. That should not be surprising: the state is not some agnostic, neutral arbiter of interests; rather, it reflects the relative power of social classes. And, of course, the state can favor the interests of the already rich, as it increasingly has done since the late 1970s and especially since 2001, or those of the majority, as it did briefly from 1933–78.

(4) *War production*: What allowed workers to gain significant income share was that the explosion of industrial unionism coincided with World War II. This resulted in truly full employment, which in turn (once the wartime pay freeze was lifted) provided factory workers with the bargaining power required to join the middle class and exercise the consuming power that fueled the postwar expansion. By pulling infrastructure investment forward, the New Deal set the stage for that expansion.

(5) *Postwar economic hegemony*: Victorious in the war and, unlike Europe and Japan, emerging with an enhanced capital stock, the United States alone could be the main architect of the postwar Western order, opening world markets to U.S.-made products and the unmatched dominance of industrial oligopolies during the period of postwar reconstruction under the Marshall Plan.

No single economic, financial, or political factor in isolation explains the U.S. postwar economic trajectory, though we see the inverse correlation between unionization and inequality as compelling. The following chart makes clear that long-term trends toward inequality were only interrupted and then slowed by a surge in workers' bargaining power and a paring back of the wealth share of the top 1 percent of households.

It thus appears that the real culprit in ending the "great exception" and the resurgence of income inequality has been the erosion of employee bargaining power vis-à-vis employers, from the near-absence of private sector strikes to the inability of most recent college graduates to get and keep middle-class jobs.⁴ And this is not something that elections alone are likely to change. Only when pressured by a burgeoning political union movement in the 1933-45 period was the Democratic Party forced to support the kind of mass mobilization that reduced inequality and then held it in check into the 1970s. In the four decades since, average real hourly earnings for nonmanagerial private-sector workers have actually declined.

INEQUALITY AND UNIONIZATION IN THE UNITED STATES, 1913–2014⁵

Unionization began meeting strong resistance as early as the mid-1950s, but there was a lag effect of nearly two decades before inequality resumed its pre-1929 climb. The key inflection point appears to have been 1973, the year in which real hourly wages peaked. After that, the Gini coefficient begins a steady climb, and by 1978 the top 1 percent's wealth share resumes its rise. Note that more than three-quarters of the gain in the top 1 percent's wealth share went to just the top 0.1 percent, whose portion of total U.S. personal wealth nearly tripled, rising from 7 percent in 1978 to 20 percent in 2012.

On the other hand, even though the federal and state agencies created during the New Deal and the 1960s were biased toward providing ancillary support for workers and consumers by restraining the power of corporations, they proved unable to slow down the growth of inequality *once trade union membership and bargaining clout began their decline*. Average hourly earnings for nonmanagerial private-sector workers were \$22.65 in July 2018, down \$1.03 (or 4.3 percent) from the inflation-adjusted average hourly earnings of \$23.68 in January 1973.

It is no accident that the libertarian Right, led by the Kochs, has focused on breaking or defunding unions, mainly through the courts. Whether they know it or not, without the support of these institutions, Democrats either lose or have to

reorient their appeal to independents in Republican-lite suburbs. In the last few years, the libertarian Right has focused on public sector unions, because they are related to the size of the state. Reduce federal, state, and municipal budgets, and you eliminate the public sector union problem. But buoyed by the Supreme Court's recent *Janus* decision, the courts are again going after unions' financial viability in the private sector as well.

POLITICAL ROOTS OF THE NEW GILDED AGE

While economies have their own laws of motion, one should not ignore the influence of politics on economic thought and, hence, on the economy itself. Starting in the 1870s and especially after 1917—as fears of “socialism” intensified in the wake of the Russian Revolution—and later as a result of the emergence of strong unions, powerful forces on the right began funding movements and institutions to press for a less redistributionist capitalism, holding that freedom depends on privileging property rights.

This movement has, of course, morphed over time and has seldom had a single line of march. What has united the seemingly disparate list of right-wing libertarian institutions and activists over this period has been *opposition to the federal government's provision of public goods*, particularly when done, after 1914, with the help of progressive taxation. Franklin Delano Roosevelt's election in 1932 was, for this libertarian Right, a seminal disaster. FDR had promised to multiply the size and breadth of government income transfers and, even worse, to support workers' rights to organize labor unions and contend collectively for a larger share of national income.

The second disaster for the Right was that, as we have already noted, the New Deal in the United States and social democracy in Europe,⁶ contrary to the Right's predictions, led to robust economic growth. The New Deal and social democracy ignited economic development through public investment and then sustained it through the growth of a larger middle class. The widening of inequality was even halted and reversed. Critical to this success was massive public investment in education and infrastructure. In today's dollars, the federal government added \$1 trillion to its annual budget. At its peak, just one New Deal program—the Works

Progress Administration (WPA)—employed 3.3 million Americans and accounted for 7 percent of all U.S. jobs. From mid-1935 through mid-1942, the WPA built 4,000 schools, 130 hospitals, 29,000 bridges, and 150 airfields, laid 9,000 miles of sewer lines, and built or paved 280,000 miles of roads.

The Right ignored these data. James Buchanan's public choice theory won him the only Nobel Prize ever granted to an economist who marshaled no quantitative information to support his thesis; instead he merely asserted that the New Deal political order rewarded sloth, overregulated business, and gave birth to self-dealing bureaucracies. By combining libertarian economics with some culturally conservative attitudes, the libertarian Right found a winning strategy for subverting the equalization produced during the 1929-79 period, and the U.S. economic decline of the 1970s provided an opportunity to implement it. The Keynesians had no adequate response to oil shocks, inflation, and various other problems of that period. And even though libertarian theories like monetarism were quickly discredited, the Reagan landslides of 1980 and 1984 reflected the abject failure of the Democrats to address the economic impacts of increasing import competition, especially on the working class.

After the Reagan presidency, however, Republicans also lacked a compelling economic program or even capable economic theorists. Since 1989, their electoral success has relied on voter disengagement, if not systematic voter suppression, amped-up gerrymandering, exploiting the Republican bias implicit in the Electoral College, and divisive if often disingenuous culture warring.

Meanwhile, the Democrats abandoned their traditional working-class base and sought new allies among financial and professional elites. The net result is that the political elite has now more or less undone the income equalization wrought by the New Deal, returning capitalism to its long-term, pre-New Deal trajectory of rising income and wealth concentration.

IS INEQUALITY BAD FOR CAPITALISM?

To fully understand the problem of widening inequality, it is important to address a question posed (though seldom out loud) by Republicans and Third Way Democrats alike: if the pie is growing for nearly everyone, does it matter if it's growing disproportionately more for the rich? The appeal of concluding that it does not matter is clear—Democrats can then pursue policies that leave capitalism's upward-distributing logic undisturbed but use progressive taxes and more generous safety net programs to keep majority living standards rising despite growing inequality.

But it does matter. Upward income redistribution is self-reinforcing because, as it continues, the rich acquire more and more savings that they cannot fully employ in ways that maximize the productive capacity of the nation's economy. Indeed, the excess accumulation of effectively inconsumable wealth saps mass consumption and employment, further reducing incentives for the rich to invest productively across a broad range of firms. The reduction in investment leads to lower productivity, which slows demand further and results in an economy underperforming its potential. Indeed, the U.S. economy has not only grown more unequal but also more extractive. The rich are increasingly seeking to separate themselves from the rest of the economy and isolate their financial assets from the risks involved in productive investment.

For example, after 2008 the ultra-wealthy (the top 0.1 percent) were able to protect their fortunes by reinvesting their ordinary income and capital gains in, and thereby driving up the value of, portfolios of public and private equities and real estate designed explicitly to preserve their wealth. Contrary to some complaints, Dodd-Frank in fact offered a golden opportunity for sophisticated wealthy investors who had long participated in lending to nonrated private companies.

To find a historical parallel, one need only look at the emergence of Drexel Burnham Lambert as the primary underwriter and agent for high-yield securities in the 1980s. At its high point, it achieved a 70 percent market share in the high-yield market, providing capital to small (and larger "fallen angel" and "emerging industry") companies that were to some degree locked out of the primary capital markets at the time. In fact, Drexel Burnham Lambert might be viewed, in hindsight, as the 1980s version of today's larger shadow credit market.

In the 2010s, as Dodd-Frank led to sharply contracted lending by the regulated banking sector, investors already involved in the shadow credit market were offered higher quality credits formerly served by commercial banks. They were also provided with the opportunity to reprice the higher-quality asset class by charging higher rates than the regulated banks had charged before the passage of Dodd-Frank, in what amounted to a classic supply-demand imbalance in the credit market.

As a result of Dodd-Frank's restrictions on regulated depository institutions making loans to lesser-quality credits, sophisticated investors were able to earn significantly higher returns by participating in the much expanded unregulated shadow credit market of non-depository institutions that took over the "underwriting" of these lesser-quality loans. It is in no way surprising that these investors rebalanced their own portfolios to go "all in" to the shadow credit market, which explains its dramatic recent growth rate. (The shadow credit market is defined as financings of \$5 million to \$100 million to nonpublic, unrated operating entities or pools of assets with not more than \$50 million in earnings before interest, taxes, depreciation, and amortization.) This market grew globally from \$30 trillion in 2002 to \$79.8 trillion in 2014, with the United States hosting the world's largest shadow banking sector (\$25.7 trillion in 2014).

This higher-yielding, unregulated market has in many respects replaced the regulated depository institutions for many sophisticated investors, who are seeking higher yields in a low-yielding capital market environment and who do not feel the need for expansive regulatory protection such as that offered by Dodd-Frank. Nevertheless, because these investors are still somewhat risk-averse, most are inclined to fund only entities and projects in a narrow range of industries, which results in the majority of small businesses in the United States not having ready access to affordable credit. Thus, Dodd-Frank has had the unanticipated effect of amplifying the long-term trend of commercial banks reducing their lending to entrepreneurs, certain emerging industries, and small businesses, where much of U.S. job growth occurs.

Coinciding with changes in credit markets, from 1990 onwards U.S. private and public equities markets have also become more restrictive, limiting access to capital for entrepreneurs as well as small and medium-sized businesses outside of certain

sectors. That has stifled firm performance, retarded wage and economic growth, and inhibited innovation and competition. Out of this economic and financial stagnation comes a large swath of entrepreneurs and businesspeople who have been subsumed into Trump's political base.⁷

The top 0.1 percent are thus both the fuel for and the principal beneficiaries of the new credit market. Meanwhile, small enterprises and households were hit hard by reduced bank lending. The ultra-wealthy and large corporations also have more opportunities to engage in substantial tax avoidance and evasion activity, which reduces both government receipts and the size of the general economy. A 2012 study by the Tax Justice Network found that \$21–32 trillion in wealth has been moved into tax havens.⁸ The roughly \$2.5 trillion added to this figure annually comes to nearly 2 percent of world GDP.

Economists and journalists alike have noted that income and wealth concentrations were last at their current levels in the mid- to late 1920s. Beyond a certain point—which had long since been reached by 1929, and which since 2012 has been nearly matched again—*the reallocation of national income to the already rich is, in effect, a tax on economic growth*. As we noted, the truly rich are increasingly taking their savings out of the productive economy. This point was totally lost on, or ignored by, congressional Republicans in passing the Trump tax cuts.

INEQUALITY AND POLITICAL CONFLICT

From 1934 through 1973, both profit and wage growth were linked to productivity advances. But since then nearly all of the gains from productivity growth have flowed to companies and to the wealthiest 0.1 percent of households. A front-page article in the October 23, 2018, *New York Times* highlights today's disconnect between employee compensation and company performance:

Half a century ago, a typical Sears salesman could walk out of the store at retirement with a nest egg worth over a million in today's dollars, feathered with company stock. A warehouse worker hired now at Amazon who stays until retirement would leave with a fraction of that.

Much as Sears has declined in the intervening decades, so has the willingness of corporate America to share the rewards of success. Shareholders now come first and employees have been pushed to the back of the line.

This shift is broader than a single company's culture, reflecting deep changes in how business is now conducted in America. Winner-take-some has evolved into winner-take-most or -all, and in many cases publicly traded companies are concentrating wealth, not spreading it. Profit-sharing and pensions are a rarity among the rank-and-file, while top executives take home an increasing share of the spoils. . . .

“What's happened is that shareholders' interests have squeezed out other stakeholders,” said Arthur C. Martinez, who ran Sears during the 1990s and was credited with a turnaround. “The mantra is shareholders above all else.”²

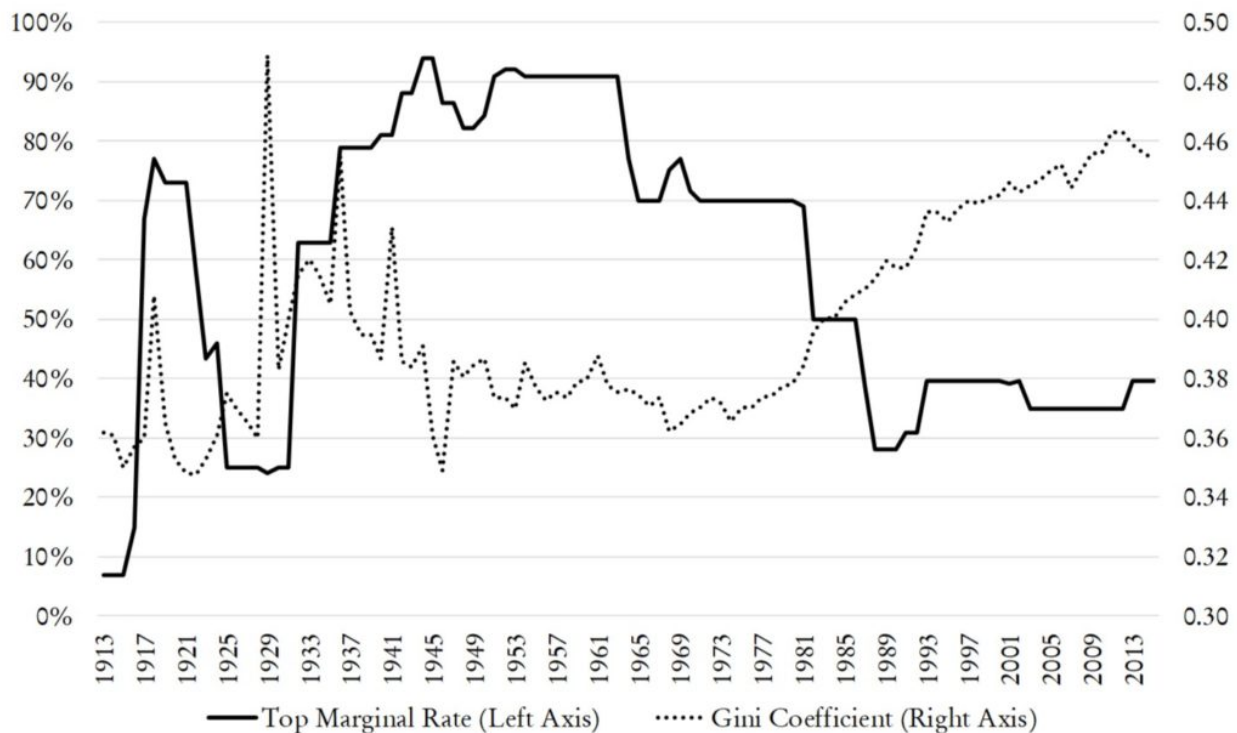
The fact that income inequality grew during every U.S. presidential term starting with Carter's, accelerated during Reagan's, and continued under Clinton, Bush fils, and Obama, makes clear that *the sunset of social democracy is not merely a product of Trumpism or Reaganism*. The populist Right's attack on what it sees as cosmopolitan elites is made credible by the unfortunate grain of truth in its claim that those elites don't really care about working people and have done nothing to restore their incomes or bargaining power. This abandonment of the working class has also done much to destroy the Democratic Party brand with non-college-educated Americans.

As we have explained, America's two greatest financial collapses begat two very different government responses. The 1929 stock market collapse had the effect of expropriating a significant amount of the then 1 percent's wealth. But this expropriation, which blew up the first so-called Gilded Age—and by doing so freed up future national income for public investment and mass-market consumption—was a success not to be repeated in the post-2008 period. Instead, the main effect of the first large-scale federal government intervention since the New Deal was to shore up the holdings of the top 1 percent (and particularly of the top 0.1 percent) by saving the financial sector giants. The period from 2008 to 2010 saw the first real test of James Buchanan and Friedrich Hayek's liberal economic tools in a full-blown crisis, and the results have proven to be both increased inequality and ugly politics.

To be fair to Obama, the perfect storm of the 1930s and 1940s was unavailable for his century's crisis. He was no FDR, philosophically or politically. But even if he had been, there was no emerging union movement or wartime mass mobilization to back up a more robust progressive response.

Instead, the union movement had long been declining from its apex in the 1950s, and China, shrewdly combining the Keynesian recipe of vast public investment with conscious industrial policy, had displaced America's dominance of global trade. As the *Economist* noted, "In 2006 . . . the US economy was five times (or 400%) bigger than China's. In 2017, it was just 60% bigger."¹⁰ China's rise clearly contradicts libertarian economic theory,¹¹ but the deindustrialization of the United States has also made labor organization and corrective policy reform more difficult.

In recent years, economists and politicians have looked to tax policy to ignite investment, productivity, and economic growth. The U.S. economy—with a less regulated liberal capitalism and shrinking state agency—is often seen as the perfect testing ground for aggressively stimulative tax policy. The following chart is revealing in that regard.

 U.S. TOP MARGINAL INCOME TAX RATE AND GINI COEFFICIENT¹²


It suggests that the drastically reduced tax rates in the 1920s may well have contributed to the equity bubble that resulted in the 1929 collapse, and it illustrates that FDR paid for his New Deal and for the war with tax revenue raised largely from the wealthy. Starting in 1964, the top rate was cut, but still-strong unions were able briefly to hold off rising inequality. By 1980, unions had weakened significantly. Partly as a result, lower top tax rates did not lead to investments that benefited the working classes, in terms of either increased incomes or improved government services. But the cuts do closely correlate with the Gini coefficient resuming its pre-New Deal climb.¹³

For all of the so-called Third Way's insistence that smart, centrist policymaking would replace more traditional class antagonisms, when in power its leaders have failed to restore prosperity or to address the precarity that many middle-class households feel. And despite the decline of unions during the last several decades, their continued importance can be seen in recent mass mobilizations. In France, and even more so in Spain, students and unionized workers in the streets have beaten back austerity budgets; though opposed by respectable policy elites, these movements' victories have actually improved economic growth. In New York, mass mobilizations saved the union at Verizon and won a \$15 minimum wage. Teachers'

strikes in Chicago, West Virginia, Arizona, and Oklahoma have not only won better contracts, but generated public pressure for states to spend more on schools, even if doing so would require increases in taxes.¹⁴

Most notably, the French “*gilets jaunes*” (yellow vests) movement has metastasized into an anti-income inequality movement whose demands, polls suggest, enjoy the backing of most of France’s population. A clear majority, most of whom have low or modest incomes, see Macron as the “president of the rich” only; this framing of politics as a conflict between classes makes this a potentially more explosive revolutionary moment than 1968. Whether or not Macron survives in the long run is beside the point. Reflecting on a poll taken after Macron’s concessions to the protestors’ demands, the BBC reported from Paris:

They wanted more than just a politician’s promises. They wanted measures, banknotes in their pockets, a tangible change in their impoverished daily lives. President Macron got the message. In fact, he had no choice. To have blathered about future challenges and the need for nation-building would have driven the yellow vests to distraction. So here—at the core of the address—were four simple changes: a rise in the minimum wage; the removal of tax and social charges on overtime; encouragement to employers to give workers a tax-free bonus; and an end to a surcharge on most pensions. Plus a note of contrition, and a promise of a new “national contract” built on electoral change and wider consultation with the provinces. Chuck in the concessions already given—an end to the fuel tax rise and “mobility” grants for people who drive to work—and the yellow vests suddenly appear as one of the most successful protest movements of modern times. Four weeks after their first Facebook videos were posted, they have forced a total reorientation of French social and economic policy. And without even making out a formal list of demands.¹⁵

France is a test tube. Just as the *gilets jaunes* are faced with the decision of whether to throw in with Le Pen on the right or with Mélenchon on the left, so too may many downwardly mobile Americans face a choice between Trump or Sanders,

who—unlike their establishment rivals—lead unruly political movements and not just bureaucratic political parties. Trump is the Bonapartist figure and Sanders the democratic socialist.⁴⁶ In the United States as in France, inequality and persistent downward mobility are the issues, and in both countries much of the citizenry appears to have lost faith in the elite’s technocratic nonsolutions. This radicalization in France partly explains Macron’s capitulation as a way to try to put the genie back in the bottle.

CAPITALISM AND DEMOCRACY

Nevertheless, it remains hard to imagine scaling up these examples and sustaining them for the number of years it would take to reverse the gains in the wealth share of the top 1 percent (and especially of the top 0.1 percent) since 1977. The young, always central to such undertakings, are less likely to work in unionized workplaces than their elders. The gig economy further undercuts their attachment to particular workplaces. The capture of their attention by social media makes them even less able than previous generations to distinguish fact from opinion. Their historically low voter turnout in 2010, 2014, and 2016 played a large role in getting us to where we are today.

Paradoxically, most young people’s disengagement from formal politics may increase radicalization in the long run, as the election outcomes permitted by party elites will be insufficient to address the scourge of ever-growing inequality. Even a President Sanders would not be able to achieve single-payer health care or “free college” or sharp cuts in military spending simply by encouraging Congress to legislate them. He’d need millions of people in the streets for weeks and months *demanding* them. Indeed, one proof that democracy has been gored is that large majorities of the public support various policy demands but cannot get them met legislatively. And with unions smaller, weaker, and less militant than in FDR’s day, who—which institutions? which leaders?—could bring people into, and keep them in, the streets long enough to win meaningful concessions?

It is hard to imagine in advance the nature of such institutions and leaders. Whatever form it might take politically, an organization tasked with restoring the interests of the majority would need to match the financial and institutional scale

and, most importantly, the ideological unity of neoliberal interests simply to level the playing field. With wealth as concentrated as it has become, that will be difficult to achieve.

In short, only a larger, stronger federal state that is underpinned by national workplace organization—which today would need to include the gig economy as well as underemployed and unemployed workers—could possibly moderate the tendency of capitalism to generate inequality. If this doesn't happen, then full employment and sufficient improvement in worker pay will not occur, prolonging slow economic growth.

Unfortunately, there is little evidence to suggest that a renaissance in collective bargaining or some comparable organizational structure on par with that of the 1930s and 1940s is in the offing, without which even a modern progressive's presidency would look more like Obama's than FDR's. In the absence of such a renaissance (or its equivalent), enabled by something analogous to the perfect storm of 1929–45, the long arc of capitalism will continue to bend toward income inequality, with growth underperforming the economy's potential and a continued decline in living standards for the U.S. middle class. It is here that we locate both the millennials' angst¹⁷ and the material basis for populist movements on both the right and the left. Young Americans are losing their faith in American capitalism,¹⁸ while the content of future New Deals (green, for example) is not yet apparent in mass politics.

Our analysis of the past one hundred years of U.S. capitalism's performance convinces us that the nearly half century from 1929–78, notable for reduced inequality and faster economic growth, was an exception; and that the more than four decades since—with corporations and the wealthy less constrained—show a return to the pre-New Deal norm. The record provides evidence that the neoliberal policy approach protected and nurtured the wealthiest 1 percent, especially the wealthiest 0.1 percent, at the expense of the majority.

The result has proven to be a weaker economy and a political leadership comprised more and more of plutocrats who are ever less accountable to the masses. Buchanan and Hayek might have smiled at the continuing disintegration of the redistributive

state in the absence of strong workplace organization, even as they decried libertarians' involvement in a political coalition with evangelicals and foreign policy adventurists. But the long-term trend of rising inequality and weaker growth does not bode well for the coexistence of capitalism and liberal democracy in the future.

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NOTES

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¹ "The Next Capitalist Revolution," *Economist*, November 17, 2018, 13. Janan Ganesh expresses the same concerns, while pleading for capitalists to counter this trend when he writes, "If . . . [Trump's tax cuts and "welfare efficiencies" to make up the budgetary shortfall] is the right's plan to save the free-market system, then capitalists should take their chances with the left. There is a plausible future in which a more generous welfare state, funded by taxes on those who have been enriched by a decade's asset inflation, drains some of the anti-capitalist pus from the body politic. . . . Millennial attitudes to capitalism should keep them up at night." See Janan Ganesh, "Why Ardent Capitalists Should Embrace 'Socialism,'" *Financial Times*, March 13, 2019.

² Thomas Piketty, *Capital in the Twentieth-First Century* (Cambridge: Belknap Press of Harvard University Press, 2014).

³ Central Intelligence Agency, *The World Factbook 2016-17* (Washington, D.C., 2016).

⁴ See Teresa Kroeger and Elise Gould, "The Class of 2017," at Economic Policy Institute, May 4, 2017. Age 21-24 college grads' hourly wages in 2017 averaged \$19.18, just 1.4 percent more than in 2000. Fewer than one in four had a 401k with any employer contribution.

⁵ On the Gini Coefficient numeric scale, a value of zero (0) denotes complete equality where everyone has the same income, while a value of one (1) denotes maximum inequality, where one person has 100 percent of the economy's income. Our Gini Coefficient time series was built by adjusting data from the St. Louis Federal Reserve using techniques summarized in Eugene Smolensky and Robert Plotnick, "Inequality and Poverty in the United States, 1900 to 1990," *Discussion Paper #998-93*, University of Wisconsin-Madison Institute for Research on Poverty, 1993. The series on the wealth share of the top 1 percent is from the World Inequality Database (accessed August 1, 2018). The series on the wealth share of the top 0.1 percent is from Emmanuel Saez and Gabriel Zucman, "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data," *Quarterly Journal of Economics* 131, no. 2 (May 2016): 519-78. Our unionization rate time series is from the U.S. Department of Labor's Bureau of Labor Statistics' database, with the 1897-1961 portion developed from the series used in Leo Wolman, Ebb and Flow in Trade Unionism (New York: National Bureau of Economic Research, 1936).

⁶ In Europe, social democracy movements began earlier, in 1918, when a strong labor movement was able to leverage elites' fear of a spreading Bolshevik revolution; they also benefited from the de facto expropriation of the assets of the German elite after World War I.

⁷ For a fuller analysis of these credit market events, see Craig A. Zabala and Jeremy M. Josse, "Shadow Credit in the Middle Market: The Decade after the Financial Collapse," *Journal of Risk Finance* 19, no. 5 (2018): 414-36; Craig A. Zabala and Jeremy M. Josse, "Shadow Credit and the Private, Middle Market: Pre-Crisis and Post-Crisis Developments, Data Trends and Two Examples of Private, Non-bank Lending," *Journal of Risk Finance* 15, no. 3 (2014): 214-33; and Craig A. Zabala and Jeremy M. Josse, "Shadow Banking: Rising Opportunities in the Private Middle Market," *KPMG Institutes* (New York: KPMG Advisory Institute and Global Enterprise Institute, October 2013), 1-12.

⁸ See "Tax Avoidance and Evasion—The Scale of the Problem," Tax Justice Network, accessed March 16, 2019. Annual government receipts are estimated to be \$500 billion lower globally than they would be in the absence of this large-scale tax evasion.

⁹ Nelson D. Schwartz and Michael Corkery, "When Sears Flourished, So Did Workers. At Amazon, It's More Complicated," *New York Times*, October 23, 2018.

¹⁰ "The Rivals," *Economist*, October 20, 2018, 22-23.

¹¹ China's relative rise is now extending deep into critical new technologies. British business journalist James Vincent writes that, "In July 2018, China's government published an ambitious policy paper, outlining how the country would become the world leader in AI by the year 2030. But by some measures China has already succeeded in this goal—a decade ahead of schedule. . . . The finding suggests that China's plan to expand its AI capabilities with the help of generous government investment in both educational facilities and private industry is paying off. . . . [T]he Seattle-based Allen Institute for Artificial Intelligence (AI2) accounts for this by measuring not just the number of papers, but how often they are cited, a good shorthand measure for influence in the wider community. . . . After analyzing more than two million AI papers published up until the end of 2018, the Allen Institute found that China is "poised to overtake the US in the most-cited 50 percent of papers this year, in the most cited 10 percent of papers next year, and in the 1 percent of most-cited papers by 2025." The researchers found that America's share of the most cited 10 percent of papers declined from a high of 47 percent in 1982 to a low of 29 percent in 2018. China's share, meanwhile, has been "rising steeply," reaching a high of 26.5 percent last year." See James Vincent, "China Is about to Overtake America in AI Research," *The Verge*. Sound familiar? It should: it echoes Kennedy's initiative to land U.S. astronauts on the moon before the Soviet Union, which worked out very well for the United States, with central industrial planning paving the way for today's Internet.

¹² Data on the top tax rate are from the Bureau of Economic Analysis. As noted earlier, our Gini Coefficient series was built by adjusting St. Louis Federal Reserve Bank data using techniques summarized in Eugene Smolensky and Robert Plotnick, 1993.

¹³ The income tax changes that took effect in 2018 are also having a negative effect on the after-tax incomes of many middle-class (and even some of the top 1 percent) households, particularly in usually Democratic states on the east and west Coasts. This is due in large part to the new limitations on

deductions for state and local income and property taxes (“SALT”). The top 1 percent, and especially the top tenth of the 1 percent, lose much less from the SALT limitation than they gain from the lower rates in the legislation.

¹⁴ Half of Americans would be willing to shoulder the cost of paying teachers more and providing more money to schools via higher taxes, with only 26 percent opposed. But while 69 percent of Democrats say yes to higher taxes for schools, only 38 percent of Republicans and 30 percent of independents say the same. See “More than Half of Americans Support Pay Raises for Teachers, Poll Finds,” PBS, April 23, 2018.

¹⁵ Hugh Schofield, “Macron ‘Had No Choice,” BBC News, December 10, 2018.

¹⁶ See Karl Marx, “The Eighteenth Brumaire of Louis Bonaparte,” *The Marx-Engels Reader*, 2nd edition, ed. Robert C. Tucker (New York: Norton, 1978).

¹⁷ Emily Sullivan at NPR reports that, “A study published this month by Christopher Kurz, Geng Li and Daniel J. Vine found millennials are less financially well-off than members of earlier generations when they were the same ages, with ‘lower earnings, fewer assets and less wealth.’” See Emily Sullivan, “Why Aren’t Millennials Spending? They’re Poorer Than Previous Generations, Fed Says,” NPR, November 30. See also Christopher Kurz, Geng Li, and Daniel J. Vine, “Are Millennials Different?,” *Finance and Economics Discussion Series 2018-080* (Washington, D.C.: Board of Governors of the Federal Reserve System, 2018), 1-56.

¹⁸ Frank Newport at Gallup confirmed the *Economist’s* 2016 survey results in an August 2018 Gallup poll: “Americans aged 18 to 29 are as positive about socialism (51%) as they are about capitalism (45%). This represents a 12-point decline in young adults’ positive views of capitalism in just the past two years and a marked shift since 2010, when 68% viewed it positively.” See Frank Newport, “Democrats More Positive about Socialism Than Capitalism?,” Gallup, August 13, 2019.