What institutions make capitalism unjust?

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A society is just when economic and political inequality is reasonably low. Institutions that assure civil and political rights are able to eliminate legal privileges by making everybody equal before the law, but they are less effective in reducing economic inequality, which is embedded in the structure of society. Only after rich countries, in the turn into the twentieth century, turned democratic, the welfare state and progressive tax systems reduced economic inequality. A condition of justice is citizens deserve the same respect and are entitled to universal health care and basic education. Reasonable differences of income or of power may have good reasons. For instance, it is inevitable that politicians have more power and business entrepreneurs are wealthier, because they dedicate their lives respectively to acquire and exert political power and to achieve more wealth and income. As to rights there is a "hard" criterion of justice: equality, while as to the achievement of goods such as political power and money, we must adopt a "softer" criterion: reasonability.

We may view advanced and democratic capitalist societies relatively just, but they face problems even in the realm of civil rights, because people are not assured the same respect or recognition. As to political equality, we know that the quality of democracy varies from country to country and from time to time. Even the more advanced societies like the Scandinavian face difficulty in assuring equal political opportunities to their citizens.

As to the access to economic goods and services, differences in wealth and income, which are also a means to other valuable things, are much beyond what may be viewed as reasonable. The "good reason" always referred to explain or to legitimize it is merit – is hard work and individual capability, but merit is not a valid justification for inequality in relation to basic education, health care and a basic income. Although there is some relation between individual capability and income, capability and effort are far from being the only cause of inequality.

Thus, the institutions that regulate capitalism are unable to proportionate a just society. A first question is; a second, whether there is an alternative; a second, whether there are structural institutions that cause injustice; and a third, if this alternative is not available, is whether "compensatory institutions" are able to reduce the existing economic inequalities? These are not new questions, and I cannot assure to have new explanations to offer, but I hope to be able to organize my own thinking on the matter, and help my readers do the same thing.

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Intrinsic injustice

The capitalist revolution is the transition from feudal to modern societies, which, beginning with England, societies searche to make by organizing itself as sovereign nation-states and realizing its industrial revolution. To the successful nations, it represents to major economic transformation and progress in terms of justice. Capitalism is less unjust than the slavery societies of antiquity, the feudal societies, and the mercantilist and aristocratic societies that marked the transition to capitalism. In those societies privilege was seen as a right of the powerful, while in capitalism is an intrinsic evil. The French revolution was, essentially, a revolution against privilege; its first and main realization was the elimination of the privileges of the nobility and the clergy. In that revolution the people and the rising bourgeoisie demanded the equality of civil rights, which the new liberal institutions gradually assured. It was defined by a axiom – "all the citizens are born equal in the eyes of the law". They are entitled to individual freedom, respect, and to conduce their lives toward legitimate individual and social objectives; or, using a contemporary phrase, "all human beings are born free and equal in dignity and rights" – dignity meaning respect or recognition.

Around a hundred years later the citizens of the first countries that industrialized won the basic political right – the right to the universal suffrage. The assurance of the civil and the political rights opened room for democracy and represented a major political advance, but did not make the new form of economic and political organization of capitalism a just one. Capitalism remained consistent with huge and structural economic inequalities. In so far as institutions are "durable systems of established and embedded social rules that structure social relations" (Hodgson, 2004: 14), 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. According to his argument, the surplus value or profit is the outcome of the exchange in the market of equivalent values: the exchange of the labour force, whose economic value follows the same rules that define the value of all commodities, for wages that are in accord to this value. From this simple and clear model, Marx concluded that exploitation was intrinsic to capitalism, condemned it morally, and proposed the socialist revolution. Marx was right, in so far as the profit or the surplus value is achieved in the market, in so far as the worker sells his work force and the capitalist buys it according to its value: the cost of the social reproduction of labour. While in pre-capitalist societies the appropriation of the economic surplus depended on the use of violence, and, therefore, on the direct control of the state, the only violence that capitalism requires is the understanding that the labour force is a commodity as all others, whose price follows the same rules as all other commodities. Once this premise is accepted, the logic of the argument is strong – so strong that the economists engaged in defending capitalism had no alternative than to reject the classical labour theory adopted by Marx and create a new value theory that makes prices depend not on something objective – the costs plus reasonable profit of each good or service – but on a subjective evaluation: the marginal utility.

I am persuaded that Marx was logically right when he discovered the intrinsic injustice or exploitation existing in capitalism. But, more than a hundred years later, we have to acknowledge that Marx was wrong when he derived from the surplus value theory the justification for an immediate socialist revolution. Taking 1800 as the year in which England "completed" its industrial and capitalist revolution, capitalism is 265 years old. Throughout these years capitalism remained unjust, as economic inequality increased most of the time, but civil and political inequality were reduced as civil and political rights were assured. Economic inequality somewhat decreased in the twentieth century, but since the mid 1970s it is increasing. In those countries that formed their nation state and industrialized, thus completing their capitalist revolution, the standards of living increased substantially, but in economic terms they became more and more unequal. Marx's critique of capitalism based on the plus value theory was a strong critique while the belief that the socialist revolution could take place in the near future was alive. But after, first, the socialist revolution proved not to be feasible in the Soviet Union and in China and was transformed into a statist regime, and, second, such command system collapsed in one country and was reformed in the other, both changing to capitalism, such belief lost credibility.

The socialist alternative

If capitalism is an intrinsically unjust form of economic and political organization of modern societies, were the socialists right in concluding that the solution was the socialist revolution? Was socialism – a society based on collective property, market coordination of the economy combined with planning of the non-competitive industries, a strong preference for economic equality, and democracy – a superior form of economic and political organization of society? Superior under which criteria? The economic criterion, the social justice criterion, the individual liberty criterion, the democracy criterion? For almost 200 years socialists believed that socialism would be superior on all these accounts, and bravely fought for it. But today, and I include myself into the game, we have to admit that this superiority proved false. Not normatively. The utopia remains socialist, but in real terms, considering the attempts that were made to move to socialism, it failed. It failed in Russian, China, and in Eastern Europe.

An explanation for that is that the countries that made socialist revolutions were not mature to socialism. But this explanation is not very helpful, because even the more advanced societies are not mature to market socialism – the only form of socialism that could be superior to capitalism. Socialism is not incompatible with market coordination; there is a large literature on market socialism. But socialism is inconsistent with a society where individualism is overriding and cumbersome; it does not require angels, but it requires a degree of solidarity that even the more solidarity societies – the Scandinavian and the Japanese – are unable to show. Liberals will say that societies will never achieve the degree of solidarity required by socialism, that men and women are essentially egoistic, dominated by the survival instinct. I don't share this view; I believe that we are governed by two basic instincts – the survival and the convivial instinct. We depend essentially on our own effort and determination to realize our objectives in life, but these objectives only make sense and can be achieved in the setting of our social relations, which must be convivial or solidary; must be based on reciprocal trust and involve a reasonable degree of generosity.. If some day in the future economic development becomes so successful in a society that it becomes a “society of plenty”, I believe that individualism will lose room for solidarity, and this society will be more equal in the access to health care, to education and to economic security, and we will be near socialism. While this does not happen, the dialectic between the survival and the convivial instinct, and the spirit of compromise, which characterize advanced capitalism, will guide human action and politics

This is not the moment to go ahead with this discussion, on which our views will vary according to the fact that we believe or don’t believe in the idea of progress or human development. Now I just want to briefly discuss the cause of the failure of really existing socialism in Soviet Union and in China, which I understand to be the same, and the very different form that the transition to capitalism that took place in one and the other country.

Socialism, or, more precisely, statism failed in both countries for the same reason: because economic planning is an essentially inferior form of coordination of complex economic system that the market system. This is clearer in the Soviet Union, where the economic system stagnated since the early 1970s, and collapsed between 1989 and 1991 in the middle of a major economic and political crisis, whereas in China, the transition to capitalism occurred in much swifter way. There is a great discussion on the reasons for the collapse of the Soviet Union. It is consensual that the decision of the communist leaders to keep in the arms race with the United States in the moment that president Ronald Reagan decided to step it up was a mistake. For the Soviet Union it represented a disproportional fiscal effort that broke the state. The lack of coordination between the political and the economic liberalization is another explanation. But these are partial explanations, are mistakes that could have been corrected afterword with some cost; they would not make unviable the statist system. In my view, the great mistake of the Soviet elites was not to do the transition to capitalism in the right moment, when the possibilities of the statist or command economic system had become exhausted, and the transition to a state and market coordinated economic system was required. The Chinese liberalized the economy, not the state, and did that in the right time. They liberalized gradual and prudently their economy, after the nation-state had achieved effective national autonomy, education was universalized, and the main investments in the infrastructure and in the heavy manufacturing industry had been completed. This was the job of Mao Zedong and Zhou Enlai between 1949 and 1976 – the job that in the capitalist countries beginning with England corresponded to the formation of the nation-state and industrial revolution. The following job – of liberalizing the economy and transforming its competitive sector into a fully market coordinated sector – was up to Deng Xiaoping, who governed China between 1979 and 1997. In Russia, the liberalization of the state was made together with the liberalization of the economy, both by shock. In consequence the transition destroyed the state while a market was still to be created and regulated. The outcome was disastrous.

In both cases the communist revolutions had as unintended consequence realizing the first stage of the capitalist revolution: the formation of the nation coupled with the installation of the heavy industry. Their leaders assumed that they were making a socialist revolution, but it is clear to me that they had done what the Japanese did almost a hundred years before. The similarities between the Japanese and the Chinese revolutions are striking. In mid nineteenth century the new imperialism or the West, which evolved from the industrial revolution that made the European countries and the United States much more powerful, subjugated Japan and China. The Japanese national revolution began in 1868; the Meiji Restoration was a nationalist revolution against the foreign occupation combined with the decision of copying the West's technology and institutions. The Chinese national revolution began eighty years later, in 1949.[1] Between 1868 and 1908 Japan made its industrial revolution under full control of the state; between 1949 and 1979 China made its industrial revolution also under full control of the state. Once Japan was successful in copying the West's technology, it decided to copy the Occident's institutions by privatizing the competitive sector of its manufacturing industry between 1908 and 1910; China did the same from 1979 – the year that Deng Xiaoping began its economic reforms toward capitalism.

We may find political reasons for the failure of statism or really existing socialism, beginning with its incapacity of being consistent with civil rights and with democracy, but its main cause was economic. Economic planning worked while the countries were involved in investing in infrastructure and in the heavy industry. Since this task and the basic education of the people were done, the country had to go ahead with the productive sophistication of its economy. Now the important was not just to accumulate capital, but to combine investment with innovation – something that cannot be planned, that the state cannot take responsibility of, something that depends on the creativity and the innovation capacity of thousands and thousands, if not millions, of business entrepreneurs. Not surprisingly the state and the planning system proved unable to open room for all the new and highly sophisticated business enterprises in the manufacturing industry and in the services turning possible from the continuous advance of technology and from the capacity of individuals and groups to innovate. In coordinating such activities the market is definitely superior to the state. The Chinese understood that, and moved in the right moment from planning to market coordination of the competitive industries, from a statist to a developmental form of organizing capitalism, while the Soviet leadership was unable to change in the due time.

The Soviet leaders and the economists who assisted them ignored that the market is an institution, not an abstract mechanism based on competition, as many conventional economists also believe in the capitalist countries. The market is an institution that didn't exist in Soviet Union – that needed to be institutionalized, i.e., regulated by the state, to be able to perform its economic coordination role. Instead they gave precedence to political liberalization – the transition to democracy – in relation to the economic liberalization, or, in other words, they dismantled the state that should be strong to build the market. The outcome was political and economic chaos, the collapse of production and a huge deterioration of the standards of living. In China the state conducted the transition to capitalism; the Chinese leaders limited themselves to liberalize the economy – something that was done in a planned and gradual way. In the 1990s, while China was more than doubling its GDP, the Soviet Union was dismantled, and Russia reduced its GDP to two thirds of what was before.

What capitalism?

The transformation of the socialist revolutions into statism and, eventually, the failure of such statism (which was never sufficiently distinguished from socialism) made Marx's critique to loose much of its power. If, for the time being, there is no alternative to capitalism, the problem is not to see as exploitation the profits, which are essential to capitalism, a form of exploitation, but to look for institutional reforms that make capitalism less unjust.

The basic constraint that social reformers face to reduce economic inequality existing in capitalist societies is the preservation of a *satisfactory* profit rate for business entrepreneurs. In such societies growth depends on the investment rate, which, on its turn, depends on the expected profit rate and the cost of capital. Thus, business entrepreneurs require a satisfactory profit rate to invest, which, in the framework of capitalism, is a legitimate demand. Recently I watch again Pudovkin's classical film, "Mother" (1926). In the film, in the perspective of an imminent socialist revolution, business entrepreneurs are the exploiters and the enemies. Instead, when the socialist revolution is not a realistic possibility, the best alternative for social reformers is the formation of a developmental and progressive class coalition including the working class and the business entrepreneurs, and having as the adversary (not as the enemy) the conservative class coalition of rentier capitalists and financiers. Thus, a satisfactory profit rate is a constraint that cannot be forgotten. If the social reformer ignores this simple truth, and adopts policies that make the average profit rate too low if not negative, two consequences are to be expected: the productive capitalists will stop investing and an economic crisis combined with a political crisis will soon materialize. The real problem are the interests, the rents and the dividends received by rentier capitalists, which should be as small as possible, and the salaries and bonuses of top executives that are often much bigger than what is required to motivate investment and hard work.

Which are the institutions that make inequality so big in capitalist societies? They are the fundamental institutions that define capitalism: private property of the means of production and the market system – an institution based on the competition between economic agents. Neoclassical economics affirms that market competition leads to a distribution of income proportional to the contribution of each one (its marginal productivity), but this only makes sense to the ones interested in legitimizing the existing and uneven distribution that results from the market forces. This is so evident that does not require additional substantiation.

The conclusion that we derive from this discussion is that for a long time we are condemned to capitalism – to a unjust form of economic and political organization of society. But capitalist societies may present several degrees of inequality or of injustice, as they may achieve different levels of development, and experience different rates of economic growth. This explains the large literature on models of capitalism (also referred as varieties of capitalism, or as diversity of capitalism) developed after the pioneering contributions of Gøsta Esping-Andersen (1990) and Albert Michel (1991), despite the convergence that the three basic models – the American, the European and the Japanese – present. There is little doubt that this convergence is strong. The respective countries, their people and their politicians are permanently innovating and, at the same time, copying one another technologies and institutions; second, the diverse models of capitalism have the same *social* structure defined by three social classes (a capitalist, a technobureaucratic or professional and a working class), the same *institutional* structure (private property, market coordination of the competitive sector of the economy and wage labour) and the same *technological* structure.

But, despite the convergence, there are lasting differences. My interest here are the differences in terms of economic inequality and the institutional causes behind. An I will just take three countries with similar level of development, but different degrees of inequality – the United States, Germany and Denmark – and ask myself what makes Denmark and Germany more equal than the United States. The choice of the United States has obvious reasons: it is bigger and probably the more unequal among the rich countries. As to Denmark and Germany, both are representative of the European model – the first of its Scandinavian, the second, of its Rhenish version together with France (Michel, 1991).

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 difference among the three countries is striking. Equality in Denmark is higher than Germany, and Germany is much less unequal than the United States. We have historical reasons for that. The fundamental one is that in the United States a socialist party never emerged as a strong political force, while Germany and Denmark count for long with powerful social-democratic political parties. Or, in other words, because in Germany and Denmark the left has always been a significant political force, while in the United States there is not a properly left political movement, but a progressive one that is significantly called "liberal". In the nineteenth century the liberal political parties were the progressive parties of the time in opposition to the conservative political parties. In the end the 19th century the social-democratic political parties emerged as a political force and the liberals moved toward the conservatives. But this change didn't happen in the United States, where the political system remained defined by the nineteenth century divide between liberals and conservatives.

This means that the centre of the American political spectrum is more to the right than the centre in the advanced European countries. Two complementary reasons may be the reason for that. 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. At its height in 1919–1920, the candidacy to the presidency of a representative of the Socialist Party of America, the concern over the effects of radical political agitation in American society and the alleged spread of communism and anarchism in the labour movement, fuelled a general sense of paranoia and strong political repression.[2]

Thus, while in Europe the socialist political parties associated to organized labour were powerful, and were transformed into social-democratic or reformist once the opportunity for a socialist revolution in the short-term proved illusory, in the United States the nineteenth century division between conservatives and liberals remains till today. Thus, if it is true that social-democratic parties in government proved weak in achieving the reduction of inequality in Europe, the Democratic Party, which plays the role of social-democratic party in the United States, proved to be weaker. The exception was the enlightened administration of Franklin Delano Roosevelt, but soon the major advancement that the New Deal represented lost impulse and already in the 1970s the American society experienced regression as the institutions created by Roosevelt were one after another dismissed, beginning with progressive taxes.

Capitalism turns more unjust

The history of capitalism after the 1929 financial crash has undergone two phases: the first phase began with the New Deal and was the time of the Golden Years of Capitalism; the second, between 1979 and 2008, was the time of the Neoliberal Years of Capitalism. The contribution of political coalitions headed by social-democratic political parties for the reduction of inequality was sizable in the first phase, because the "policy-regime" at that time was progressive: even the conservative parties, like the Christian democrat political parties in Germany and Italy, were building a welfare state.[3] Yet, given the 1970s the fall of the profit rates and the economic crisis, which was stronger in the United States, the policy regime changed from the Fordist or Golden Years to the Neoliberal Years, and the social-democratic political parties in Europe as well as the Democratic Party in the United States faced a much more difficult task in promoting the reduction of inequality. A lot was said about the "betrayal" of which the social-democrats would be guilty, because they were also engaged in neoliberal institutional reforms, but they didn't have alternative in so far as the whole political spectrum had moved to the right in response to some new historical facts, which, in one or the other way, threatened the profit rate and, so, capitalism itself.

First, in the late 1960s and early 1970s, the combination of the increasing power of organized labour caused what "profit squeeze" and the fall of the growth rates. Second, a basic contradiction of capitalism materialized in the 1970s: the recurrent problem of the profusion of capital. As the process of capital accumulation goes on, there is an increase in the stock of capital in the hands of rentier capitalists. If this financial capital kept a fix relation with the productive capital, we would not have a problem: the financial wealth would be just a share of the total productive wealth that generates profits. But soon the financial wealth turns autonomous in relation to the productive wealth, and the economic surplus must not only remunerate the productive capital, but also the financial wealth that exceeds the total productive capital. Since the end of World War II we are seeing the formation of this "excessive" stock of capital, of this capital glut. Before that the two world wars and the 1930s Great Depression had destroyed a substantial part of this accumulated wealth owned by rentier capitalists, but, analysts as different as Göran Therborn (2011) and Piketty (2013) remark that the recovery from 1946 was strong, and opened room for a huge capital accumulation in the hands of rentier capitalists, and for long-term stagnation. The "solution" for the fall in the profit rate involved in this capital glut was again to introduce institutional reforms that reduce wages, having as tool the neoliberal ideology.

These two facts posed a major threat to capitalism without it is impossible to understand the realignment of the right, the rise of neoliberalism, and the increase of inequality from the 1980s. But to face this challenge it was necessary to fight Keynesian macroeconomics, which had been associated to social-democratic values. Stagflation – the fall in the growth rates accompanied by the rise of inflation in the United States in the late 1970s – open room for that. Neoliberals, who were relatively silent from the 1930s, profited the opportunity to attack Keynesian macroeconomics with the argument that its policies created demands that the supply was unable to meet. Actually stagflation had little relation to Keynesian macroeconomic policies; it was rather a consequence of the informal indexation of the economy leading to inertial inflation, but this was the main argument that neoclassical or monetarist economists used to achieve their return to the mainstream condition, and to give scientific foundation to neoliberal reforms. The ruling class needed an ideology that supported the fall of the wage rate that was required to make business enteprises profitable enough tor remunerate productive capital and rentier capital. While the Fordist or the Golden Years class coalition was a *broad* political compact where the workers had some power and their wages increased with productivity, the neoliberal class coalition that turns dominant in the 1980s was a very *narrow* coalition – the major beneficiaries representing around 1% of the population of rich countries.

Once in control, the neoliberal economic elite introduced institutional reforms aimed to increase its wealth and power and turn operational the growth of inequality for which the new historical facts opened room. The economic constraints involved in the new historical facts, such as the increasing demand for skilled workers in relation to non-skilled workers, the information technology making technical progress capital using, and deindustrialization, already pointed out to a more unjust capitalism. But they could be "helped" by institutional reforms as (a) turning taxes less progressive, (b) failing to increase the minimum wage, (c) flexibilizing labour contracts, (d) defining a high "level" for the interest rate, (e) reducing the size of the welfare state, (f) privatizing monopolistic public services, and (g) deregulating financial markets.[4]

On the other hand, some new historical facts independent of institutions, contributed to the increase in the inequality. First, wages were pressed down in rich countries by the new competition coming from the 1970s from the newly industrializing countries (NICs), which profited from low wages to export manufactured goods to rich countries, which, up to that moment, had the monopoly of such trade.

Second, the increase of the flow of immigrants to rich countries, which also pressed down wages. This is an old problem that became important in the 1980s, and achieved a high in Europe in the 2010s, after the West's wars or interventions in Iraq, Syria and Libya gave rise to an enormous number of political refuges who are difficult to distinguish from simple immigrants.

Third, after organized labour reach a high in the late 1960s, its power begins to fall from the mid 1970s, as the fall in the growth rates was combined with the beginning of the deindustrialization process, mostly caused by the fact that the income-elasticity of demand for manufactured goods is smaller than one. Deindustrialization caused the reduction of share of the working class in the labour force, and collaborated to the reduction of the rate of unionization. This fact facilitated the neoliberal counterattack aiming to rise the profit rates so as to remunerate not only productive capital but also financial capital.

Forth, the information technology revolution involving a great demand of engineers and other forms of skilled labour. As the education and training systems in rich countries didn't meet such demand, salaries and the wages of skilled workers increased in relation to wages of non-skilled workers.

Fifth, again the information technology, in this case turning technical progress capital using, i.e., involving a fall of the output-capital ratio or the productivity of capital. When there is technical progress, the productivity of labour is, by definition, increasing, but the productivity of capital may be increasing, falling or neutral. As Marx perceived in the first part of the nineteenth century, the mechanization process – the simple substitution of machines for labour – was a capital using technology that caused the fall of the productivity of capital and of the rate profit. Yet, from mid nineteenth century, the adoption of capital saving technology (substitution of new for old and less efficient machines) involved the increase of the productivity of capital, which neutralized the fall of the productivity of capital that mechanization continued to cause. In this circumstance, technological progress was neutral, and the overall capital-output ratio remained constant. With the information technology revolution there was a new wave of technologies characterized by substitution of capital for labour, and, so, implying the fall of the output-capital rate. The "solution" for this fall of the productivity of capital making wages to increase less than productivity.

Returning to the institutional reforms, failing to establish a reasonable minimum wage is for sure a way of depressing wages; all rich countries should have a minimum income system – a basic income for all; middle-income countries should implement cash transfers to the poor, which are less costly. Flexibilizing labour contracts was probably the more important reform demanded and achieved by neoliberalism. Establishing a high level of interest rates is something that neoliberals had difficulty in achieving giving the capital glut, but they were successful in some countries as Brazil and Turkey.

Privatization of the large and monopolist or quasi-monopolist public services was a major strategy of rentier capitalist and financiers; it was a manner of turning rentier capitalist into "entrepreneurial" capitalists without incurring in the risks that involve real entrepreneurship; they just had to contract managers to run firms involving no risk, and increase their prices or tariffs; it was a manner of making this people much richer, and opening opportunity for lawyers, business consultants and economists to participate from the banquet, always with the argument that private enterprises are, by definition, more efficient than the state-owned ones. Deregulating business activities, mainly deregulating finance, was again a manner of making capitalism more unjust, and much more unstable; as to the injustice involved, we just have to look the increase of the share of finance in the total income of rich countries; in the United States, in the mid 1970s, finance represented 4%, in 2010, 8.4% of GDP.[5] As to a source of financial instability and consequent low growth, if not retrogression, we just have to remember the radical deregulation of finance in the 1980s, which was the main cause of the 2008 global financial crisis and the Great Recession that followed.

Reducing the size of the welfare state is a form of reducing indirect wages and a means to turn life of the poor and the lower middle class insecure. The welfare or social state based in large universal social services, including a universal health system, a universal basic education system coupled with subsidized high education to the brighter students, and a universal social security system complemented is a conquest of humanity in the social realm, as the civil or liberal rights and the universal suffrage are in the political realm. To replace the social state by higher wages would be expensive and inefficient, since universal services besides being more just, are substantially less costly. But they could be even less costly. The central objective of what I call the second administrative reform of the modern state – the managerial public reform – is to make such services more efficient. Whereas the first historical reform of the state was the nineteenth century civil service or bureaucratic reform, aimed to make the state more effective in implementing the law, the second reform, the managerial or public management reform, aims essentially to make the provision of the state services less costly and with better quality. It is very difficult to measure the levelling effect of the welfare state. People know that this effect is important, that the welfare state is a major source of well-being and security, and this fact was, most likely, the reason why it proved to be so resilient in face of the neoliberal assault. While the neoliberal reforms were effective in flexibilizing the labour contracts, whose cost reduced the competitiveness of individual business enterprises, they failed in dismantling the welfare state.

Table 2: 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

Source: Giovanni Andrea Cornia and Bruno Martorano (2010). Observation: Brazil (1997).

Last but probably the most important of all neoliberal institutional was turning the tax system more regressive. Progressive taxation means, basically, to increase substantially the progressivity of the income tax; to have a wealth tax; and a reasonable inheritance tax. The effect of progressive tax is huge. Table 2 shows the Gini index before and after taxes and transfers in five selected countries. In the three developed ones inequality is relatively similar before tax, but after taxes and transfers it turns huge. In the United States, where economic inequality is known to be very high because the tax system turned regressive in the Neoliberal Years, the difference between before and after taxes is 21.6%, while in Sweden is 38.8%. In Brazil, where inequality is very big, the tax system is regressive, and in Bolivia, still more regressive, but with a relatively low inequality before tax , probably because Bolivia did not made its capitalist revolution.

Figure 1: Top 1% income share and top tax rate in Britain and US

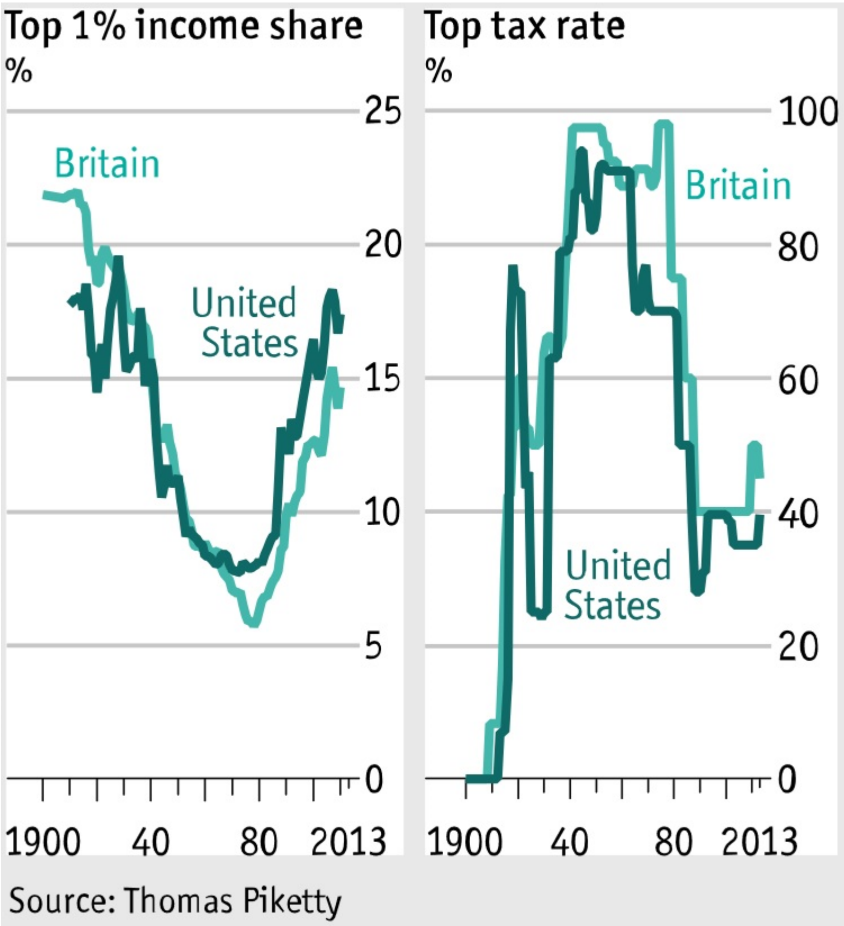

Figure 1 also shows how important is the tax system in determining distribution. In this figure, we see the top 1% income share and the top tax rate in the United States and Britain in the twentieth century. The change in the top tax rates prove to be similar, reaching a high between the 1940s and the 1970s, while the top 1% income share reached a low in the 1970s. After that, the economic constraints and the neoliberal institutions made capitalism more unjust.

Conclusion

We may be equal or unequal in civil, political, social, and economic terms: in civil terms, when the civil rights or the rule of law is guaranteed; in political terms, when each citizen has one vote, and when citizens have some opportunity to be heard in political affaires; in social terms, when respect or recognition is equally distributed; and in economic terms, when wealth and income are evenly distributed. Among the four equalities the economic is possibly the more strategic and the more difficult to be achieved. The more individuals are equal in economic terms, the more just will be the society. Given this brief definition and classification of justice, in this paper I asked myself what institutions make capitalism unjust. I believe that the response is reasonably clear. 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: the minimum wage, the welfare state, progressive taxation, etc. But the fight for equality and justice is an everyday fight, because those with more economic and political power are always crossing Michael Walzer's spheres of justice and creating privileges for themselves.[6] Since the 1970s a series of historical new facts, some of them economic constraints, opened room for a new type of radical economic liberals – the neoliberals – who held the banner of inequality under the veil of "efficiency" and "hard work" and implemented institutional reforms on the interest of the rich – particularly of rentier capitalists and financiers. In consequence of these constraints and of the neoliberal reforms, injustice in rich countries, which had been slowly but effectively controlled since the New Deal in name of republican and socialist ideals, increased again.

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[1] If we consider the year that Mao Zedong began the Long March, the Chinese revolution began in 1934. In 1949 he expelled Tchang Kaï-Chek, who was supported by the Occident, and China finally became an independent nation-state.

[2] See http://bit.ly/1OIEdVM and http://bit.ly/1OuPQPc, accessed at July 26, 2015.

[3] The concept of policy regime is of Adam Przeworski (2001). On the theme Hideko Magara (2014) edited a full book.

[4] Note that I don’t include in this list austerity policies, because among rich countries this type of policy was only important in the framework of the euro crisis, when the impossibility of depreciating currencies led the European Union to adopt an internal depreciation policy, i.e., austerity. In other situations, austerity is mostly a form of keeping the fiscal accounts healthy.

[5] Source: Department of Commerce, in *The Wall Street Journal*, December 10, 2011, http://on.wsj.com/1JfXs4Y.

[6] Michael Walzer (1983).