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Explaining rising inequality: capitalism in general or social structure of accumulation?

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Abstract: The publication of Thomas Piketty's *Capital for the Twenty-First Century* has raised the profile of the debate about rising economic inequality in recent times. Piketty proposes a formula, r > g, where r is the rate of return on capital and g the growth rate of income, to account for rising inequality. As Piketty's data show, this tendency prevails in some historical periods but not in all, and inequality has decreased or remained roughly stable by various measures over some long periods. The dynamics of inequality in capitalist systems cannot be fully explained at the level of capitalism in general, or by supplementing such an account with reference to state policies or contingent events, but require attention to the specific institutional form of capitalism. Focusing on the U.S., the paper shows how the social structure of accumulation theory of the evolution of capitalist systems can contribute to explaining the period of relatively low and stable income inequality during the first part of the post-World War II period as well as the rising income inequality after around 1980.

Keywords: Inequality, social structure of accumulation, institutions

Parts of this paper are based on *The Rise and Fall of Neoliberal Capitalism*, by David M. Kotz, Harvard University Press, 2015.

1. Introduction

Rising economic inequality has attracted a good deal of attention in recent years, among academic specialists, the general public, and politicians. However, evidence of increasing inequality has been emerging for some time. Starting in the 1980s the mass media advertised the growing number of billionaires. After a long period when the rich had kept a low profile, an open display of great wealth usually associated with earlier periods in history returned in the U.S. and some other countries. In the 1990s new and highly publicized fortunes arose in hi tech, finance, and other sectors. For some time U.S. government data on income distribution have shown rising inequality of income among households, although the official data have not adequately charted the rise of the share of income of the very rich, due to undersampling and omission of capital gains income.

Then a few years ago two interacting developments catapulted inequality to its current high degree of public attention. A protest movement directed at inequality, the Occupy movement, sprang up in 2011 drawing widespread support for a critique of the wealth and power of "the 1%." The other development was the careful empirical work of Thomas Piketty and Hector Saez, who used a variety of sources to compile data series on trends in the concentration of income among the very rich -- the top 1% and above -- which had not been available before (Piketty and Saez, 2015). They made their data series easily available starting around 2007. Without the work of Piketty and Saez, the now well-known slogans about "the 1%" might not have appeared. And without the protest movement, the new data might not have penetrated beyond the world of academic specialists. Piketty's *Capital in the 21st Century*, published in 2014 which quickly became a best-seller, offered a sweeping account of trends in inequality of wealth and income in various part of the world going back to the nineteenth century, analysis of the roots of its rise and fall, and policy proposals to forestall a new period of economic and political dominance by the possessors of inherited wealth.

Social scientists typically are handed the job of analyzing imprecise concepts from everyday life, and the concept of economic inequality is a good example. How should the analyst understand "economic inequality?" This presumably refers to a skewed distribution of something that is economically valuable within some set of social actors. First, there is the question of what economically valuable entity should be selected for a study of its distribution. The usual variables whose distribution is studied are income, which is a flow over a time period such as a year, and wealth, which is measured at a point in time. Wealth accumulates over time through flows of net income and/or changes in values, although for its owner it can be obtained all at once via inheritance or other means. Income can derive from labor, property ownership, gifts and transfers, gambling, or theft. Wealth can take the form of income-producing assets such as businesses or securities, stores of value such as money or precious metals, or assets acquired for their use-value such as a residence or personal vehicle. Some types of income-producing property give rise to a flow of income to its recipient solely based on ownership, while other forms require the labor of its owner to generate income (proprietor's income).[1]

Second, the analyst must decide the subjects of economic inequality, which can be individuals (or households or families), economic classes, or formal institutions such as business enterprises (as for analyses of the distribution of profit or value added among various categories of enterprises).[2] The decision about the type of economic entity and the subject interact with one another. If the subjects are individuals, as is common in mainstream economics, then the distribution of labor income is usually measured by counting any income that has the form of employee compensation. However, if the subject is classes in a capitalist system, then the distribution of income between capital and labor would be of interest, a distribution that has long been studied by economists. While this suggests an examination of the distribution between labor and property income, not all income taking the form of labor income should necessarily be considered wage income for the class of laborers. The pay received by a corporate CEO may take the form of labor income but, for an analysis of the class distribution of income, CEO pay might better be regarded as a form of property income distributed to the CEO from the corporation's profit flow and hence a part of the income of the capitalist class.

Much of the recent concern with rising economic inequality has focused on the distribution of income among households, or families.[3] The claim has been that in recent decades inequality of household income distribution has increased in a particular way: the share of the richest part of the population has increased rapidly, while the shares of those in the middle and bottom have slipped. This concern has been heightened by the belief, with some evidence to back it up, that this shift in distribution has been accompanied by stagnation or decline in real income of those at the middle and bottom. This raises the possibility that the rising incomes at the top are causing the stagnating or falling incomes of the great majority, as the outsize gains of those at the top leave a shrinking pool of income for the rest.

A shift in the class distribution of income has also been noted. The income shares of labor and capital, long believed to be stable at about two-thirds and one-third, shifted in recent times toward a growing share for capital. As table 1 shows, the decade average for the share of employee compensation in personal income in the US was lower after 1980 than it before while the share of property income was higher after 1980.

Table 1. Average Shares of Employee Compensation and Property Income in Personal Income in the U.S.

	1950s	1960s	1970s	1980s	1990s	2000s	2010-14
Employee Compensation	70.7%	71.8%	71.1%	68.5%	67.4%	66.4%	62.7%
Property income	12.9%	15.0%	15.6%	20.2%	19.7%	18.4%	18.4%

Note: Property income includes rent, interest, and dividends received by households. The other categories of personal income, not shown here, are proprietors' income and transfer payments.
Source: U.S. Bureau of Economic Analysis, 2015, NIPA Table 2.1

Changes in wealth distribution have attracted less notice, at least until the publication of Piketty's book which emphasized wealth. The distribution of wealth among households is always highly concentrated in class-based economic systems such as capitalism. A capitalist system is one in which a small class owns most of the means of production, and it is not consistent with an egalitarian distribution of wealth. However, the degree of inequality in the distribution of income in capitalist systems has varied widely, as Piketty has shown, from the highly egalitarian Scandinavian capitalism of the post-World War II decades to the highly ineqalitarian income distribution in the developed capitalist countries before World War I.

Many analysts have noted the relatively low and stable degree of inequality in the income distribution in the U.S. from the late 1940s through the 1970s, followed by rising income inequality after around 1980. Piketty documented that pattern for the U.S. (p. 24, Figure

1.1) and a similar pattern in other, although not all, countries. This paper argues that the social structure of accumulation (SSA) theory of the evolution of capitalist systems can contribute to uncovering the reasons for that pattern. I will argue that the observed pattern cannot be adequately understood based on principles that are derived from capitalism in general, or based on analysis of capitalism in general supplemented with accidental events such as major wars. An analysis of the institutional form of capitalism, which changed significantly around 1980, can make a significant contribution to explaining the major shift in the trend in income inequality after 1980.

2. Inequality and the Level of Abstraction

Piketty (2014) analyses inequality in the distribution of income and wealth at a high level of abstraction, although periodically he takes account of particular economic and political events. He discusses the evolution of inequality primarily in times and places where the economic system is capitalist, although he also remarks about developments in traditional agrarian societies and in the U.S. in the early 1800s when most of the population were neither wage laborers nor employers but rather were independent commodity producers, either farmers or artisans who supplied the labor as well as owning the enterprise. Piketty's famous inequality, $r > g$, where r is the rate of profit on wealth and g is the growth rate of income, is relevant for an economic system in which individuals can own property from which they derive income from ownership, such as capitalist systems.[4]

Piketty claims that, if $r > g$ for a significant period of time, then two consequences follow. First, the ratio of wealth to income (W/Y) in the society increases, an inference that depends on assumptions that r does not fall and that all profit is accumulated as additional wealth. That is, as long as r is sufficiently greater than g so that the accumulation rate exceeds g, allowing for some consumption out of profit income, W/Y will grow. Since the relevant comparison is between the after-tax rate of profit and g, taxation of profit can affect the result.

The second implication of $r > g$ follows from a rising W/Y. Piketty notes that the profit share of income is equal to the product of r and W/Y by definition. Hence, if W/Y is rising, then the profit share of income must be rising, as long as the rate of profit is not falling. Thus, the original condition of $r > g$ leads, with a few assumptions, to growing inequality between property income and other forms of income including labor income.[5]

Piketty argues that r tends to be significantly greater than g throughout history, except when dramatic events cause a reversal of the relationship. While no theoretical reason for this relationship is provided, Piketty gives substantial empirical evidence for it. He suggests that r tends to be in the 4-5% range (pp. 358-9) while output growth is close to that range for significant periods of time only when a country is catching up to the world technological frontier, a condition that does not last.

In a capitalist system, if all forms of income other than labor and property income are excluded, then the trend of distribution of income among individuals is affected by three factors: 1) the trend in the class distribution of income, between labor and property income; 2) the trend in the distribution of labor income; 3) the trend in distribution of property income. As Piketty's data show, the trend in income inequality among individuals has varied over time and place. For the U.S., his figure 1.1 for the share of the top 10% in national income shows the following trends: 1) 1910-1928: rising to almost 50%; 2) 1930s: falling rapidly to about 45% where it stabilizes; 3) 1940s: precipitous drop to about 35% where it stabilizes; 4) 1950s-1970s: period of stability at just under 35%; 5) 1980-2010: rise back to 50% in 2007, after which it falls slightly in the economic crisis.

This paper is concerned with how to analyze the two distinct periods in the trend in income inequality in the U.S. following World War II. First, the late 1940s to the about 1980 was a period of a relatively low and stable degree of inequality, followed by a second period from about 1980 to 2007 of rapidly rising inequality. The relation between r and g over those two periods might tell us something about those two trends, but at most it would involve the trend in inequality between profit and wages. As Piketty's own data show, rising inequality in the distribution of labor income played a major role in the shift in trend from the first to the second period.

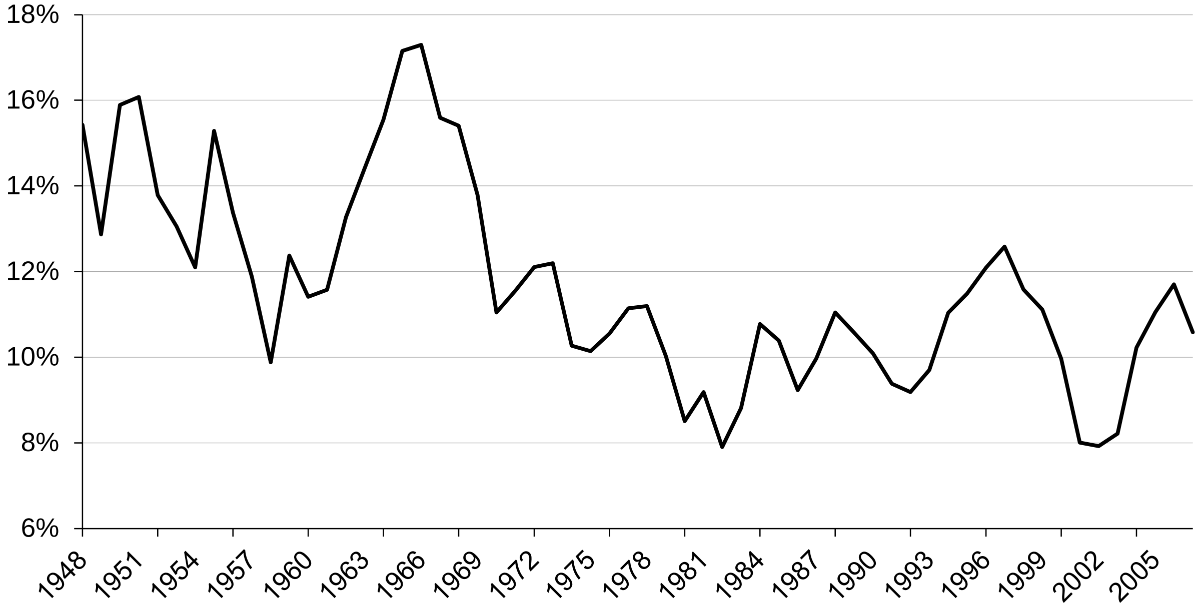
The view that the trend in income inequality in a capitalist system cannot be fully explained by characteristics of capitalism in general is supported by the evidence that the trend has been quite different in different periods in the capitalist era. Characteristics of capitalism in general might be involved in the explanation if combined with one or a few accidental developments, such as major wars or innovations. However, this paper argues that neither capitalism in general by itself, nor combined with accidental developments, can offer a fully adequate explanation, which requires taking account of the particular form of capitalism in a given time and place.

The social structure of accumulation (SSA) theory offers a powerful framework for analyzing the trend in inequality in a capitalist system.[6] Capitalism has taken a succession of institutional forms over time, referred to as social structures of accumulation. Each SSA has promoted profit-making and capital accumulation for one or several decades. Eventually each SSA stops promoting profit-making and accumulation, which ushers in a period of structural crisis marked by stagnation and/or economic instability. Such structural crises have occurred in the USA and Western Europe in the 1870s-90s, 1930s, 1970s, and again since 2008. Every past structural crisis has been resolved only when a new set of economic and political institutions along with a shift in the dominant economic ideas -- a new SSA -- have emerged that can again promote profit-making and accumulation. In the next section I will show how SSA theory can shed light on the reasons for the divergent trends in income inequality between the two periods, the late 1940s through the 1970s and around 1980 through today.

3. Social Structure of Accumulation Theory and the Trend in Income Inequality

The post-World War II period in the U.S. has had two successive SSAs. A new SSA was established by the late 1940s, which can be called a "regulated SSA" or "regulated capitalism" (Kotz, 2015; Wolfson and Kotz, 2010). That SSA effectively promoted profit-making and accumulation through around 1966, after which the rate of profit in the US economy began a long decline that lasted through 1982 (see figure 1). Regulated capitalism entered a period of structural crisis around 1966, based on the rate of profit, and around 1973 by most indicators such as GDP growth rate and trends in inflation, unemployment, and instability in the international monetary and financial system. The construction of a new "neoliberal SSA," or "neoliberal capitalism," began in the late 1970s and was well established by the early 1980s. As was noted above, neoliberal capitalism entered a structural crisis in 2008. The period in which the first post-World War II SSA was working effectively will be regarded as 1948-73 (or through 1966 for the rate of profit) and the effective period for the neoliberal SSA will be regarded as 1979-2007. The aforementioned beginning and ending years are all either business cycle peak years in the U.S., or in the case of 1966 a year that had many of the characteristics of a business cycle peak year.[7]

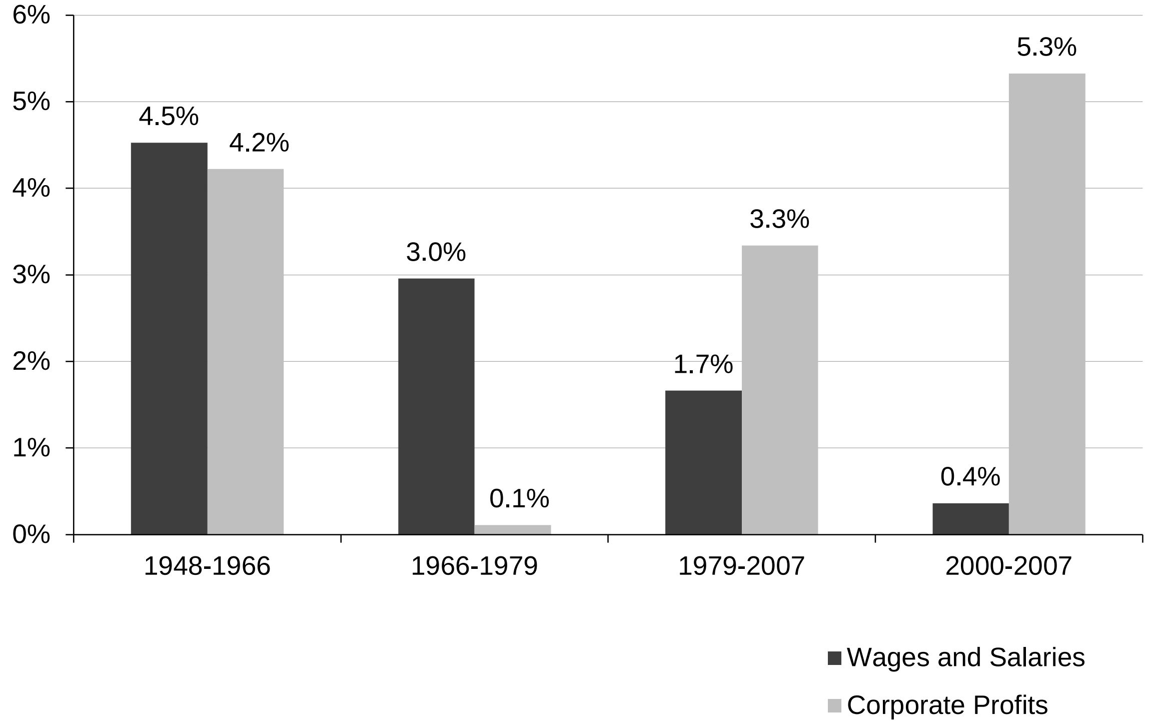
Figure 1. The Rate of Profit of the U.S. Nonfinancial Corporate Business Sector, 1948-2007



Source: U.S. Bureau of Economic Analysis, 2013, NIPA table 1.14 and Fixed Assets table 4.1. Note: The rate of profit is pretax profit plus net interest and miscellaneous payments divided by fixed assets.

Figure 2 shows the relation between the growth of profit and of wages and salaries in the U.S. from 1948 until 2007, the eve of the current structural crisis.[8] There are three distinct periods in the relative movement of the two variables. From 1948-66 profit and labor income rose at almost the same rate. From 1966-79 profits almost ceased to grow, while labor income continued to grow although more slowly than in the previous period. After neoliberal capitalism had been established, profit growth resumed at a rate much faster than that of labor income. In the last full business cycle of the neoliberal era from 2000-2007, profit grew more than 13 times as rapidly as labor income.

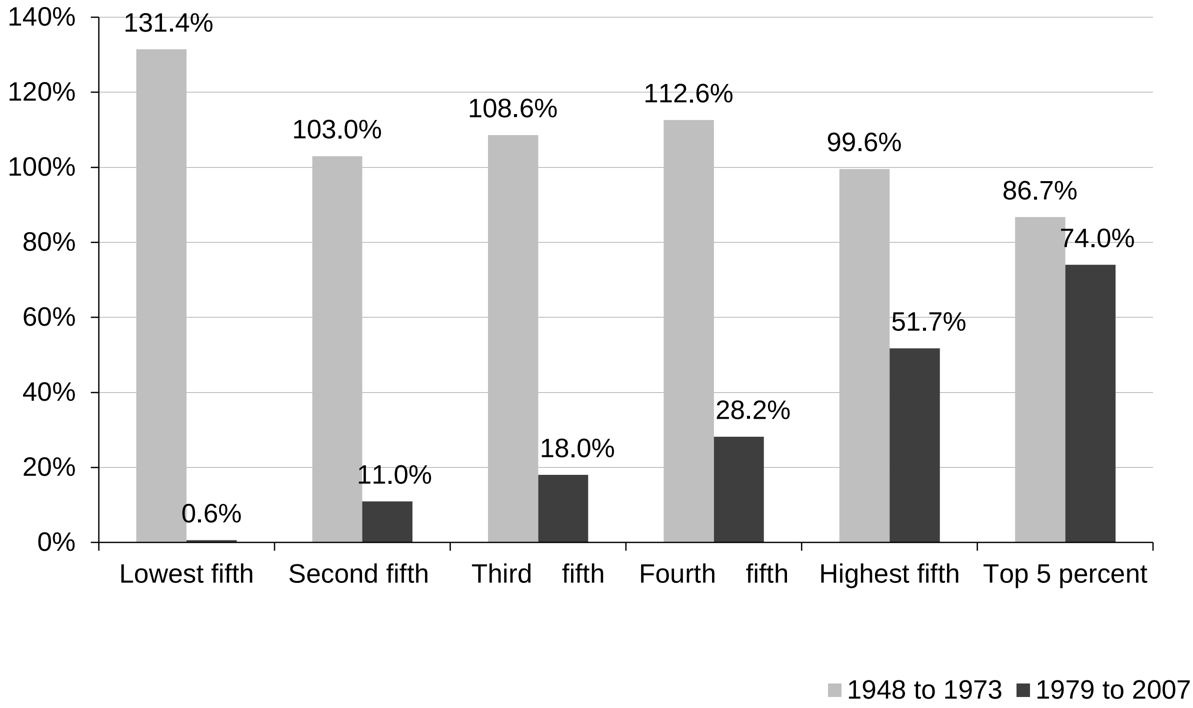
Figure 2. Annual Growth Rates of Wages and Salaries and Corporate Profit.



Source: U.S. Bureau of Economic Analysis, 2013, NIPA tables 1.14, 1.1.4; U.S. Bureau of Labor Statistics, 2013.
Note: Profit is deflated by the gross domestic product price index and wages and salaries by the consumer price index. Wages and salaries are for all employees of the corporate business sector.

Figure 3 indicates the large difference in the trend in income inequality between the two periods, showing the total increase in average real family income for the five quintiles of the population and for the top 5%. The first period was a somewhat equalizing one by this measure. The real income of all five quintiles approximately doubled or more, but that of the lowest quintile grew the fastest, while the top quintile's income grew the slowest. The average real income of the top 5% grew even more slowly. The difference after 1979 is striking. From 1979 to 2007 income growth increases consistently from the bottom to the top quintile, with the top 5% growing the fastest. The real income of the bottom fifth grew barely at all, despite the rapidly rising female labor force participation of the second period, which added a second wage earner in many families.

Figure 3. Percentage Increase in the Average Real Family Income of Quintiles and the Top 5 Percent.



Source: U.S. Bureau of the Census, 2013, table F-3.

How can this stark difference between the two periods be explained? A central claim of SSA theory is that "Capitalists cannot and will not invest in production unless they are able to make reasonably determinate calculations about their expected rate of return" (Gordon et al., 1982, 23). An SSA promotes capital accumulation by fostering stability and predictability that enable capitalists to form such expectations. To that early expression of SSA theory has been added, by later works of that school, the argument that an SSA also promotes a high rate of profit, which is necessary to promote accumulation.

The capital-labor relation is the central class relation of capitalism. It gives rise to class conflict, which causes instability that can discourage capital accumulation and can also work against a high rate of profit. Hence, every SSA is based on a form of regulation of the capital-labor relation that will avoid a high level of class conflict while also promoting a high rate of profit. There are two different ways of regulating the capital-labor relation, through compromise between capital and labor or by relatively full dominanation of capital over labor. The first post-World War II SSA was based on the former means of regulating the capital-labor relation while the second was based on the latter means. It is well-established that the post-World War II version of capitalism was based on a capital-labor compromise, as large corporations agreed to accept a legitimate role for trade unions, giving up their previous attempts to drive them from the workplace in the 1930s (Kotz, 2015, pp). The neoliberal era in the U.S. opened with the Reagan Administration's breaking of a strike of air traffic controllers, which gave the green light for a general attack on trade unions. There followed a steady decline in union density and in the ability of the remaining unionized workers to defend, much less advance, their wages and working conditions.[9]

These two SSAs also differed in the degree of regulation of markets. In the first SSA the state exercised a significant degree of regulation of business and of market exchange, far beyond the state role prior to the 1930s. However, the state was not the only agency that regulated the market. Trade unions also did so through collective bargaining, as did corporate bureaucracies which established a restrained, co-respective form of competition between large firms and typically chose the CEO by promotion from within rather than from an outside market for CEO. These features of the first SSA explain why it is reasonable to identify it as a "regulated" SSA, or "regulated" capitalism.

The second SSA has had a far more limited degree of regulation of businesses and markets. Of course, a large-scale market economy cannot exist without a state. The state must define and enforce the property relations that underpin market exchange as well as establishing the public order that is necessary for a functioning market system.[10] However, the extent of state intervention in the market economy can vary greatly, and the second SSA was established in the late 1970s to early 1980s by a major pullback of the state from its regulation, oversight, and provision roles. The result was a significant expansion of the role of market relations and market forces in the regulation of economic activity, compared to the role of non-market institutions such as states, trade unions, and corporate bureaucracies.

Kotz (2015, chapter 2) explores the relation between these two ways of characterizing and contrasting the two SSAs. That is, they differ in the mode of regulating the capital-labor class relation and in the extent of regulation of market activity by non-market institutions. It is the latter dichotomy that gives rise to the concepts of "regulated capitalism" and "neoliberal capitalism." Briefly stated, the relation between the two ways of characterizing the two forms of capitalism is found in the role played by the institutions and dominant ideas of regulated capitalism in promoting capital-labor compromise, while the institutions and dominant ideas of neoliberal capitalism promote relatively full domination of capital over labor. When a decisive part of big business shifted from acceptance of capital-labor compromise to a drive to crush organized labor around 1980, the promotion of neoliberal restructuring was the means to achieve that end (Kotz 2015 chapter 3).

Tables 2 and 3 provide lists of the main institutions and dominant ideas of regulated and neoliberal capitalism in the U.S. Regulated capitalism was established after World War II not just in the U.S. but throughout the developed capitalist world and at the global level, although the particular institutions varied to some extent among countries. Similarly, neoliberal capitalism replaced regulated capitalism in much of the developed capitalist world including at the global system level after around 1980, although the extent of neoliberal restructuring differed significantly among countries.

Table 2. The Ideas and Institutions of Regulated Capitalism in the U.S.

1. Dominance of Keynesian ideas and theories
2. The Global Economy: The Bretton Woods System, with fixed exchange rates, a gold-backed U.S. dollar as the world currency, and a moderately open world economy although with tariffs and some obstacles to free capital movement
3. Role of Government in the Economy
    a) Keynesian fiscal and monetary policies aimed at a low unemployment rate and an acceptable inflation rate
    b) Government regulation of basic industries
    c) Government regulation of the financial sector
    d) Social regulation: environmental, occupational safety and health, and consumer product safety
    e) Strong anti-trust enforcement
    f) A high level of provision of public goods and services including infrastructure and education
    g) Welfare state
    h) Progressive income tax
4. The Labor Market
    a) A major role for collective bargaining between companies and unions
    b) Large proportion of stable, long-term jobs
5. The Corporate Sector
    a) Co-respective competition
    b) Corporate CEOs promoted from within the corporation
    c) Bureaucratic principles govern relations within corporations
    d) Financial institutions mainly provide financing for non-financial business and households

Table 3. The Ideas and Institutions of Neoliberal Capitalism in the U.S.

1. Dominance of economic ideas and theories that view an unregulated market system as optimal and view state intervention as a threat to economic efficiency and individual liberty.
2. The Global Economy: Removal of barriers to the movement of goods, services, capital, and money across national boundaries.
3. The Role of Government in the Economy
    a) Renunciation of aggregate demand management
    b) Deregulation of basic industries
    c) Deregulation of the financial sector
    d) Weakening of regulation of consumer product safety, job safety, and the environment
    e) Weakening of anti-trust enforcement
    f) Privatization and contracting out of public goods and services
    g) Cutbacks in or elimination of social welfare programs
    h) Tax cuts for business and the rich
4. The Labor Market
    a) Marginalization of collective bargaining
    b) Casualization of jobs
5. The Corporate Sector
    a) Unrestrained competition
    b) Corporate CEOs hired from outside the corporation
    c) Market principles penetrate inside corporations
    d) Financial institutions shift toward new types of activities and become relatively independent of the non-financial sector

The key point is that regulated capitalism as a whole promoted a relatively low and stable degree of income inequality while neoliberal capitalism as a whole has driven rising inequality. Since regulated capitalism is based on capital-labor compromise, it placed labor in a position to share in the rising income from accumulation and technological progress. The Bretton Woods system limited capital flight abroad and enabled labor to resist downward wage pressure from competition with low-wage workers in other countries. Keynesian demand management policies achieved a relatively low average unemployment rate of 4.8% from 1949-73, which reinforced labor's bargaining power. [11] Government regulation of key infrastructure sectors -- transportation, communication, electric power -- enabled trade unions in those sectors to win high wages. The relatively generous welfare state raised labor's fall-back position, increasing its bargaining power. The progressive income tax reduced the after-tax income of capitalists. The institutions of the labor market in table 2 reduced class income inequality. The restrained competition, which included tacit price-cooperation in concentrated industries, lessened the pressure on capital to drive wages down that emerges under unrestrained competition.

Neoliberal capitalism has been based on a more or less opposite relation between labor and capital -- relatively full domination rather than compromise -- and its institutions are more or less the opposite of the institutions of regulated capitalism. Neoliberal capitalism greatly weakened the bargaining power of labor. The more fully open global economy put US workers in competition with low-wage workers elsewhere, and a substantial literature has found evidence that this played a role in wage stagnation or decline while profits continued to rise. The abandonment of macro policy aimed at a low unemployment rate resulted in a higher average unemployment rate in the 1980-2007, of 6.1%, which reduced labor's bargaining power. The deregulation of infrastructure sectors led to very large cuts in wages in those sectors. Cutbacks in the welfare state lowered labor's fallback position. The cuts in corporate tax rates along with the declining progressivity of the personal income tax and rising regressive payroll taxes contributed to widening capital-labor after-tax income inequality. The labor market institutions of neoliberal capitalism have played a major role in the widening class income gap, as previously strong trade unions in basic industry have been largely unable to fend off huge pay cuts, especially for newly hired employees. The intense competition of neoliberal capitalism presses capital to use any means to drive down labor costs.

The radical change in labor's bargaining power in the neoliberal era is indicated by the changed effects of a low unemployment rate on wages. In the regulated capitalist era in the U.S., the low unemployment rate prior to the peak of each business cycle led to real wages rising faster than labor productivity, a resultant squeeze on profits, and a tendency for inflation to accelerate. However, in the 1990s, when a decade-long expansion eventually pushed the unemployment rate down well below 5%, while real wage growth picked up somewhat as labor's bargaining power increased, it did not rise faster than labor productivity and inflation remained quiescent (Kotz, 2009). Marx's reserve army effect was not observed in the neoliberal era due to the structurally weak bargaining position of labor.

Regulated and neoliberal capitalism may also have opposite effects on the distribution of labor income. While there was significant wage inequality in the regulated capitalist era, in the neoliberal era a small part of the wage-earning class did well while the vast majority did not, giving rise to the observed phenomenon of the disappearing middle, where "middle" must be defined to reach high up. Regulated capitalism facilitated and encouraged solidarity within the working class which tends to reduce wage inequality, while neoliberal capitalism promotes individual pursuit of self-interest at the expense of others which tends to increase wage inequality.

A few high-wage groups have been able to stand against the wind coming from neoliberal restructuring. Some groups of workers who were not exposed to international competition and whose unions remained strong have done well, such as longshore workers and some skilled construction workers. However, the great majority have not been able to stand up against the powerful forces driving disequalization. Industrial union strength depends on solidarity, and when solidarity is strong, the lowest-paid workers benefit disproportionally. When the unemployment rate is low, all workers have greater bargaining power, but the least powerful, low-wage segment of the working class benefits the most. A particularly important institutional change in the neoliberal era, under the heading of cutbacks in the welfare state, has been the big decline over time in the real minimum wage, which increases wage inequality as the real wage of the bottom part of the distribution falls.

Neoliberal capitalism might also tend to increase inequality in the distribution of property income, although the case is not as straightforward as it is for income inequality between capital and labor and among labor income earners. Regulated capitalism, with its regime of restrained competition, virtually banished the threat of bankruptcy for large corporations. The whole set of regulations of market activity made outcomes less variable for capital as well as for labor. Neoliberal capitalism, by freeing capitalists to seize any opportunity, productive or unproductive, generates a few big successes and many failures. Neoliberal restructuring brought a "winner take all" economy, whose disequalizing impact affects the top labor income earners (athletes, actors) as well as the distribution of property income. The widely recognized rocketing upward of CEO pay in the neoliberal era resulted from the unleashing of the market. Bureaucratic job ladders in large institutions in the regulated capitalist era had produced limited pay differentials for executives, while the shift to hiring CEO's from a market outside the firm led to escalating CEO pay. As was noted earlier, CEO pay here is viewed as largely a form of property income, and this development enabled those who landed positions in the biggest and most profitable institutions to move near or even into the billionaire range.

4. Concluding Comment

An effort to quantify the size of the effect on inequality from individual institutional or policy changes in the neoliberal era is difficult, and perhaps impossible, to carry out successfully. A whole new regime replaced an earlier one around 1980. The capital-labor compromise at the heart of regulated capitalism was relatively equalizing, and all of the institutions of regulated capitalism worked together to promote a relatively low and stable degree of income inequality. The dominant ideas of regulated capitalism reinforced its effect on income inequality. When neoliberal capitalism rapidly replaced it around 1980, the process went into reverse. A thoroughly dominated working class could not defend itself, and the institutions of the regime worked together to drive rising income inequality. Neoliberal ideas supported the new regime and defended the effects on income distribution either by denying them or by claiming that any change in income distribution must be desirable, based on the neoliberal theory that in a competitive market system income distribution reflects both contribution and sacrifice and so is justified. Contrary to this belief, freeing markets tends to produce rising income inequality without regard to merit or sacrifice, as the quickest and the most unscrupulous grab whatever is available.

To reverse the socially harmful rise in income inequality requires, not just changing one or a few institutions or policies, but replacing neoliberal capitalism with a system that will bring an equitable distribution of income and guarantee a decent living standard for all. The 2008 financial and economic crisis significantly delegitimized neoliberal capitalism, creating conditions that may in the years ahead stimulate the growth of popular movements for economic justice that represent the only means for achieving such a transformation.

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Endnotes

1. According to Marxist theory, a flow of pure property income derives, not from any feature of the property nor from a contribution or sacrifice by its owner, but from appropriation of the product of the labor of others by the property owner.

2. The subjects of economic inequality can also be ethnic or racial groups or genders.

3. There is also a large literature on economic inequality by race, ethnicity, and gender. Those dimensions of economic inequality are not examined in Piketty (2014) or in this paper.

4. The actually existing state socialist systems are excluded from view in Piketty (2014), since there was no rate of profit and no legal individually owned profit-generating property in that system. Piketty (2014, p. 358) writes "there appears never to have been a society in which the rate of return on capital fell naturally and persistently to less than 2-3 percent..." Societies have existed in which there was no meaningful rate of return on capital in the sense that he uses the concept as a return to the owner of wealth, although of course capital goods have been utilized in every human society and their use always contributes to the quantity and quality of output.

5. Piketty suggests that $r > g$ has a role in explaining rising concentration of wealth, but it has no direct implication for the distribution of wealth among the population. As he indicates in several places, it is the tendency of large wealth-holdings to earn a higher return than small wealth-holdings that tends to lead to concentration of wealth. In any event, our concern in this paper is the distribution of income, not wealth.

6. For an explanation of SSA theory, see Kotz, McDonough, and Reich (1994) and McDonough, Reich, and Kotz (2010).

7. To compare trends in data series for the two forms of capitalism, it is best to use business cycle peak years to avoid distortion of long-run trends by cyclical factors. In 1966 the U.S. economy showed several signs of reaching a business cycle peak, including an unemployment rate that fell below 4%, but rapidly rising government expenditure for the Vietnam War prolonged the expansion through 1969.

8. The data for wages and salaries include managers' salaries, which results in overstatement of the growth rate of labor income of ordinary workers in the neoliberal era when high-level managers salaries grew very rapidly.

9. While one would expect that a relation of full domination of capital over labor would promote a high rate of profit, figure 1 shows that the rate of profit rose to its highest level during the first SSA which was based on capital-labor compromise. Also, figure 2 shows that the growth rate of profit was faster over the period 1948-73 than in 1979-2007. This supports the SSA theory claim that capital-labor compromise can be a means of promoting profit-making.

10. The state also must create, or regulate, the money that is essential to market exchange, a role that some free-market economists, in their determination to deny any economic role for the state, fail to appreciate.

11. For a variable such as the unemployment rate that is an average of a series of annual values, the time period for regulated capitalism must be 1949-73, since each year must be counted as

within only one long period. For variables that are growth rates from one year to the next, the relevant period for regulated capitalism is 1948-73, since it measure the compounded annual growth rate whose first year should be 1948 to 1949. 1949-73 has 25 years of unemployment rates to be averaged, while 1948-73 has 25 year-to-year intervals for calculating a growth rate.