

# Exploding Inequality is Killing Democracy

Written by Jon D. Wisman

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JON D. WISMAN, JAN 4 2017

“We can either have democracy in this country or we can have great wealth concentrated in the hands of a few, but we can’t have both” (Louis Brandeis, U.S. Supreme Court Justice, 1916-1939).

“Democracy is first and foremost about equality: equality of power and equality of sharing in the benefits and values made possible by social cooperation” (Sheldon Wolin, 2010, p. 61).

Extreme inequality has characterized human existence since the rise of civilization 5,500 years ago. Realization that it might be otherwise arose only two and a half centuries ago during the late 18<sup>th</sup> century Enlightenment. The actual possibility of greater equality emerged with the rise of democracy. Strikingly a sustained period of lessened inequality in the U.S. and Europe was realized only once; between the 1930s and 1970s. However, since the 1970s, inequality has been exploding to such an extent that it threatens the very democracy that made greater equality possible.

### The Dynamics of Democracy’s Birth

To grasp inequality’s current threat to democracy, it is necessary to understand the dynamics of democracy’s birth. What is seldom appreciated is how recent democracy is as a political process. Its modern seeds were sown with the rise of a European bourgeoisie in a world politically controlled by a landed aristocracy. As this new commercial class gained ever more economic power, it clamored for a political voice commensurate with its wealth. It contested status and privilege grounded in birth rights, insisting instead that all humans are born equal and that credit instead should be lodged in performance, in what is contributed to society’s prosperity.

The bourgeoisie, of course, had no fear that the idea of equality would rally the aspirations of the workers below. But its expression in major political documents such as the American Declaration of Independence and the French Revolution’s Declaration of the Rights of Man and of the Citizen along with its rallying slogan of *liberté, égalité, fraternité*, broadcast the ethical seeds of universal human equality.

Although the idea of human equality gave force to the struggle for democracy, its realization required the threat of violence from below against governments representing the interests of elites. This came forth with industrialization and the evolution of an urban industrial working class that brought with it organized, and at times violent resistance to long workdays, low wages, and unhealthy working conditions. To reduce and hopefully eliminate the threat of violence, elites began bribing the working class with various benefits and with the franchise. Both strategies for calming working class revolutionary fervor resulted in higher living standards for workers.

Although immediately costly to elites—lowering the amount of surplus they could appropriate – the alternative of violence and revolution promised to be far worse. Elites understood, as Muller and Seligson observe, that “the presence of meaningful nonviolent possibilities of influencing the political process will inhibit the ability of revolutionary-minded dissidents to mobilize large followings” (1987, p. 444).

The following examples reveal the dynamics of the political response to the threat of worker insurrection and the resulting rise of democracy. The initial extension of the franchise in Britain in 1832 followed, as Acemoglu and Robinson report, “unprecedented political unrest, including the Luddite Riots from 1811-1816, the Spa Fields Riots

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of 1816, the Peterloo Massacre in 1819, and the Swing Riots of 1832” (2000, pp. 1182–1183). Following the revolution of 1848, “Britain...was transformed from an ‘oligarchy’ run by an elite to a democracy” (Acemoglu and Robinson, 2000, p. 1167). Further extension of the franchise in 1867 came with a heightened threat of violence due to a severe economic downturn.

Although universal male suffrage had been introduced by the French Revolution, by 1830, it had been collapsed to a mere 0.75 percent of the population (Acemoglu and Robinson, 2000, p. 1184). But the Revolution of 1848 was the big wakeup call for the elites, and after the collapse of the Orleanist monarchy in 1849, male suffrage was again extended to all males.

The elite in Germany also began extending the franchise following the 1848 revolution. Germany’s Social Democratic Party embraced a Marxist program in 1875, and to counter its rising political challenge, Otto von Bismarck set forth social measures, including compulsory health insurance, worker accident insurance, old-age insurance and mandatory retirement.

The progressively greater democratization at the ballot box decreased the ease with which elites could use the state to violently curb the aspirations of workers. The elites lost their violence-backed monopoly control over the state. Only control over ideology could promise retention of their political power. Indeed, it was the weakening of their ideological dominance due to the extreme social dysfunction and hardship caused by the Great Depression that enabled measures resulting in greater equality between the 1930s and 1970s.

## **Pure Democracy is Not Possible**

Pure or perfect democracy – where each member of society possesses equal power in determining collective consequences — would require perfect equality. Any degree of inequality would provide advantages to those with greater resources, even should these be merely greater persuasive power. Pure democracy is not possible. The more modest goal must be to strive for the greatest degree of equality possible in the determination of society’s collective ends.

However, a political order with the greatest possible democratic equality might chose to permit some degree of inequality in certain domains where it appears necessary to provide adequate incentives for the achievement of collectively desired ends. For instance, to generate greater material well-being, some degree of income, wealth, or educational inequality might be found necessary. Thus it might be rational for a democratic society to allow for that degree of inequality that furthers collective ends, while conforming to John Rawls’ contention that “Social and economic inequalities ...are just only if they result in compensating benefits for everyone, and in particular for the least advantaged members of society” (1999, p. 15). Nevertheless, permitting such inequalities creates the tough challenge of walling them off such that they not undermine democracy.

Equality and democracy are mutually reinforcing. As political scientist Carles Boix puts it: “Generally speaking, democracy will be possible only if both winners and losers — that is, if all voters and their representatives — live under some relative equality of conditions. When voters do not differ excessively in wealth among themselves, not much is up for grabs in elections” (2006, p. 8). However, just as decreasing inequality enabled the franchise to be extended to women and minorities, so rising inequality undermines democracy, even generating pressures to limit the franchise. The reason, Boix writes, is that “if social and economic inequality is rampant — that is, if a few control most wealth — the majority will look forward to an election as an event whose outcome will enable them to redistribute heavily to themselves. Facing such strong pressure for redistribution, the wealthy will prefer an authoritarian regime that would exclude the majority of the population” (2006, p. 8). This turn toward limiting the franchise is currently taking place in the U.S.

## **Exploding Inequality and its Threat to Democracy in the U.S.**

The extraordinary hardship of the Great Depression significantly delegitimized the rich’s contention that unbridled free-market capitalism was in everyone’s interest. The consequence was that between the 1930s and 1970s,

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workers were able to use the political sphere to create measures that would tame the excesses of free markets, reduce inequality, and significantly improve the lives of most Americans. Among these gains were workers' rights to bargain collectively, Social Security, unemployment insurance, minimum wages, the G.I. Bill, Medicare and Medicaid, food stamps, public housing, rent subsidies, Project Headstart, Job Corps, the Occupational Safety and Health Administration, the Consumer Product Safety Commission, the Mine Enforcement and Safety Administration, the Environmental Protection Agency, a massive expansion of affordable higher education, legal constraints on segregation, and extension of the franchise to African Americans.

However, by the mid-1970s, fueled by stagflation, dollar devaluation, loss in Vietnam, worker insurgency, and the alleged moral degeneracy of hippies, the free market ideology of the elite — wrapped in the mantle of supply-side economics — again rose to dominance (Harper, 2005). It legitimated public policy measure that generated a rapid reversal of workers' hard-won gains of the four previous decades. Since the 1970s, as inequality has soared, programs designed to benefit the average American have shrunk. And now, the elite's ever greater wealth and their consequent disproportional control of ideology and politics is undermining democracy. Indeed, measures are being implemented to take away people's right to vote. Democracy is being whittled away.

Ideology is the most powerful contemporary political weapon. For that reason, democracy means more than simply one person, one vote. To have meaning, it requires that there be a degree of equality in control of the instruments of persuasion. As Robert Dahl put it, "[If] political preferences are simply plugged into the system by leaders (business or other) in order to extract what they want from the system, then the model of plebiscitary democracy is substantially equivalent to the model of totalitarian rule" (cited in Wolin, 2010, p. 51). Soaring inequality has put further resources into the hands of the elites to enable their heightened control over instruments of persuasion such as the media, think tanks, lobbying, and higher education.

The contemporary ideology of elites is expressed in two principal claims: The first is that increasing the income and wealth of the rich helps everyone below by stimulating economic investment, growth, and employment – the infamous trickle-down doctrine. This doctrine has legitimated massive tax cuts for the rich. The second ideological front has been to claim, as President Ronald Reagan put it, that "government is the problem." This has legitimated restrictions in public spending on welfare, education, national parks, social programs, and deregulation, especially of the financial sector (Wisman, 2013).

Increased control of the political sphere by elites has led to concrete measures that reduce democracy. U.S. corporations—now armed with most of the rights of citizens due to the U.S. Supreme Court's 2010 decision in *Citizens United v. Federal Election Commission* —are overwhelmingly owned by the very rich. In 2007, the wealthiest one percent of Americans owned 49.3 percent of stocks and mutual funds, the richest 10 percent, 89.4 percent, leaving the bottom 90 percent with only 10.6 percent (Wolff, 2010: Table 9: 52). The upshot is that the interests of the very wealthy and corporate America are generally the same, such that the unparalleled expansion of corporate lobbyists in Washington and corporate campaign contributions are merely extensions of the rich's political power.

In 2013, the Supreme Court gutted the Voting Rights Act of 1965, stripping the Justice Department's ability to screen voting laws in nine states, most in the South, with histories of racial discrimination. Behind the ideological ruse of fighting voter fraud, Republican state policy makers are setting up serious impediments to voting and curbing election accommodations for many of society's less privileged. These obstacles specifically target low-income, minority and young voters — precisely those who tend to vote against the elites' candidates (ACLU, n.d.). Voter ID laws are the most prevalent. Twelve states have in place laws that require a form of identification in order to vote. Another 20 states request identification, and if voters cannot produce it, they are permitted to vote on a provisional ballot, subject to verification by election officials (NCSL, n.d.). Prior to the 2016 elections, Ohio slashed the right to vote early, while North Carolina did away with one week of early voting, in addition to ending same-day registration and out-of-precinct voting, Kansas created a two-tiered voter registration system that makes it difficult for registered voters to exercise their right if they used a federal voter registration form, as opposed to the state form. Whereas state felony disenfranchisement laws blocked 1.2 million from voting in 1976, this rose to 5.85 million in the national elections of 2012. This comprised 2.5% of potential voters in general, and included 8% of potential African-American voters

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(Siegel, 2011).

## A Point of No Return?

The resurgence of ideology legitimating greater shares of income, wealth, and privilege for elites over the past 40 years is rapidly degrading the degree to which the American political system remains democratic. Might ever more extreme inequality enable elites to continue to perfect the persuasive power of their ideology such as to enact policies that eliminate democracy in all but name, leaving it as no more than an ideological cover for plutocracy? Indeed, has the process already progressed to a point of no return where reversal toward greater democracy is no longer possible? A troubling example of the complete destruction of democracy is provided by France where universal male suffrage was reduced in the wake of the 1830 revolution to less than one percent of the population. Empirical support has been found linking rising inequality and backsliding from democracy to dictatorship (Houle, 2009).

Soaring inequality and the weakening of democracy threatens not only a loss of freedom, but relative economic decline as well. Notable economists have suggested that stagnation may well lie ahead (Gordon, 2012; Summers, 2014; Piketty, 2014). The rapid relative decline in American educational attainment appears supportive. The 2015 Program for International Student Assessment (PISA) finds that U.S. students ranked 40<sup>th</sup> in the world in math literacy. Their average score was 470, down from 488 in 2009, 23 points lower than the average of all nations participating in the survey. The U.S. ranked 25<sup>th</sup> in science literacy and 24<sup>th</sup> in reading literacy (Heim, 2016). In a world in which human capital is of ever greater importance for economic dynamism, this bodes ill, suggesting that ever rising inequality threatens not only democracy, but future living standards as well.

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**Jon D. Wisman** is Professor of Economics at American University in Washington, D.C. where he teaches graduate courses in the history of economic thought and economic methodology and undergraduate courses in macroeconomics, European economic history, American economic history, economic development, and labor economics. He has twice been selected by American University as the Outstanding Teacher of the Year. He has published articles and chapters in a wide variety of journals and books, and edited *Worker Empowerment: The Struggle for Workplace Democracy*. His most recent published work has addressed the potential for employer of the last resort programs and the role of inequality in generating economic crises and environmental devastation. Among his current projects is a book in first draft tentatively titled: *The Origins and Dynamics of Inequality: Sex, Politics, and Ideology*. During 2002, he served as President of the Association for Social Economics. His cv can be accessed [here](#); most of his blog posts are available [here](#).