CAPITALISM AND INEQUALITY RE-EXAMINED

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ABSTRACT: Ever since capitalism came to be recognized as a new economic system, it has had vociferous critics, of whom none was more wide-ranging than Karl Marx. Marx recognized that behind its ideological patina of freedom, capitalism, like the exploitative systems of slavery and feudalism, was a social system in which a small class extracted from the mass of producers practically all output above that necessary for bare subsistence. An elite’s ability to do so was grounded in its monopoly ownership of the means of production. However, Marx, and other critics faulted it for more than its exploitation and extreme inequality. Sharing much with romanticism, they believed that its very institutions of private property and markets corrupt society and its members. Nevertheless, Marx in particular recognized that capitalism, unlike earlier exploitative systems, was radically dynamic, producing unprecedented wealth, while transforming not only all it inherited from the past, but also its own nature so as to eventually even empower the producers. Yet his anti-private property and anti-market animus led him to believe that empowered producers would abandon these capitalist institutions. He did not imagine that the dynamism, wealth, and potential freedom that capitalism was delivering might have little chance of flourishing in the absence of these institutions. This article claims that Marx and other critics were wrong to fault capitalism’s central institutions for the injustices that accompanied them. These institutions are not the problem. Instead it is the inequality that co-evolved with them and enables them to be used for exploitation.

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Ever since capitalism came to be recognized as a new economic system, it has had vociferous critics. It has been accused of generating inequality, grinding poverty, debased and alienated work, macroeconomic instability, destruction of community, more egotistic humans, and ecological devastation. For many of its critics, capitalism is not just exploitative but dehumanizing as well.

The rejection of capitalism has often meant rejection of its fundamental institutions of markets and private property. However, most of the major faults identified by critics are not due to these institutions, but to the inequality that co-evolved with them and which enables an elite to use them to exploit workers and destroy the environment. Because many critics confuse the instruments with the cause, they advocate rejection of the full institutional order.

Inequality has, of course, always characterized capitalism. Capitalism evolved with the rise of two new classes, one owning and controlling the means of production, the other dispossessed of all but its ability to labor. Inequality in income and privilege are the result of this specific form of wealth inequality and serve to reinforce it. It is from this extreme inequality in ownership and control of the means of production that the negative consequences of capitalism flow.

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This fundamental form of inequality in ownership and control of the means of production that characterizes capitalism, although varying in its expression, has been shared by all social formation since the birth of civilization. In all, because small elites held ownership and control over the means of production, they disproportionately controlled state power and used it to secure their ability to capture the greatest possible surplus from producers. Even the twentieth century’s state socialist experiments involved an elite’s control over the means of production, enabling them to take a disproportionate share of income and privilege for themselves, albeit with less extreme inequality than found under capitalist regimes.

But as Marx recognized more fully than any other social thinker, capitalism evolved as a social exploitation machine with an especially unique characteristic: In its unparalleled capacity for sustainably producing wealth, its extraordinary dynamism not only destroys the old, but continually transforms itself, so much so, indeed, that he believed that it would ultimately self-destruct to the advantage of the formerly exploited workers. That is, of all social systems in which the producers have been exploited, only capitalism creates the conditions in which the workers – the greater mass of the population – come to possess the potential to stop the elite’s extraction of their surplus, and contrary to Marx’s expectations, through peaceable means. This came about when their threat of violence and revolution forced the elite to grant them the franchise. With the franchise, they could in principle dispossess the elite and reconfigure society to their interests.

Yet in spite of its dynamism, Marx found that the principal institutions of capitalism were themselves dehumanizing, even as they served to help set the stage for full human liberation as capitalism self-destructed. The dispossession of the elite would occur with the dismantling of capitalist institutions and their replacement with those of socialism, and eventually communism. For reasons that will be discussed below, this has not happened and indeed its likelihood of happening appears slim. Far more likely, should workers escape the elite’s ideological domination, would be using the state to democratize decentralized ownership and control of the means of production and guaranteeing employment, while retaining, for reasons of efficiency and freedom, the two principal institutions of capitalism, private property and markets.

This article addresses how critics of capitalism’s core institutions of markets and private property have been mistaken, a mistake that inadvertently reinforces the power of the elite’s ideology by deflecting attention away from the root problem of inequality in ownership and control of the means of production. Further, at a more practical level, the advocacy by many critics of substituting state ownership for private property and central planning for markets leaves many workers believing that for all its faults, capitalism is likely the lesser of available evils.

The analysis that follows will draw considerably from the work of Marx and his followers because, as Terry Eagleton puts it, “Marxism is a critique of capitalism – the most searching, rigorous, comprehensive critique of its kind ever to be launched” (2012, 2).

**The Unique Dynamic Character of Capitalism**

As social beings, humans labor together to transform elements of the natural world. For the far greatest part of the human experience, humans lived as hunter-gatherers and carried out this struggle with nature cooperatively and without its private ownership. Only with the rise of the state and civilization about 5,500 years ago did ownership of nature and capital (stored up labor) become possible. Thereafter, a very small class would hold this ownership or control and provide others with the access they needed for survival only on the condition that they turn over to them all output in excess of the minimum required for survival.
The state, since its earliest evolution, has been used by elites to protect, nourish, and legitimate social institutions and ideology that have enabled them to capture as much as possible of producers’ economic surplus (what remains after basic needs are met). Differing historical conditions supported varying systems of exploitation such as slavery, debt bondage, feudalism, and of recent centuries, capitalism. Because all of these social systems enabled elites to extract the surplus of the producers, they have been characterized as unjust, dehumanizing, and in need of replacement.

Although all of these exploitative (Marx), or extractive (Acemoglu and Robinson 2012) societies might experience growth for periods of time, only capitalism has, as Marx was the first to clearly recognize, a set of dynamic self-transforming properties that could permit sustainable economic growth. However, he believed that its very self-transforming properties condemned it to give way to a non-exploitative future, one where elites would no longer rake off the surplus.

Marx termed the early evolution of capitalism *primitive accumulation*, a period that brought about two major social transformations: the rise of a capitalist class’ monopoly ownership and control of the means of production, forcing propertyless workers to contract with them for access and survival;\(^2\) and the evolution of capitalism’s two dominant institutions: private property and markets.

The separation of workers from control and ownership of the means of production appears as the *differentia specifica* of capitalism in Marx’s work, and he believed that it would characterize capitalism until its end. His work suggests that he believed that the rigidity of these class relations could be broken only by revolution. Thus workers would continue to be immiserated until they took command through revolution. In this, Marx appeared to believe that capitalist class relations would display a resistance to change not unlike those of feudalism, and thus also require violent revolution to replace.\(^3\)

Whereas he generally believed in the rigidity of class relations, he held the character of the system as a whole to be dynamic to an unprecedented extent. This dynamism would generate not just wealth, but also the social tensions that would result in revolution and the demise of capitalist class relations. But what if workers gained a substantial degree of political power? What if they gained the franchise and thus the political power to alter the social structure in ways that would dramatically improve their lives? For instance, what if they used their control of the state to end their insecurity by making the state the employer of last resort? Or if they used their political power to take greater ownership and control over the means of production and instituted workplace democracy while preserving the institutions of private property and markets? Such a system would have a resemblance to the institutional structure of capitalism, but without its exploitation since workers would be rejoined with the tools and resources with which they work. Whether a system with such worker power should still be considered capitalism is probably only of ideological importance and will be briefly addressed below.

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\(^2\) As Marx put it, the worker becomes “the slave of other men who have made themselves the owners of the material conditions of labour. He can only labour by their permission and hence only live by their permission” (Marx 1875a, 526).

\(^3\) This position surprisingly survived in spite of his awareness and rich description of the manner in which workers struggled successfully for reforms within capitalism during his lifetime such as limits to child labor and a shortened workday. Although Marx did in a short speech avow that in America, England, and perhaps Holland, workers might “attain their goal by peaceful means” (1875b, 523), this view never got further expression in his theoretical or polemical work.
From the Threat of Violence to Democracy

Until the rise of capitalism, the state was generally controlled by a landed aristocracy, providing it with a relative monopoly on violence. As capitalism matured, the aristocracy was forced to share its monopoly with the new class of a wealthy bourgeoisie, a commercial class made up of traders, manufacturers and bankers. In their quest for maximizing their share of society’s surplus, this composite elite would continue to use the state to protect their property and interests, often through the violent curbing of the aspirations of workers, especially in crushing revolts and putting down strikes.

However, the extraordinary economic success of the bourgeoisie set in motion forces that would further democratize political power. Not only did industrialization and urbanization increase inequality, it also created the possibility, as Marx anticipated, that the working class could organize and threaten violence against the elites’ state for redress. To reduce and hopefully eliminate this threat, in a manner unexpected by Marx, the elites began bribing the working class with various benefits and with the franchise. Both strategies for calming working class revolutionary fervor resulted in a lowering of the amount of surplus that the ruling elite was able to expropriate. They of course knew that this promised to be the consequence, but the alternative of violence and revolution promised to be far worse. They may have realized, 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, 444). There may also have had some understanding that their superior command of ideology could limit their losses.

The following examples reveal the dynamics of the response to the threat of worker insurrection. 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 of 1816, the Peterloo Massacre in 1819, and the Swing Riots of 1832.” Following the revolution of 1848, “Britain…was transformed from an ‘oligarchy’ run by an elite to a democracy” (2000, 1182–1183; 1167). Further extension of the franchise in 1867 came with a heightened threat of violence due to a severe economic downturn. This was followed by lessened inequality and welfare measures made possible when “taxes as a proportion of National Product more than doubled in the 30 years following 1870, and then doubled again” (Acemoglu and Robinson 2000, 1191). These taxes fell most heavily upon the elites.

Although universal male suffrage had been introduced by the French Revolution, in subsequent decades it was whittled down until, following the 1830 revolution, the Orleanist monarchy used property restrictions to limit it to a mere 0.75 percent of the population (Acemoglu and Robinson 2000, 1184). However, in the wake of the 1848 revolution and the collapse of the Orleanist monarchy in 1849, universal male suffrage was again extended to all males.

The elite in Germany also began extending the franchise following the 1848 revolution. However, in lieu of extending it several decades later in response to an increasingly threatening working class (organized under a socialist party), the elite chose instead to bribe them with extensive welfare measures. Following World War Two, governments in both South Korea and Taiwan initiated land reform in the face of a Chinese-style threat of revolution (Acemoglu and Robinson 2000, 1181).

Extension of the franchise in response to threats of violence and revolution from below led to labor reform, and especially to a democratization of education. In England, for instance,
enrollment of 10-year-olds soared from 40 percent in 1870 to 100 percent in 1900 (Acemoglu and Robinson 2000, 1191).

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, especially in putting down strikes. Only control over ideology could promise retention of their control over the state. They had to convince the masses that the self-interest of the elites was in fact the self-interest of everybody. This, of course, they had always done. But now it had to be without the easy recourse to the backup of violence. The elites had lost their violence-backed monopoly control over the state.

The democratization of the franchise that came with the increasing threat of worker violence foiled the expectations of Marxists that workers would overthrow capitalism and institute socialism. With the vote, grievances would be settled by more peaceful means. At the end of the nineteenth century and beginning of the twentieth, workers used the state to advance their collective interests on an unprecedented scale. The state had been transformed from the executive committee of the ruling class to that social agency that could limit, or in the extreme eliminate the capturing by elites of disproportionate shares of income, wealth, and privilege. Without revolution, the working class had in principle gained power to rewrite the social script. That they did not fully do so is testament to the power the bourgeoisie retained over ideology.

**Capitalism vs. Distribution**

In *Critique of the Gotha Program*, Marx opposed “vulgar socialism” that, borrowing “from the bourgeois economists the treatment of distribution as independent of the mode of production, [could present] socialism as turning principally on distribution.” Their mistake was their failure to grasp that “the capitalist mode of production …rests on the fact that the material conditions of production are in the hands of non-workers in the form of property in capital and land…[and] distribution of the means of consumption results automatically” (1875a, 532; 531). These were the class relations that were created during the period of Primitive Accumulation – the early formation of capitalism when workers were separated from any ownership or control over the means of production. However, distribution would only be frozen by this relationship so long as the bourgeoisie held monopoly control over the state.

By gaining the franchise, workers could in principle control the state and thus alter the distribution of wealth, income, and privilege – just what they did to a limited extent in Western Europe and the U.S. following World War Two. With the franchise, worker options include, of course, centralized state control of the means of production, the direction Marx anticipated. But

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4 Huber, Rueschemeyer, and Stephens have found that “the bourgeoisie often comes around to support democracy once it turns out that its interests can be protected within the system” (1993, 75).

5 Thus, for Marx, although the working class achieved its “first step,” it failed to follow through: “the first step in the revolution by the working class…is to raise the proletariat to the position of ruling class, to win the battle of democracy. The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the State” (Marx and Engels 1848, 490). But given Marx’s understanding of ideology control, it is hardly surprising that the working class would not be able to follow through: “The class which has the means of material production at its disposal, has control at the same time over the means of mental production, so that.. the ideas of those who lack the means of mental production are subject to it” (1845, 172). Accordingly, the bourgeoisie had been able to take political power from the aristocracy because it came to control capital, the principal evolving means of production and thus an ideology appropriate to this ownership. Nothing parallel to this occurs for the proletariat. They struggle for political power without command over the means of production and thus command over ideology.
contra Marx, there is nothing in his laws of capitalist development that made such a move in any way inevitable.⁶ Workers might choose alternative routes. Rather than centralize ownership and control over the means of production, they might do the opposite – decentralize control. They might choose a system of decentralization whereby productive units would be democratically controlled by their own workers and markets might be used for efficiently allocating resources among them and for distributing output to consumers. Rather than being owned by the state (presumably representing the interests of all of society’s members as Marx imagined), the means of production might be privately owned, either by members of productive units or held in trusteeship (as, for instance, is the case with American private universities and colleges). Property would then be controlled and owned neither by an elite class nor the state. With worker control of the state, private property and markets -- the two most central institutions of capitalism -- might be retained.⁷

The ultimate repository of power is control of the state. But how the working class uses the state power they gained with the franchise would ultimately depend upon ideology, and Marx was right that those who control the means of production control ideology. With the limited exception of the post-World War Two period, this has always been true. It is the extreme inequality within capitalism that provides the elite with dominant control over ideology and thus dominant control of the state (Wisman 2013b).

**The Case against Capitalism**

Criticisms of capitalism can be understood as falling into two broad albeit overlapping categories: Those that are consequences of the inequality in ownership and control of the means of production that has always accompanied capitalism, and those that are alleged to result from markets and private property – the two most fundamental institutions of capitalism. This second category of criticism often shares a perspective entertained within the romantic opposition to modernity.

The principal criticisms of capitalism that are derivative from inequality in ownership and control of the means of production include poverty, debased and alienated work, and macroeconomic instability. Those supposedly resulting from markets and private property include inequality, masking social relationships, self-interest, greed, the destruction of community, alienation, individualism, the rise to dominance of instrumental rationality, and ecological devastation.

**I. Negative consequences of capitalism’s extreme inequality in the ownership of the means of production**

For Marx, the fundamental character of capitalism was located in its specific form of inequality, whereby an elite owned and controlled capital (stored up labor) and natural resources, forcing workers to contract with them to be able to work and survive, with the result that “…the worker sinks to the level of a commodity and becomes indeed the most wretched of commodities” (1978, 70). For this right to work, workers had to pay the high price of their surplus labor, the value of what they produced in excess of what was needed for their subsistence

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⁶ As Sweezy noted, “…nowhere in his [Marx’s] work is there to be found a doctrine of the specifically economic breakdown of capitalist production” (1942, 191–192).

⁷ The only two alternatives to private property and market allocation are state ownership and political allocation through central planning or the intermediate position of state ownership and market allocation (“market socialism”). Both, however, centralize and concentrate political and economic power (albeit less so under market socialism) in a manner that, arguably, could be dangerous to freedom and economic dynamism.
Many of the faults found with capitalism are the direct result of this special form of inequality. These include poverty, debased and alienated work, and macroeconomic instability.

a) Poverty: Because of the elite’s monopoly ownership of the means of production, workers possessed only their own power to labor. During early capitalism, the elite-controlled state put legal limits on wages, keeping them low, insuring that the least well off would live in poverty. As capitalism matured, technological change became increasingly labor-displacing, thereby continually generating unemployment and putting downward pressure on wages. Those losing their jobs fell into extreme poverty; those still with jobs at lower wages became more impoverished or “immiserated.” Defenders of capitalism, if not of its inequality, correctly claim that over the long haul living standards for everyone, including the unemployed, have dramatically improved. However, it would still be the case that the dynamics of capitalism resulting from its extreme extent of inequality in the ownership of the means of production means that unemployment will continually be generated, continually depressing wages, leaving the workforce in a state of employment insecurity and the least privileged of workers in poverty.

b) Debased work and alienation: Because workers possess nothing more than their ability to work, they are forced to accept the work conditions that are offered by those with ownership and control of the means of production. The latter are interested only in profit maximization (competition gives them no other choice) and thus better work conditions would only exist if they were instrumental to this end. This resulted, for instance, in ever greater division of labor, which early on Adam Smith identified as rendering the worker “as stupid and ignorant as it is possible for a human creature to become” (1776, 734).

Because workers lack control over the work process, they are impeded from expressing their creativity in work, or their sociality. Work is “not the satisfaction of a need; it is merely a means to satisfy needs external to it” (Marx 1978, 74). The worker becomes alienated from the product of his labor, and reduced to “an appendage of the machine” (Marx and Engels 1848, 479).8

c. Macroeconomic instability: Due to capitalism’s wealth ownership inequality, the elite has usually been successful in taking an ever larger share of output for itself. But as it succeeds in doing so, the workers who spend most if not all of their income receive relatively less, creating a weakness of demand for the output of the real economy. With a dearth of investment potential in the real economy, the elite turn ever more to speculative activity in financial markets, creating bubbles that, when they burst, crash the economy into recession, or worse, depression. These dynamics let to the financial crises of both 1929 and 2008 (Wisman 2013a, 2014).

If the inequality in ownership and control of the means of production were eliminated, then the consequences of this inequality such as poverty, debased and alienated work, and macroeconomic instability would also be eliminated. However, many critics of capitalism extend their criticism beyond this inequality to markets and private property, the two principal institutions of capitalism.

II. Charges against markets and private property

In pre-capitalist society, markets were strictly limited (Polanyi 2001), and productive property was generally not alienable (available to be bought or sold). The rise of capitalism

8 “The alienation of the worker in his product means not only that his labour becomes an object, an external existence, but that it exist outside him, independently, as something alien to him, and that it becomes a power of its own confronting him; it means that the life which he has conferred on the object confronts him as something hostile and alien” (Marx 1978, 72).
involved the slow dissolution of these restrictions. Both markets and private property became instruments of the new capitalist class for gaining monopoly ownership and control of the means of production and thus the power to extract surplus output from workers. For a variety of reasons addressed below, many critics of capitalism frequently view these institutions as negative in and of themselves.

a) Markets lead to inequality: It is widely believed by progressives that markets generate inequality. Stiglitz, for instance, claims that “Markets, by themselves, even when they are stable, often lead to high levels of inequality” (2012, xiii). But this is not quite true. Markets are never to any substantial extent “by themselves.” Markets cannot exist to any substantial extent without property rights, which in turn cannot exist without government. Note for example that during the so called Dark Ages in Europe, markets all but disappeared as no states were available to define and enforce property rights.

Where the state is controlled by an elite, property rights and markets can be defined and enforced so as to enable this elite to capture society’s surplus. The problem is not with private property or markets per se, but with who controls their definition and enforcement. Because critics of capitalism have so frequently viewed markets as a source of exploitation and inequality, as opposed to an institution captured by elites to extract surplus, they have been blinded to their extraordinary power for social coordination. Even Trotsky understood this power: “economic accounting is unthinkable without market relations” (cited in Eagleton 2012, 24).

b) Markets mask social relationships: Marx claimed that markets create an illusion, which he termed “commodity fetishism.” Through the division of labor and the social institution of the market, individuals, while seemingly producing for themselves, are in fact producing for others. But the mediation of markets between individuals leads them to view themselves as related to commodities as opposed to each other. In this manner, markets have an effect on social consciousness such that “the relation of the producers [workers] …is presented to them as a social relation, existing not between themselves, but between the products of their labour…[and thus] a “definite social relations between men themselves…assumes …the fantastic form of a relation between things” (Marx 1906, I:83). Thus their most elemental social relationship (whereby individuals work for each other) is mystified by this “commodity fetishism.”

This charge seems true. But would this not be true of any mechanism that could permit the coordination of humans working for each other in a highly complex economy where there is extensive division of labor? To date, nothing has yet been identified that could execute the task

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9 A limited amount of exchange existed prior to state formation. However, this exchanging activity was not of the character that is typically associated with markets. It was not a clear-cut exchange of equivalents. Instead, it generally took the form of reciprocal gift giving (Polanyi 2001).

10 Dating back at least as far as Joseph Townsend’s Dissertation on the Poor Laws (1786), there has been a misguided practice within economics, even some on the left, of viewing markets abstractly, stripped of their political and cultural context (Lepenies 2013).

11 Marx anticipated an ultimate end to the division of labor, and implied that work would be a means of creative fulfillment and of maintaining direct ties with others. Precisely how such an economy might work in a complex modern world is never made clear. Indeed, his characterization of the freedom of a post-division of labor world sounds fully pre-modern, while ironically, at the same time modernly individualistic. Marx wrote that conditions will prevail such that it is “possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner, just as I have a mind, without ever becoming hunter, fisherman, shepherd or critic” (1845, 160). The pre-modern romantic ring of these activities is striking, while the emphasis on individual autonomy (individualism) is strikingly modern. Its ring of freedom reminds us that “one
with the efficiency of markets. But were state administration of production and distribution equally efficient, would it not also, in a highly complex economy, perpetuate the illusion of commodity fetishism?

c) **Individualism, self-interest, greed, and destruction of community:** Marx and Engels famously wrote that as capitalism destroyed all traditional social relationships, it “left remaining no other nexus between man and man than naked self-interest, than callous ‘cash payment’…[and] drowned [all earlier values] in the icy water of egotistical calculation” (1978, 475). Critics of capitalism, both on the right and the left, have long claimed that market society makes humans more individualistic, self-interested, if not greedy, and thereby are destructive of community.

Critics often express a desire for a society of cooperative social relationships, and markets are by nature sites of competition. However, markets are hardly the sole source of competition. As social beings, humans seek certification of their value in the approbation of others. In doing so, they compete for recognition, for honors, for mates, for jobs, and much else. Arguably, no one competes more arduously than Olympic athletes striving for gold medals? The fact that they do not do so for material rewards does not make their pursuit less self-interested. Indeed, their motivation appears far more akin to that of Schumpeter’s entrepreneur, who possesses an “impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself” (1934, 93). These forms of competition are generally looked upon favorably by critics of markets. But they are equally driven by individual self-interest.

**d) Markets and the illusion of free workers**

Just as extreme inequality in the ownership and control of the means of production permitted an elite to extract the surplus in slave and feudal societies, so too did it function in capitalism. But what is unique to capitalism is that the coercion is invisible, hidden by the fiction of free labor markets. It is this illusion of worker freedom that is often alleged to be one of the major failings of markets. However, this illusion is not due to markets per se, but instead to inequality, the fact that workers lack any ownership or control over the means of production.

The evolution of capitalism did expand the realm of freedom, and its markets were important social instruments for doing this. But the freedom that markets imply can also serve an ideological function, as in the case of propertyless workers having to sell their labor power. There is an illusion of “Freedom because both buyer and seller of a commodity, say labour-power, are constrained only by their free will [although the worker] is compelled to sell himself of his own free will” (Marx 1967a, 1:176; 766). The specific social relations of capitalist production compel this exchange that appears free. But these relations are merely the specific historical ones that evolved with capitalism to enable the ruling class of this new mode of production to extract surplus. The system does not exist for its own sake, but as an instrument in service of capital’s owners: “The dull compulsion of economic relations completes the subjection of the labourer to the capitalist. Direct force, outside economic conditions, is of course still used, but only exceptionally” (Marx 1967a, 1:737). As Reiman points out, “this is the core of one of the most fundamental traits of modernization is a vast movement from fate to choice in human affairs” (Berger 1986, 86)).

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12 It is noteworthy that opponents of markets appear to view individualism negatively only when it means excessive egoism. Where it means individual autonomy, it is generally viewed positively.
Marx’s most important discoveries: the nature and possibility of structural coercion that functions without the need for overt force” (2012, 32).

Because of a wealthy elite’s near monopoly ownership and control of the means of production, workers must pay a high price in the form of low wages for the privilege of working with the necessary tools and resources. But markets hide the fact that they do indeed make payments, presenting instead the contrary -- workers receiving wages from the owners of the means of production. The owners of these tools and resources get returns in the form of profits, interest, and rent that appear within the system as just returns. Indeed, the marginal productivity theory of distribution of mainstream economics makes all of this look scientifically proper (Wisman and Smith 2011). And because all market actors seem to receive compensation equal to the value they contribute to society’s output and because everyone freely accepts the contracts, the outcome appears just.

e. Money and alienation: Where markets exist, money, the universal equivalent, will also exist. But for Marx,

“Money degrades all the gods of man – and turns them into commodities. Money is the universal self-established value of all things. It has, therefore, robbed the whole world – both the world of men and nature – of its specific value. Money is the estranged essence of man’s work and man’s existence, and this alien essence dominates him, and he worships it” (1978, 50).

Yet, again, it is not readily conceivable how a complex society could function without money, or a sophisticated accounting system in which accounting units would serve as money in all but name.

f) Private property and alienation: “Communism is the positive transcendence of private property, or human self-estrangement, and thus the real appropriation of human essence by and for man” (Marx 1978, 84). The rise of capitalist private property entailed the separation of workers from their traditional ties to the means of production. This proletarianization of labor made it a commodity, and as Polanyi put it, “To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one” (2001, 163). But the proletarianization of labor is not due to private property as such. Instead it has to do with its ownership by an elite class. Worker ownership would still be private property. Worker alienation could equally well exist with state ownership, as was generally the case in the twentieth-century socialists states. Private property in its modern sense is the right to use and dispose (e.g., sell) what is owned. Although it excludes state ownership, it is not reserved to only individuals. It could be ownership by trusts or by worker cooperatives.

Like markets, private property cannot exist without the state. Like with the market, how it functions depends upon how the state defines, regulates and enforces it. In this sense, to reject private property in the abstract is to fail to grasp its social embeddedness.

g) Instrumental rationality: In addition to fueling “naked self-interest,” markets are alleged to increase “egotistical calculation,” and therefore an increasing dominance of instrumental reason

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13 Freed from feudal fetters, workers “became sellers of themselves only after they had been robbed of all their own means of production, and of all the guarantees of existence afforded by the old feudal arrangements (Marx 1967a, 1:715). Consequently, the worker “can work only with their permission, hence live only with their permission” (Marx 1875a, 526).
applied to all things. There appear to be some evidence for this view. Yet it probably makes people more conscious of their self-interest as opposed to actually making them more self-interested. It is certainly plausible that in a world in which markets mediate a considerable amount of human interaction and encourage its actors to continually assess the best “deal,” that their consciousness and behavior would appear more blatantly self-interested.

Smith, seemingly without negative judgment, noted that in commercial society, “Every man…lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society” (1776, 22). Many others have taken note of the expansion of means-ends rationality that accompanies the expansion of markets, viewing it negatively (Tonnies 1963), with unease (e.g., Weber’s “iron cage”), or positively (e.g., Schumpeter, Sohn-Rethel 1978).

**Ecological devastation:** Markets are far from being a perfect mechanism for resource allocation. They almost always engender third party effects, or externalities, meaning that all costs and/or benefits are not captured by the market price. When externalities are positive, they have a free lunch sort of quality. But often they are negative, and frequently these negative externalities do damage to the environment. Public policy could in principle fairly successfully correct for these effects. The extent to which it does not currently do so is in good part due to an elite’s control of government – thus traceable to inequality as opposed to markets in the abstract (Wisman 2011).

It is indisputable that the evolution of private property and market transformations society and human consciousness, and thus fully in keeping with Marx’s powerful claim that humans create themselves: “[by] acting on the external world and changing it, he at the same time changes his own nature” (1970, 177). Consequently, “Since for the socialist man the entire of the so-called history of the world is nothing but the begetting of man through human labour, nothing but the coming-to-be of nature for man, he has the visible, irrefutable proof of his birth through himself, of his process of coming-to-be” (1978, 92).

It is hard to make a credible claim that the humanly created institutions of private property and markets have acted back more negatively than positively on their creators. Their

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14 Following Marx, Tönnies, viewed humans in market society as having moved from community with the solidarity of shared values and ends to a calculating existence within markets held together by common means.

15 Schumpeter wrote: “Capitalism develops rationality and adds a new edge to it … [I]t exalts the monetary unit – not itself a creation of capitalism – into a unit of account. That is to say, capitalistic practice turns the unit of money into a tool of rational cost-profit calculations … And thus defined … this type of logic or attitude or method then starts upon its conqueror’s career subjugating – rationalising – man’s tools and philosophies, his medical practice … his outlook on life, everything in fact including his concepts of beauty and justice and his spiritual ambitions” (2006, 123–124).

16 Marxist Sohn-Rethel (1978) argues that because there is a “real abstraction” within markets, their expansion is responsible for the mental practices that give birth and dynamism to philosophy and science, drawing on Classical Greece and the Renaissance as prime examples.

17 However, Marx also famously wrote: “Men make their own history, but not of their own free will; not under circumstances they themselves have chosen but under the given and inherited circumstances with which they are directly confronted. The tradition of the dead generations weights like a nightmare on the minds of the living” (1852, 174). Humans will gain full freedom only with abundance: “the realm of freedom actually begins only where labor which is determined by necessity and mundane considerations ceases” (Marx 1967a, 1:820).
positive consequences merit serious attention. Although they have served as instruments enabling an elite to capture most of society’s surplus, they have done so only because of this elite’s monopoly ownership and control of the means of production and its control over the state powers that define and enforce property rights and markets. But these institutions have also served as powerful instruments for the production of unprecedented wealth. Further, in addition to generating information and incentives for efficiency and economic dynamism, as opposed to state ownership and central planning, decentralized private property ownership and markets serve as counterbalances to tyrannical state power.

**Confusing the Focus**

Marx’s penetrating analysis of capitalism reveals its dynamics more fully than did any other. Nevertheless, in certain instances, aspects of his analysis more impaired than clarified understanding. A notable instance is the concept of capital as a social relationship. Mainstream economists, both before and after Marx, saw capital as a productive force. Marx, however, following Thomas Hodgkins, defined capital as a social relationship, by which he meant the ability of a small class with monopoly ownership of stored-up labor to exploit the workers who own only their ability to work. This has confused readers and created an unnecessary barrier to understanding his work. It also created a tendency to identify capital (stored up labor) as the enemy, to depict the struggle as between labor and its creation, capital. But stored-up labor is not the enemy. It is the fact that an elite owns and controls capital. This is, of course, what Marx meant by calling capital a social relationship. However, the tendency to focus on capital as the enemy, as is common among Marxists, deflects attention away from the fact that the real issue is the extreme inequality over ownership and control of the means of production.

This tendency has a parallel among both Marxist and non-Marxist critics of capitalism who identify corporate power as the problem. The problem with doing so is that it deflects attention from the fact that power ultimately lies with those who own the corporations. The concentration and exercise of corporate power is continually flashed before the public, while its ownership remains more hidden in the shadows. Note, for instance, the extent to which people dramatically underestimate the concentration of income, wealth and privilege (Politizane 2012; Norton and Ariely 2011).

This deflection from the root problem of class monopoly ownership of the means of production is also evident in the especially virulent attacks on the financial sector. Marx wrote: “The credit system… constitutes enormous centralisation, and gives to this class of parasites the fabulous power, not only to periodically despoil industrial capitalists, but also to interfere in actual production in a most dangerous manner — and this gang knows nothing about production and has nothing to do with it” (1967a, 1:544–545). Or in another passage: Marx took note of “

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18 “Capital is not a thing, but rather a definite social productive relation belonging to a definite historical formation of society...It is a perennial pumping-machine of surplus-labour for the capitalist...” (Marx 1967a, 1:814; 822). Yet Marx confounds this by also referring to capital as a thing, e.g., when he uses terms such as “fixed capital” or “constant capital.”

19 At times, capital is anthropomorphized, detracting attention from the fact that it is owned by an elite class: “Capital is dead labour, that vampire-like, only lives by sucking living labour, and lives the more, the more labour it sucks” (1906, I:257).

20 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).
new aristocracy of finance, a new sort of parasites in the shape of promoters, speculators and merely nominal directors; a whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation” (1967a, 1:438). But this sector is owned by an elite and its growth and behavior are a consequence of politically determined rules of the game, and not an inherent characteristic of a financial sector, *per se*. Yet these passages make it appear that the actors in the financial sector are themselves the problem as opposed to agents in service of the wealth owning elite. The financial sector is, or can be, regulated or owned by the state. The manner and extent is determined by those who control the state. It may be, of course, as Marx suggests, that the wealthy have created a Frankensteinian monster that works against the elite’s collective interest, as is evident in financial crises that destroy a portion of their wealth, an instance of capitalism’s supposed contradictions. Nothing insures that the elite always manages its affairs sensibly. But under capitalism, it has always done so well enough to maintain almost monopoly ownership of the means of production.

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The functions performed by the financial sector are critical to any complex economy. How it is owned, organized, and controlled (by an elite class, its workers, or the state) is dependent on who controls political power.

**Decentralized Power**

For Marx the state served as an executive committee of the ruling class. This was usually true since the state needed the support of those who were rich and powerful enough to potentially usurp the ruler’s power. Thus they had to be appeased. However, if the state could muster adequate power, it could further its own wealth and power even at the expense of the wealthiest class. Thus, throughout the history of state societies, elites who controlled the state had good cause to be wary that the state would itself become too powerful and thereby become capable of thwarting their interests. The allegiance of the state could always be expected to be opportunistic. What Marx describes as the Asiatic mode of production appears to have been just this, a state relatively, albeit never entirely, free of the constraints of the wealthy.

Such freedom from the constraints of a ruling class appears to have also been the condition of the Soviet state, although it did face the constraint of the communist party, whose elite members enjoyed considerable privileges.

Nothing legitimates and empowers the state more readily than war or the threat of external aggression. Because leaders receive greater loyalty and respect from followers when external aggression threatens, they face an all but irresistible temptation: They can benefit if they can convincingly keep alive a perception of external aggression (Wisman 2014a). They can even be expected to craft measures against other powers that will provoke a limited amount of real

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21 Thus, as Eagleton points out, “It is a commonplace among Marxists that real power today lies with the banks, corporations and financial institutions, whose directors had never been elected by anyone, and whose decisions can affect the lives of millions” (2012, 202). But were this a problem for the owners of these entities, they could use their political power to rewrite the laws of corporate governance.

22 Many of the inherent internal contradictions that Marx identified within capitalism would dissipate were the elite’s monopoly ownership of the means of production brought to an end.

23 It was for this reason that England’s barons forced King John at Runnymede in 1215 to accept the Magna Carta to protect their property from arbitrary seizure by the Crown.
threat. As Hegel put it, “peoples involved in civil strife ...acquire peace at home through making war abroad” (1958, 295).

The experiences of past concentrated state power, such as the recent historical examples of state socialism and fascist Germany and Italy, or contemporary ones such as Egypt, Saudi Arabia, and Iran, testify to the cost of a too-powerful state. Their relatively unchallengeable power results in a severe constriction of human rights, and on the freedom and flexibility that could provide the sustainable economic dynamism or creative destruction of capitalism.

**Markets and Private Property without Exploitation**

The evolution of capitalism entailed the separation of workers from ownership or control over the means of production and concentrated both in the hands of a small elite. Through markets, this elite, backed by a state it increasingly controlled, used this ownership and control to extract as much surplus as possible from the workers. It was this monopoly ownership and control of the state that constitute the power behind surplus extraction. This extraction took place through the social institutions of private property and markets, but these institutions are not in and of themselves coercive. If workers were to use the franchise to capture ownership or control of private property, then property and markets could be structured to preclude being used as tools of exploitation. Property and markets could then serve as mere instruments for accounting and efficient coordination on the one hand, and counterbalances to the concentration of state power on the other.

Purely as a hypothetical example, suppose that workers, through their voting power, forced society to guarantee everyone a job and the training necessary to enter the regular job market. And suppose that workers were to use the franchise to alter economic power in the following manner: The property of productive units were held in trusteeship, much as is the case with private colleges and universities in the United States; workers in such productive units were to elect democratically their managers with renewable term limits (as, of course, is not the case in these institutions); productive units in each industry stood in market competition with each other, again as is the case with current colleges and universities; progressive income taxes, wealth taxes, inheritance taxes, and public spending were structured to limit inequality; progressive corporate income taxes were structured to limit productive unit size.

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24 Two twentieth century examples especially stand out. The hostility of the West, and especially the United States, made the threat of foreign aggression convincing to the peoples of the Soviet Union after 1917 and Cuba after 1961.

25 For a discussion of how such firms might be structured, see (Ellerman 1991). Democratically controlled workplaces might also promise to enhance community both at work and in communities that would be more stable (less threatened by profit-driven firm relocation).

26 As to whether this would still be capitalism is a fair question. However, there is no definition of capitalism that is widely embraced. It is true that Marx understood capitalism as a system in which an elite class of capitalists owns the means of production and to survive workers must bribe these owners to have access. Accordingly, for Marx and perhaps many Marxists, a society in which work was guaranteed and workers controlled the means of production and where the two institutions that most characterize capitalism – free markets and private property – would still prevail, could no longer be considered capitalism. It should be noted, however, that capitalism as a social system does not define the size of the owning class – it could be few or all. It is far more common for non-Marxists to define capitalism by its two principal institutions. They would likely accept Muller’s offering: “A working definition of capitalism is ‘a system in which the production and distribution of goods is entrusted primarily to the market mechanism, based on private ownership of property, and on exchange between legally free individuals’” (2003, xvii). Berger argues that “a society dominated by market mechanisms would not usefully be called socialist” (1986, 174). Ludwig von Mises claimed that “The market is …the focal point of the capitalist order of society; it is the essence of capitalism” (cited in Berger 1986, 188).
In such a world, neither private property nor markets could be properly seen as coercive, as instruments of exploitation. The fact that institutions of higher learning in the United States produce a world-class product, making for a highly successful export industry that is the envy of the world, provides an impressive example of a highly dynamic industry that thrives without being profit-driven. Moreover, there is no reason to believe that an economy thus modelled would be any less dynamic and self-transforming than current capitalism. Indeed, because greater equality would further democratize and raise educational levels, it would promise yet greater dynamism.

Might workers come to use the franchise to set in motion the evolution toward such a revised social system? Optimism is hard to muster. The fact is that the dominance of an elite’s ideology blocks workers from using the state to reformulate social institutions in their favor. This elite holds a couple of ideological trump cards. One is that capitalist institutions, and even its extreme inequality, are essential for generating robust economic dynamism. A glance at human history reveals, as Marx so clearly realized, that capitalist economies have, in a long-run sustainable manner, created greater wealth and freedom than all others.

The second trump card is that the alternatives to capitalism grant considerably greater power to a centralized state and the twentieth century suggests that doing so threatens to stifle incentives and political freedom. For a sufficient percent of workers, it appears that whatever its downsides, capitalism beats the alternatives that have historically existed or that have been clearly formulated.

These two trump cards are continually in play, thanks to the elite’s disproportionate control of the media, education, and politics. They have become the core understanding of the majority. It matters little that they are not true.

As for the first trump card, a substantial body of research refutes the claim of a positive relationship between inequality and economic dynamism, finding instead that greater income inequality causes economies to grow more slowly (Alesina and Rodrik 1994; Bernstein 2013; Easterly 2002; Persson and Tabellini 1994; Talley 2014).

As to the second trump card, history does suggest that there must be caution against granting too much power to the state. The state is a terrifying social institution, albeit a necessary one. It is terrifying because as Weber first noted, it has a comparative advantage in violence (1978). However, due to the fact that the state has almost always been controlled by elites, its terrifying powers have mostly been used against workers. In societies where workers have substantially shared political power, states have been far more benign for all its citizens. This was especially the case in rich countries between the 1930s and 1970s, and it remains significantly the case in Scandinavia, and to a slightly lesser extent in the rest of Western Europe.

**Final Reflections**

The degree to which the elite’s ideology has been dominant has always been one of degree. When it weakened, political parties representing the interests of workers managed to change the rules of the game sufficiently to result in general improvements for workers’ welfare. But only once in the history of modern capitalism has the elite’s command of ideology been weakened to the point that workers could use the state to not just improve their conditions, but to actually reduce inequality in income, wealth, and privilege. This occurred during the 1930s when severe depression destroyed much wealth and delegitimated the dominant ideology. This was followed by 40 years of progressive legislation. However, it was only a question of time before, given the elites superior command over essentially everything, that their control over ideology
would strengthen. As it did so, inequality began to grow and continues to do so today. Major political parties in today’s rich capitalist countries have all bought into (or in the U.S., been purchased by!) the interests and ideology of the elite. They differ only in the degree to which they have done so.

Because the struggle is over ideology control, workers can only be expected to use the state for their own welfare if an alternative to the elite’s ideology can be convincing. Clearly this has never been fully the case. Had it been, inequality would be far less, as would worker insecurity. Indeed, if an alternative ideology were sufficiently convincing, capitalism would be evolving toward a far more humane society.

Blocking the evolution of an effective alternative ideology has been the tendency among critics of capitalism to blame its core institutions of markets and private property. But if structured in the interest of the greater population, these institutions can be highly efficient. The root problem is that because an elite disproportionately controls government, the rules of the game governing markets and private property bias their workings toward shepherding income, wealth, and privilege toward an elite. That is, the problem is not with these institutions per se, but with the politics that structure them. The root problem is inequality.\(^\text{27}\)

The attacks on markets and private property tend to splay blame over the entire status quo. It’s the corporation and their CEOs, or the bankers and their greedy leaders, or international trade.\(^\text{28}\) The root problem of inequality is then presented as only one among multiple problems. The fact that all are ultimately due to the inequality is unappreciated.\(^\text{29}\) Little wonder that the broader population would come to believe that a solution is likely hopeless.

In contemporary rich capitalist societies, no major political parties, that hold promise of winning elections, represent worker interests in a significant way. And the voices that attempt to represent the workers fail to gain traction because the positions they espouse appear too extreme or frightening. They frequently attack capitalism lock, stock, and barrel, advocating the elimination of private property and markets and replacing them with state ownership and central planning. Such voices are too easily slammed by the elite’s second ideological trump card of totalitarianism. Moreover, many workers have net wealth, mostly in their homes, pension funds, automobiles, and household items which gives them a stake in the status quo and thus increases

\(^{27}\) This appears to be recognized by Dean Baker: “In reality, the vast majority of the right does not give a damn about free markets; it just wants to redistribute income upward. Progressives have been useful to the right in helping it to conceal this agenda. Progressives help to ratify the actions of conservatives by accusing them of allegiance to a free market ideology instead of attacking them for pushing the agenda of the rich” (2012, 2).

\(^{28}\) The tendency to locate blame in moral failings is widespread. Jeffrey Sachs writes, “At the root of America's economic crisis lies a moral crisis: the decline of civic virtue among America's political and economic elite. A society of markets, laws, and elections is not enough if the rich and powerful fail to behave with respect, honesty, and compassion toward the rest of society and toward the world. America has developed the world’s most competitive market society but squandered its civic virtue along the way. Without restoring an ethos of social responsibility, there can be no meaningful and sustained economic recovery” (2011, 3).

\(^{29}\) As for this splaying of blame, note this statement by William Greider: “Political events of the past two years have delivered a more profound and devastating message: American democracy has been conclusively conquered by American capitalism. Government has been disabled or captured by the formidable powers of private enterprise and concentrated wealth. Self-governing rights that representative democracy conferred on citizens are now usurped by the overbearing demands of corporate and financial interests” (2011:11).
the cost of the risk of dramatic social change, the outcome of which would be unclear. Restructuring markets and private property to serve the general interest would preserve the fundamental institutions of the status quo, while not augmenting the power of the state.

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Incidentally, because they have virtually no ownership or control over the means of production, what wealth they possess can quickly evaporate in a severe crisis, as many have experienced during the current crisis. Yet, as Eagleton declares, “The bad news for socialists is that men and women will be extremely reluctant to transform their situation as long as there is still something in that situation for them” (2012, 193).


