Capitalist development and the recurring nature of inequality

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Descending in the scale of what is termed gentility, I found darker and deeper themes for speculation. I saw Jew pedlars, with hawk eyes flashing from countenances whose every other feature wore only an expression of abject humility; sturdy professional street beggars scowling upon mendicants of a better stamp, whom despair alone had driven forth into the night for charity; feeble and ghastly invalids, upon whom death had placed a sure hand, and who sidled and tottered through the mob, looking every one beseechingly in the face, as if in search of some chance consolation, some lost hope; modest young girls returning from long and late labor to a cheerless home, and shrinking more tearfully than indignantly from the glances of ruffians, whose direct contact, even, could not be avoided; women of the town of all kinds and of all ages- the unequivocal beauty in the prime of her womanhood, putting one in mind of the statue in Lucian, with the surface of Parian marble, and the interior filled with filth- the loathsome and utterly lost leper in rags- the wrinkled, bejewelled, and paint-begrimed beldame, making a last effort at youth- the mere child of immature form, yet, from long association, an adept in the dreadful coquetries of her trade, and burning with a rabid ambition to be ranked the equal of her elders in vice; drunkards innumerable and indescribable- some in shreds and patches, reeling, inarticulate, with bruised visage and lack-lustre eyes- some in whole although filthy garments, with a slightly unsteady swagger, thick sensual lips, and hearty-looking rubicund faces others clothed in materials which had once been good, and which even now were scrupulously well brushed-men who walked with a more than naturally firm and springy step, but whose countenances were fearfully pale, and whose eyes were hideously wild and red; and who clutched with quivering fingers, as they strode through the crowd, at every object which came within their reach; beside these, pic-men, porters, coal-heavers, sweeps; organ-grinders, monkey-exhibitors, and ballad-mongers, those who vended with those who sang; ragged artizans and exhausted laborers of every description, and all full of a noisy and inordinate vivacity which jarred discordantly upon the ear, and gave an aching sensation to the eye (Edgar Allan Poe, *The man of the crowd*, 1840).

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(1) This paper is part of a wider study on inequality in Brazil, structured around five documents with the following focus points: (1) capitalist develpoment and the inevitable recurrence of inequality; (2) inequality, but what type are we talking about?; (3) development, institutions and inequality, methodological possibilities of measurement; (4) the multidimensional nature of inequality in OECD countries; and a multidimensional vision of Brazilian inequality. The project was financed by the Coordination for the Improvement of Higher Level Personnel, Capes, Brazil. The author would like to thank Professors Pierre Salama (Centre d'Économie da Université Paris Nord) and Jacques Freyssinet (Centre d'Études d'Emploi) for their support and friendship, and their institutions that provided the best possible conditions for the development of the study in France in 2009.

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Throughout this decade, the issue of inequality has earned a great deal of attention in the fields of public policy and academia. The principle reason for this is a result of the breakdown in the relationship between economic growth and the reduction in inequality observed in the last cycle previous to the current financial crisis. The efforts made by the national government to reorientate public policies, according to the analysis of the factors that determine the level of inequality present in the national base, did not provide sufficient results to contain the increase in inequality, both in the developed and developing countries.

Despite the relative nature of the intensity of the increase in inequality, which is not considered relevant taking into considering the increase of two percentage points on the Gini index for a selection of 30 countries, the OECD prepared a detailed document about the determining factors of this movement (OECD, 2008). The importance of this issue, while relative, must be noted, as it mobilized, for the first time, the principle international institution of cooperation of an economic nature. Such a concern is also evident in other international institutions, such as the United Nations and The World Bank.

With this said, inequality has been at the center of public and academic debates since the start of this century. The growing unease about the reasons for this recent growth has been accompanied by an increase in inequality, despite efforts made by national governments and international institutions to implement a agenda to reorganize the public policies that had the greatest effect on economic and social efficiency in the 21st century.

The objective of this paper is to analyze the relationship between capitalist development and inequality, debating how it has remained consistent over time. Inequality as an inherent problem in the development of capitalism will be debated. I.e. the economic functioning of capitalism tends to generate economic and social inequality which can only be reversed through the intervention of institutions and public policy instruments. This reversal is always dated historically, as the development of capitalism to continually transform its economic and social structure, systematically produces new elements that stimulate a rise in inequality.

The progressive complexity of economic and social structures resulting from the development of capitalism leads to the establishment of diverse institutions, fundamental in guaranteeing a stable economic and social system. One of the results of this is a rise or fall in inequality. Here exists a challenge that is continually faced by public policy, having been the object of reflection by the principle thinkers on economic, sociological, political and philosophical theory.

This paper investigates the problem of considering inequality in the present day, where it becomes more complex, as the theme of capitalism itself.

1 Inequality and the genesis of capitalism

The issue of inequality did not manifest from the development of capitalism. Historically, those thinkers with concerns about this subject were those that looked to understand societies where inequality existed. As Roncaglia (n.d.) indicated, both Plato and Aristotle discussed the question of inequality, with the division of labor as a basic reference. In other words, division of labor and power relationships (subordination) arethe elements key in understanding this problem in our societies. In terms of an economic, social and political organization, capitalism reveals a historical and particular form of inequality. In addition, on account of the system's characteristics, capitalist development continually transforms the economic and social conditions and the state of the resultant inequality.

Rousseau was the first of the thinkers that seeked to clarify the details of inequality in a capitalist society. In 1750, the *Académie* of Dijon proposed the following theme for discussion: Do the sciences and arts help man to develop? In response to this question, Rosseau wrote *Discours sur l'origine et les fondements de l'inégalité parmi les homes,* where he refutes the theory of inequality as the natural product of social organization.

Rousseau considers two types of inequality that exist in the human being. *L'une que j'appelle naturelle ou physique, parce qu'elle est établie par la nature, et qui consiste dans la différence des âges, de la santé, des forces du corps, et des qualités de l'esprit, ou de l'âme, l'autre qu'on peut appeler inégalité morale, ou politique, parce qu'elle dépend d'une sorte de convention, et qu'elle est établie, ou du moins autorisée par le consentement des hommes. Celle-ci consiste dans les différents privilèges, dont quelques-uns jouissent, au préjudice des autres, comme d'être plus riches, plus honorés, plus puissants qu'eux, ou même de s'en faire obéir* (Rosseau, 1754, p. 20).

According to Rousseau, the second type of inequality is the product of the construction of human society. This type causes a progressive detachment from the first type and is typical of the human condition that was barely differentiated from what was observed by other specialists of the animal world. Rousseau considered that primitive society was the least unequal organization, where man could be considered as a noble savage.

Rousseau believed that human development in social life in the end broke down such a state of "nobility", taking the progressive predominance of inequality of moral nature. Criticizing the philosophy, without naming the thinkers, Rousseau argued that *tous, parlant sans cesse de besoin, d'avidité, d'oppression, de désirs, et d'orgueil, ont transporté à l'état de nature des idées qu'ils avaient prises dans la société. Ils parlaient de l'homme sauvage, et ils peignaient l'homme civil* (Rousseau,

1754, p. 21). And added, *chacun doit voir que, les liens de la servitude n'étant formés que de la dépendance mutuelle des hommes et des besoins réciproques qui les unissent, il est impossible d'asservir un homme sans l'avoir mis auparavant dans le cas de ne pouvoir se passer d'un autre; situation qui n'existant pas dans l'état de nature, y laisse chacun libre du joug et rend vaine la loi du plus fort* (Rousseau, 1754, p. 40).

In Rousseau's view, the notion of subordination between human beings is at the root of inequality. As he explains, ... *dès l'instant qu'un homme eut besoin du secours d'un autre ; dès qu'on s'aperçut qu'il était utile à un seul d'avoir des provisions pour deux, l'égalité disparut, la propriété s'introduisit, le travail devint nécessaire et les vastes forêts se changèrent en des campagnes riantes qu'il fallut arroser de la sueur des hommes, et dans lesquelles on vit bientôt l'esclavage et la misère germer et croître avec les moissons* (Rousseau, 1754, p. 47).

Rousseau considered three primary sources of inequality: division of land, division of labor, and the merits of vanity or addiction. He understood that such sources were expressed in the rights of private property, where ownership permitted the appropriation of provisions beyond ones necessities. As a consequence, the absence of property would obstruct the access to these necessities, leading to a situation of subordination.

In conclusion, Rousseau defended that the emergence of the State, Government and Law legitimized ownership and, as a result, inequality. Such a process became acceptable, as well as legitimizing the violence employed to maintain and replicate this economic and social state. The existing conventions, contracts and institutions acknowledge, guarantee and provide stability for the reproduction of ownership and the relationship of subordination. This is the state of inequality in a determined society.

It can be said that Rousseau is the first thinker to discuss inequality as a historical process constructed socially, explicitly relating this process to the function exercised by institutions such as managers and those who guarantee contracts and conventions. Inequality ceases to be viewed, however, as a natural process despite Rousseau not discussing it in his historical structure of capitalist society. Such an approach can only be explored by Marx. Therefore, in order to analyze Rousseau's contribution, it is necessary to consider the contributions of Smith and Ricardo, particularly as these authors debated the dynamics of productivity in competitive capitalism.

Smith was the first author to focus his analysis on the division of labor as an instrument relevant to the increase in productivity and organization of production in a capitalist society. Despite the division of labor having been considered by other authors, as pointed out by Schumpter (1954), it can be said that only Smith adopted this viewpoint.

According to Smith, *the division of labour, however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour* (Smith, 1776, p. 12). For Smith, the population's standard of living depended on the participation of citizens in productive work and the resultant productivity (Roncaglia, 2001).

The division of labor in the pin factory, as analyzed by Smith, presented for the first time, the potential that specialization of labor had in terms of increasing productivity. At the same time, the economic advantages of the production process in terms of the results of using a group of workers with specific tasks became evident.

Smith divided the advantages of division of labor into three types. Specialization, in first place, resulted in the worker having greater skills which in turn increased productivity in a given period of time. Secondly, specialization meant that less time was wasted in terms of changing function or task, and finally, the introduction of machinery was made easier.

Smith's arguments were strongly dependant on the knowledge provided by the development of the capitalist society of his time, especially that which referred to the technical process and the complexity of the company (firm). The relationship between man and machine was presented in a very limited form, giving the worker liberal control of the organization and intensity of his work. The machine was an instrument designed to support the work. In addition, the division of the productive process was, at that time, still extremely basic, and largely based on the cooperation between workers with a relatively restrictive set of skills. These characteristics of the productive process were extremely relevant in order to explain the focus that the division of labor presented in Smith's thoughts, as the simple specialization of tasks.

Even considering Smith's important contribution, it can be said that his approach to the problem of productivity in the capitalist society was relatively simple. This perspective can be fully justified when one takes into consideration that his analysis was constructed based on characteristics dominant of the first Industrial Revolution.

Having yet to constitute a center for the production of machines, nor having made technical progress from scientific knowledge, the capitalist discussion was dependant on working knowledge to produce and develop the machines, as well as to establish the production process (Landes, 1980). And so, work specialization became an important role in making the production and work processes more stable and increasing productivity. According to Smith, *a great part of the machines made use of in those manufactures in which labour is most subdivided, were originally the invention of common workmen, who, being each of them employed in some very simple*

operation, naturally turned their thoughts towards finding out easier and readier methods of performing it (Smith, 2005, p. 15).

In concrete terms, the dynamics of capitalist productivity were fundamentally based on the simple division of labor, with remuneration being the principle instrument used to intensify work. The pressures to increase the cost of labor tended to transform into a reduction in profits that could only be compensated for by a limited search to increase production through the intensification of division of labor itself.

According to Smith, technical progress played a marginal role in the increase of productivity. The productive surplus being equivalent to the necessity to reposition the means of production and survival of the workers employed in production (Roncaglia, 2001, p. 131), giving that distribution changes tended to occur very slowly. *...labour productive depends on the stage reached by the process of increasing division of labour...* (Roncaglia, 2001).

Reconsidering Rousseau's arguments about the importance of the division of labor in the generation of inequalities, it can be said that in Smith's view such a division in this process would be restrictive, on account of the limits that it would put on the increase of productivity and consequently, of the resultant surplus and its distribution.

Ricardo's proposal to the problem is not largely different from that given by Smith. In his view, the problems of population and natural land productivity growth tended to limit the accumulation of capital, responding through the introduction of machinery as a way to preserve the rentability of the productive process.

The theory about natural land productivity became central to Smith's argument. According to Ricardo, the production of food would initially utilize the most fertile land, close to where the products were to be consumed. With a growth in the population, it would be necessary to utilize less fertile lands that would also incur higher costs of production. In this sense, there would be a tendency to increase the price of food and, consequently, wages.[2]

Ricardo considered that the wage rate was determined by the prices of the means of subsistence, of which depended fundamentally on the increase in food prices. According to Casarosa, Ricardo *recognized that the market wage might diverge from the natural wage rate, but considered this a wholly transitory situation* (Casarosa,

(2) The Ricardian concept of the natural wage rate is one of great controversy. This intention of this paper is not to investigate this debate. The redemption of the proposed theme refers only to the treatment of productivity given by Ricardo, that, as will be investigated, has the tendency to slowly increase and, therefore, resulting in the modification, also at a slow rate, of the distribution of excess. For information on the convergence or not of the wage rate in terms of the value of means of survival, see Casarosa (1985) and Rosselli (1985).

1985, p. 45). Given the wage rate, the differentials would be determined by the differences in qualification of workers, which was related to education (Ricardo, 2001, chapter 1, section 2).

Therefore, Ricardo considered that variations in the price of foods tended to affect wages. Under the land production conditions given, the growth of the population tended to cause an increase in the price of foods and consequently the wage rate and the entire wage structure. The tendency of a fall in profits would be faced by capitalists through the substitution of labor for machinery (Ricardo, 2001, chapter 1, section 3). This mechanization is given by Ricardo as a simple instrument to protect profits, rather than being an instrument that could potentially increase profits.

It can therefore be observed that the question of inequality is given little attention in Ricardo's thesis, being treated as seemingly acceptable due to the fact that it is related to the differences of productivity resulting from distinct qualifications, given that the wage rate was found to be determined by the price of the means of subsistence. In this sense, it is not important in relation to Smith's method; on the contrary, inequality is made less important by Ricardo in his disregard for the importance of the division of labor to increase productivity.

It is therefore important to highlight that both authors looked to the consolidation of competitive capitalism, a phase marked by a low level of technological dynamism. The largest return on production fundamentally depended on the simple division of labor, made possible via the division of tasks and functions and the predominance of the way to remunerate production.

Capitalism, considered as the satanic mills, as described by Marx, was introduced in the second quarter of the 19th century with the emergence of the metal-mechanical and chemical industries stimulated by the strong expansion in railway activity (Landes, 1980). The transition from an industrial base established around physical labor to one based on technical work, as analyzed by Hobson (2005), could only be analyzed by Marx. This transition was not sufficiently outlined to be analyzed at the time when Smith and Ricardo were analyzing the capitalist economy. The creation of this production method only occurred with the emergence of the second Industrial Revolution, when the machine production sector was formed and technological progress was made endogenous. I.e. when it became possible, due to capitalism, to continually transform production conditions, productivity continually changed, and as a consequence, production conditions of the distribution of economic surplus were systematically modified.

As Schumpter (1942) pointed out, a detailed analysis of the economic organization of this method of production was carried out by Marx. In the first volume of The Capital, Marx analyzed the production process of accumulating capital that as

he himself argued, marked the destiny of the working class (Marx, 1867a). The reason for this being the accumulation of capital in its complete form to establish, as will be seen later, the real subordination of labor on account of expropriating all the methods of production such as management, and knowledge of production and labor processes.

The second Industrial Revolution consolidated the relationship between labor subordination and companies, in order to transform the technical progress into capitalist property and to take away the worker's autonomy to control the technical and organizational conditions of the production process (Burawoy, 1979, chapter 1). As was made explicit by Marx (1867b), real subsumption of the labor process by capital was established, defined as a strictly capitalist regime using and controlling the labor force. From the middle of the 19th century, Smith and Ricardo's restrictive vision about the dynamics of productivity was surpassed, opening up a wider area for the capitalist to explore labor through the systematic increase in productive revenue. This resulted in a negative impact on the workers, whether it was in terms of work or salary.

Marx's analysis was based on the hypothetical conditions of dominant production in the European economy until the 18th century, which according to him would be characterized by a situation of organic composition of fixed capital, a restriction presented in both Smith and Ricardo's theories. According to Marx, the production process is the result of the utilization of types of constant (machines and equipment) and variable (labor) capital. When utilized, labor generates a value superior to that that is paid in the form of a wage, and this difference allocated by capital in the form of surplus value (profit).

Marx considered the existence of the constant relationship between two forms of capital, whether it be in value (organic) or in physical terms (technical). This situation would adhere more closely to the production conditions dominant during the first Industrial Revolution.

> *De tout cela il résulte que chaque année fournira de l'emploi pour un nombre de salariés supérieur à celui de l'année précédente, et qu'à un moment donné les besoins de l'accumulation commenceront à dépasser l'offre ordinaire de travail...Cependant les circonstances plus ou moins favorables au milieu desquelles la classe ouvrière se reproduit et se multiplie ne changent rien au caractère fondamental de la reproduction capitaliste. De même que la reproduction simple ramène constamment le même rapport social - capitalisme et salariat ainsi l'accumulation ne fait que reproduire ce rapport sur une échelle également progressive, avec plus de capitalistes (ou de plus gros capitalistes) d'un côté, plus de salariés de l'autre. La reproduction du capital renferme celle de son grand instrument de mise en valeur, la force de travail. Accumulation du capital est donc en même temps accroissement du prolétariat. Cette identité - de deux termes opposés en apparence Adam Smith, Ricardo et autres l'ont si bien saisie, que pour eux l'accumulation du capital n'est même autre chose que la consommation par*

des travailleurs productifs de toute la partie capitalisée du produit net, ou ce qui revient au même, sa conversion en un supplément de prolétaires (Marx, 1867).

Under this condition, the increase in production tends to establish a constant relationship in terms of the demand for machinery (constant capital) and labor (variable capital). The capitalist, therefore, changed his mind about how much to produce but not about how to produce, having little or no capacity to interfere in the dynamics of production. As Marx pointed out, in accordance with Smith and Ricardo, the increase in production tended to drain the supply of labor and as a result of an increase in the wage rate, the supply finished. The occurrence of this movement could be an answer to the slowdown of the accumulation of capital, i.e. an increase in production.

Le mouvement d'expansion et de contradiction du capital en voie d'accumulation produit donc alternativement l'insuffisance ou la surabondance relatives du travail offert, mais ce n'est ni un décroissement absolu ou proportionnel du chiffre de la population ouvrière qui rend le capital surabondant dans le premier cas, ni un accroissement absolu ou proportionnel du chiffre de la population ouvrière qui rend le capital insuffisant dans l'autre (Marx, 1867). Therefore, the accumulation of capital has the capacity to regulate the demand for labor in absolute terms, but never in relative terms.

Exploring the characteristics of the production process under fixed capital, Marx abandoned such a restriction. In order to adopt a variable organic composition, he aligned his analytical and theoretical construction closely with the predominant conditions of the accumulation of capital of the second Industrial Revolution, marked by a demand which decreased relative to labor for increasing volumes of capital, both in physical and value terms. The accumulation of capital becomes an actual capitalist dynamic in order to determine the growth of productivity and consequently control the rate of demand for labor. To constitute the capacity to control the conditions of production, i.e. the technical organization of the production system, the accumulation of capital also attains the power to organize the labor process, heightening the labor subordination to the decisions of the capitalist. Consequently, the accumulation of capital begins to generate surplus relative to the labor force.

As Marx and Engels argued, *les divers stades de développement de la division du travail représentent autant de formes différentes de la propriété; autrement dit, chaque nouveau stade de la division du travail détermine également les rapports des individus entre eux pour ce qui est de la matière, des instruments et des produits du travail* (Marx and Engels, 1845, p. 6)... Furthermore, the *division du travail et propriété privée sont des expressions identiques — on énonce, dans la première, par*

rapport à l'activité ce qu'on énonce, dans la seconde, par rapport au produit de cette activité (Marx and Engels, 1845, p. 10).

It can also be clarified that division of labor carries out the function that goes beyond the search for higher value and greater revenue associated with the most efficient absorption of specific skills of each worker. Since the second Industrial Revolution the division of labor has also carried out the role of generating surplus labor force. Dependent on the wage, although with no control over the conditions in which it is organized and utilized, the worker is submitted to an unfavorable position in the sale of his labor-power. Without the means of production and survival and the loss of control of the organizational production and labor processes, the worker finds himself subordinated to capitalist accumulation (Marx, 1967b).

> *C'est seulement parce que l'ouvrier, pour pouvoir vivre, vend sa force de travail, que la richesse matérielle se transforme en capital. C'est donc seulement face au travail salarié que se changent en capital les objets, représentant les conditions objectives du travail, autrement dit, les moyens de production et les choses représentant les conditions matérielles de la conservation de l'ouvrier: les moyens de subsistance.*
>
> *Cependant, le capital, pas plus que l'argent, n'est un objet. Dans l'un et l'autre, des rapports de production sociaux déterminés entre individus apparaissent comme des rapports se nouant entre objets et individus. Autrement dit, des rapports sociaux déterminés semblent être des propriétés sociales naturelles des objets. Sans salariat, dès lors que les individus se font face comme des personnes libres, pas de production de plus-value, et sans celle-ci, pas de production capitaliste, donc ni capital ni capitaliste! Capital et travail salarié (comme nous appelons le travail de l'ouvrier qui vend lui-même sa capacité de travail) expriment deux facteurs d'un seul et même rapport.*
>
> *L'argent ne peut devenir du capital sans s'échanger au préalable contre la force de travail que l'ouvrier vend comme une marchandise; d'autre part, le travail ne peut être salarié qu'à partir du moment où les propres conditions objectives de l'ouvrier se dressent en face de lui comme des forces autonomes, propriété d'autrui, valeur existant pour soi et ramenant tout à elle, bref, du capital. En conséquence, si du point de vue de sa matière, c'est-à-dire de sa valeur d'usage, le capital se réduit aux conditions objectives du travail, du point de vue formel, celles-ci doivent s'opposer au travail comme des puissances étrangères et autonomes, comme valeur - travail objectivé - qui traite le travail vivant comme un simple moyen pour se conserver et s'accroître elle-même. Le travail salarié - le salariat - est donc une forme sociale nécessaire du travail pour la production capitaliste, tout comme le capital - valeur concentrée en puissance - est la forme sociale nécessaire que doivent assumer les conditions objectives du travail pour que le travail soit salarié* (Marx, 1867b, p. 61).

The consolidation of capitalism therefore produces a form of inequality associated with the obligation of the worker to sell his labor-power as a means of obtaining the necessary money to purchase the goods and services required to survive. Therefore, labor conforms to commodity capital whose acquisition only occurs if there is a possibility to increase the value of the capital itself. When this possibility is not

present, even at the cost of momentarily impeding the valorization process, the capital cannot buy labor-power, putting the worker's survival at risk.

The intensity of the worker's dependence in relation to capital results in involuntary unemployment that in basic terms expresses the wish of the worker to sell his labor-power and the absence of anyone wishing to buy it. This situation of inequality was pointed out by Keynes in his critique of classical economics, claiming that *a willingness on the part of labour to accept lower money-wages is not necessarily a remedy for unemployment* (Keynes, 1936).

According to Burawoy (1979), *workers' dependence on cash earnings is inscribed in their subordination to the factory lycurgus*[3] (Burawoy, 1979, p. 123). For Burawoy, an authoritative work regime was established with the consolidation of capitalism, achieved through the rise of the second Industrial Revolution. The surplus of workers individually selling their labor-power guaranteed ample power in order to purchase capital which resulted in a situation where the blue-collar workers became much poorer, and a society, marked by an increase in the level of inequality, was constructed. The situation of enhanced asymmetry in relation to labor was strengthened by the addition of women and children into the productive system. For Burawoy the asymmetry of labor relations strengthened the capital power over labor process organization. This asymmetry was found to be based on or fed off three processes: the obligation of the sale of labor-power as a means to guarantee survival; the fragamentation and mechanization of the labor process, in a way that qualifications and specialized knowledge ceased to be a means of power for labor; and the competition between capitals that caused the capitalists to constantly modify the labor process, resulting in market anarchism that turned in to abuse of power in the factory.

Economic power, associated with the ownership of technological progress, opened up the possibility for capital to control productivity. Under these conditions, remuneration for production ceased to be interesting, as it allowed productivity gains to be passed onto the worker. The monthly or hourly remuneration became the predominant method of remuneration. An asymmetric situation in relation to labor existed where the monthly or hourly wage tended not to accompany the productivity gains permitted by new ways to organize the work process associated with the introduction of new technologies. This new form of remuneration established the predominant method, typical of the contract and labor relations of capitalism, the labor wage.

From the start of the second Industrial Revolution onwards a form of socioeconomic inequality, specific to capitalist society, was established. While

(3) Legislator that created the political and military organization of Esparta, Greece.

Rousseau portrayed inequality as something based on private property in general, Marx portrayed it in a way that presented characteristics specific to capitalist society, on account of the method of production that created total labor dependence in relation to capital through the separation of labor and production results. The physical or moral coercion present in other societies is substituted by money. There remains no other option for the worker than to sell his labor-power at the market value, as only through this process will he have access to the money necessary to acquire the means of survival that this money makes possible.

According to data compiled by Lindert (1998), 1% of the richest households in English and Wales participated in an increase of total revenue from 43% to 61% between 1740 and 1875. And so, at the end of the 19th century this small percentage of households withheld almost 2/3 of the original capitalist potential available. The inequality observed in the statistics was openly revealed in the day to day lives of the powerful members of the English society.

Optimism for the reduction in inequality at the beginning of the century

The period leading up to the twentieth century was marked by growing social tension in industrialized countries due to the extent of poverty within the working class. This social problem was an intrinsic part of the capitalist world. Hunger, poverty and disease were a common aspect of daily life marked by long working hours and extremely low wages. In this capitalist world dominated by unequal market relations, powers from various sources began moving in search of some economic, social and political dignity for the majority of the population. It was necessary to break the deep fragmentation of the social fabric consisted of a mass population which was deeply heterogeneous, unorganized and with no common political interest. The irreproachable tale told by Edgar Allan Poe on everyday life in London in the mid-nineteenth century accurately described the precariousness of that urban world.

Capitalist development did not bring any hope for the vast majority of the population, finding in the existing institutions the legitimacy necessary to make the existing state of inequality acceptable. A closer analysis of the relationship between capitalism and institutions may have been carried out by Weber, when he discussed the legitimizing role of the Protestant church in capitalist development (Means, 1966), to recognize the rights of private property and profit as the fruits of man's virtue.

According to Weber, along with economic activity oriented toward acquiring ones own necessities, exists another perspective aimed at profit, which can only exist as the result of economic exploitation of the limited available goods. The possession of or access to these limited goods allows for the realization of personal gain (profits) (Weber, 1905, part 2, chapter 2).

In his work *The Protestant Ethic and the Spirit of Capitalism*, Weber explores how activity aimed at acquiring profit is legitimized by the Protestant religion, recognized as the rights established by God. Wealth is part of the enterprising virtue of some elected men, whose activity guarantees economic and social development as well as the productive and technical conditions of those men whose potential comes only from the sale of their work. Austerity is a condition laid down for all men who know how to adequately exploit their potential. Asceticism constitutes the basic ethical foundation of society, making the income and wealth gained by some and the obligation of work the destiny of many, natural and legitimate (Weber, 1909; Grabb, 2002, chapter 3; Campos, 2005).

The process of making income and wealth, and therefore capitalist development itself, acceptable as realized by the religious institution, was also legitimized by other institutions, particularly with the introduction of the legislation that guaranteed security for private property, as well as the possibility of its transmission to future generations. The degree of political legitimacy attained by capitalism at the end of the 19th century had transformed inequality itself into a religion. The acceptance of such social inequality was the subject of extensive reflection at one academic institution that would eventually play an important role in shaping the social protection system consolidated by the state of English social welfare, the London School of Economics – LSE. Founded in 1895 by militants of the Fabian Society,[4] Sidney Webb, Beatrice Webb, Graham Wallas and George Bernard Shaw, the institution – from its outset - held the theme of inequality at the center of their discussions,[5] contributing significantly to the development of the Beveridge Plan, established in the 1940s (Beveridge, 1944).

Two published papers commemorating the 100-year anniversary of the institution have become a reference for debate on the subject in the last century in

(4) Reformist political movement with a socialist direction which marked the origins of the British Labour Party.

(5) At the 100th anniversary of its founding, the London School of Economics published a compilation of important essays on inequality produced by its researchers, which will be partially explored in this essay. See Desai (1995). Although most contributions discussed the problem of inequality as a process inherent to capitalist development in the transition into the twentieth century, the study of Letwin, published in 1983, makes the defense that *most peopele heartily endorse equality as a goal, some acquiesce to it reluctantly, and very few deny it outright.* According to the author, it is necessary to identify... *the destruction consequences which have already resulted from or may be expected from policies aimed at equalisation* (Letwin, 1983, p. 73-74). As a professor at the LSE, he makes an explicit critique of formulations in favor of social policies as a tool to combat inequality and, therefore, of the pillars supporting the Beveridge Plan (Beveridge, 1944) established in the 1940s and which played a decisive role in the assembly of a comprehensive system of social protection and reduction of inequality in the United Kingdom. As discussed later in this essay, the author's view expressed a broader critique of the institutional framework of state nature forged in the first half of the twentieth century.

English society. They describe the fundamental dimensions of inequality that had been consolidated with the second Industrial Revolution.

In *Inequality of Income and Inequality of Personal Freedom* (1921), Sidney and Beatrice Webb stated that *a nation, in deciding to establish to continue the private ownership of land and capital as the basis of the industrial organization of its people, deliberately chooses inequality. The outrageous disparity in capitalist countries between one man and another, and between one class and another, independently of their merits, and often in the inverse ratio of their industry and social utility is not produced by any defect in the working of capitalism, but is inherent in its very nature* (Webb et al., 1921).

This point of view was justified by a number of characteristics of capitalist society, seen as reproducers of inequality. The authors mentioned the right of inheritance, which transferred an unmerited social status to the next generation; to the justice system, whose costs were not viable for the poor and imposed clearly discriminating sentences between rich and poor; and the obligation towards work that was unevenly distributed because of private property. They concluded that these elements established a situation of structural inequality that had caused a false notion of freedom, especially that of individual dimension.

According to the authors, socioeconomic organization, private property and government structured institutions guarantee the economic, social and political subordination of broad segments of the population, jeopardizing the notion of freedom and consequently, the liberal order. Such arguments supported the theory of the impossibility of capitalist society of the liberal order because of the risk of economic and political crisis marked by violence of all kinds and therefore, requiring institutional reform. They defended that liberal order was incompatible with democracy, because it required a sharing of state functions of a distinct nature that had been consolidated with the second Industrial Revolution.

The other paper, written by Tawney (1931) followed the same path as the Webb et al (1921), understanding that changes were taking place in British capitalism with the perspective to overcome individual logic, since utilitarianism allowed the ideas of socioeconomic logic and freedom of a collective nature to be explored. Tawney defined the emergence of the state's role as a distributor of wealth through education, health and protection of labor policies, and as a progressive expression of political order founded on collective rights. As such, he advocated reforms that would reinforce this view, in order to unite social and economic order aimed at distributing evenly the results of a large capacity to create wealth that capitalism had introduced to modern society.

For Tawney, it was necessary to largely break the religion of inequality that had been established by capitalist development. In this sense, he reiterated Weber's concerns, which saw the capitalist inequality as created by production being legitimized by social and political ethics and morals that goverened the existing public institutions of the time.

The debate taking place at the London School of Economics was oriented towards the political transformations under way, with which the professors ended up gaining prominence through a number of existing institutions, such as the Labor Party.

Throughout the 19th century, the Luddite movement that had characterized the riots at the beginning of this time was surpassed by more collective forms of organization, which later were consolidated in trade unions and party institutions. The demands for public regulation of working hours and conditions, including minimum wage and social welfare, began to be explored and gained legitimacy in the state instruments of the central economies. In the institutions that organized such measures, protection of public intervention was being shaped in order to protect work in some way. Efforts made by Bismarck in Germany and the Victorian era in England were the most significant. It was this movement that both the Webb et al and Tawney turned to.

According to Burawoy (1979), the emergence of new political institutions was imposing the despotic regime of economic and social regulation to begin giving way to a regime based on the logic of political consensus. This increased political intervention into the economy, which until then had focused on the regulation of currency, foreign trade, national defense and popular submission to the logic of capitalist production.[6] As is stated in a classic study on social policy, *the Victorian regarded poverty as social fact* (Marshall, 1965, p. 25), enabling it to begin overcoming the problem of moral perspective, which associated poverty with individual idleness. According to this study, ... *during the mid Victorian epoch the ordinary English-man had become 'the beneficiary of a state assumed a responsability for the well being of its citizens. However limited that responsability, however meager compared to the responsibility assumed by Whitehall today, it did Mark the beginning of Welfare State* (Marshall, 1965, p. 29).[7]

Analyzing the British situation, Marshall pointed out the main institutions that emerged in the late nineteenth century, which gave way for social policy to become a relevant tool of a socio-economic regulatory model of a hegemonic nature in the

(6) It is important to highlight that while a new political system to regulate capitalist production emerged in countries with industrial origins, the logic of primitive accumulation associated with a despotic regime was imposed to iron and fire by these same states to nations belonging to the new world.

(7) Whitehall is the region where the public administration buildings of the British government are concentrated.

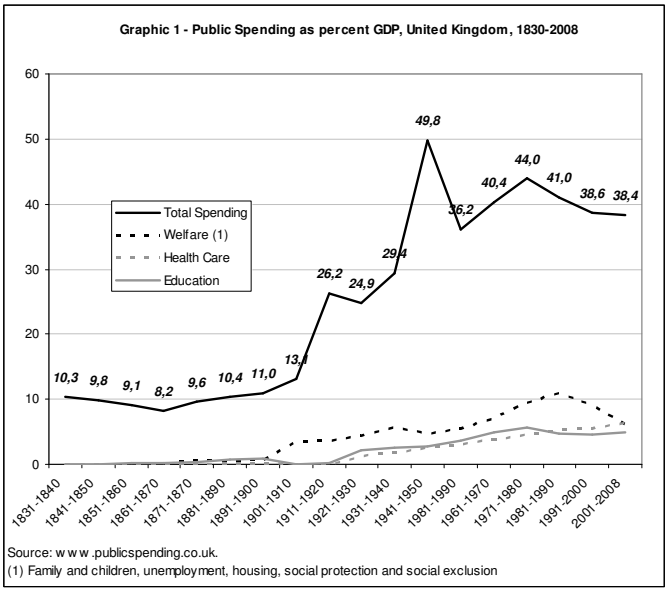
twentieth century, as considered by Burawoy (1979). Consolidation of the new regulatory regime played a vital role in this period of the greatest reduction of inequality that had occurred in developed countries. The emergence of universal suffrage, the protection of labor and recognition of the organization of workers and of public education and health policies allowed for reduced exposure of labor to capitalist exploitation. A set of public goods was progressively made available to families regardless of their income level.

It can be said that social policy broke the dependence of the vast majority of the population on contracts established through individual relationships, or as is generally considered, through the market. Understood as socio-economic relations held through mandatory contracts of a monetary nature, the emergence of the social policy was increasingly associated with the existence of a set of goods and services, which could not be obtained through money. That is, they were not of a commercial nature.

Intervention in the labor market and relations, as well as in the implementation of social policies in areas such as health, education and housing have transformed the institutional framework of capitalist society in developed countries throughout the twentieth century. This process failed to affect developing countries to the same degree, and none with such an extremely low level of development, as that of central Africa.

The intervention allowed for the reduction of existing disparities, particularly in the main contract that established the generation of wealth, that of work. Control of working conditions, rights to organization and strikes, unemployment insurance and the retirement system gave bargaining power to workers in exchange for their labor-power. This intervention enabled changes in the direct distribution of surplus, while the system of taxation and social policies worked in the orbit of secondary distribution. This pattern of public intervention on market relations was not the result of social consensus, but of political dynamics. In the field of economics itself, only in the 1930s were the benefits of this new institutional configuration perceived, as shown in Keynes' writings.

The institutional framework gradually became stronger over the last century, a fact immediately portrayed by the substantive growth of public expenditure participation in the GDP. As a result of being the basic reference in establishing State Welfare, the situation in the United Kingdom accurately portrays this movement. Between 1830 and 1890, public spending remained at around 10%, a level quickly modified at the beginning of the last century. At the end of the growth period, after World War II, it had reached a total of 44% of the UK's GDP. The role of public spending was clearly expressed in relation to spending on social policies. Throughout the twentieth century, the weight of these forms of spending grew.



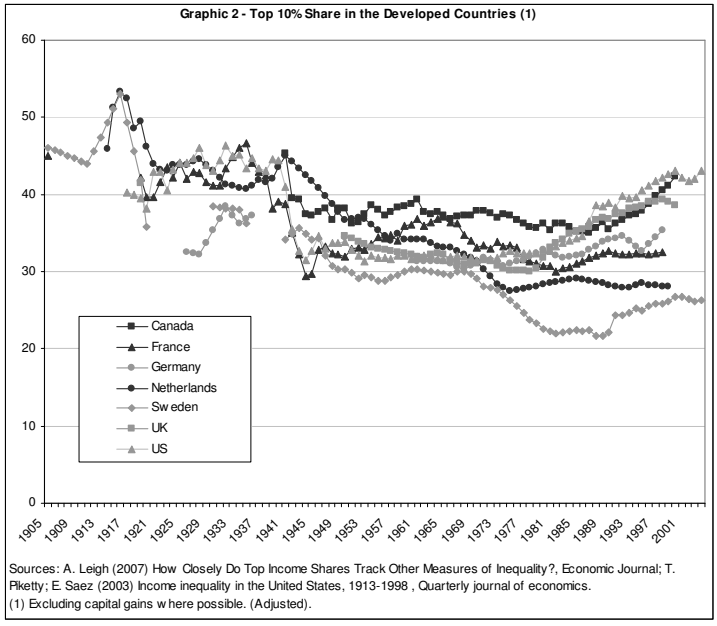
As previously indicated, while the institutional framework enabled the redistribution of wealth through social policies, it also acted on the contracts and working relationships in order to modify the degree of inequality prevailing in the structure of labor income. In all developed countries, the advance of public regulation on the contract and working relationships resulted in a declining share of the richest 10% in total income. This move was clearly involved in the assembly and consolidation of Welfare State and institutions that gave meaning to democracy in these nations.

Nevertheless, the undeniable movement of direct and indirect redistribution of income demonstrated, on the other hand, that the problem of inequality significantly decreased, but had not been overcome. That is, with the exception of Sweden, the richest 10% continued to hold, at the end of the post-war growth, at least 30% of the national income.

State participation in the economy, which progressively regulates the diversified group of contracts and is fed by capitalist development, was seen from its initiation as a threat to the existence of the system itself. To Keynes this criticism refused to acknowledge the risks and economic and social uncertainties that laissez faire posed on capitalist society from the late nineteenth century. In his words, *many of the greatest economic evils of our time are the fruits of risk, uncertainty, and ignorance. It is because particular individuals, fortunate in situation or in abilities, are able to take advantage of uncertainty and ignorance, and also because for the same reason big business is often a lottery, that great inequalities of wealth come about; and*

these same factors are also the cause of the unemployment of labour, or the disappointment of reasonable business expectations, and of the impairment of efficiency and production. Yet the cure lies outside the operations of individuals; it may even be to the interest of individuals to aggravate the disease (Keynes, 1926).

According to Keynes, refuting the arguments about the support of real wages during the 1930s, the intensity of the crisis of capitalism would have been even more pronounced if wages had behaved according to the classical model. Should this have occured, the fall in effective demand would have been strengthened, which would have implied greater contraction of production and employment and consequently, income and, once again, of production and employment.



Keynes' arguments in favor of regulation of a public nature considered that this would lead to a reduction in participation of the rich in economic activity, in addition to resulting in better distribution of wealth. As pointed out by Polanyi (1944) and Marshall (1965), following the Keynes's ideas and the path left by Marx, capitalism is based on a system that fulfilled the promise of mass production, thanks to its ability to recurrently increase productivity through a systematic process of technological development. Nevertheless, it is undeniable that it failed in the distribution of goods and services produced, putting at risk the economic survival of the system and much of the population.

This view of the importance of public regulation for capitalist development and the reduction of inequality was closely associated with a reformist outlook. This differed from both the Communist proposition, which was considered inefficient to social policy, and the conservative proposition, which understood that social policy discouraged the individual's commitment to work. In the field of politics as well as in public and academic administration, all were present. According to Marshall (1965), the prevalence of the reformist perspective resulted from the political struggle established in the field of ideas, which was later put into action, but also from the very dynamics of the state instruments, which was required to minimally meet the demands of society by the need to ensure political stability in capitalist society.

According to the author, the laws of public education (1870), prohibition of the employment of women and children (1890) and public health (1875) in the United Kingdom resulted in the Welfare State, having been the result of initiatives of political forces of quite a distinct nature. In the 1940s, the Beveridge Plan provided a structured format for social policies and the role of the state in the distribution of surplus capitalist production in British society (Beveridge, 1944).

The Institutions of Capitalist Development and Reducing Inequality: Progress and Decline

It is widely known that in the post-war period, especially in the interval between 1953 and 1968, the developed capitalist societies experienced their most favorable conditions for the reduction of socioeconomic inequality. The long period of economic and social instability that touched the majority of these countries during the decades of the 20s and 30s, the two World Wars and the division of the world after 1945 created the conditions for a phase of public intervention with very positive results in terms of growth sustained with reduction in inequality (Marglin, 1990). As Castel states, analyzing the period, *comme Karl Polanui l'magistralement montré, on ne peut apprécier la nature et l'ampleur d'une transformationqu'em La situant par rapport à La situation que la précèdeet dont elle boulverse la configuration. Jê me contenterai ici de rappeler quelle était cette situation dans lês années qui ont precede la rupture de trajectoire.En France on qualifie souvent de "Treinte Glorieuses" cette période qui a suivi la fin de la Seconde Guerre Mundiale jusqu'au milieu des années 1970. Cette expression est de plus discutables et entretient dês nostalgies suspectes...Mais si on ne peu nier l'importance des inegalités et Le poids dês injustices, Il faut ajouter que Le capitalisme industriel à la fin de sa période de plus grand développement était parvenu à promouvoir une* ***gestion régulée de ces inégalités*** (Castel, 2009, p. 15)

All management is associated with certain risks for being part of a decision-making process realized in an environment of uncertainty, but is also constituted as an instrument used to combat other risks. Regulated management in terms of reduction of

inequality, as explained by Castel (2009), had its first positive results only *a posteriori*. Its origin should be associated with the convergence of aforementioned political interests, which came from a necessity of confronting two risks that this form of regulation of capitalism would create for society at the end of the 19th century, namely when developed societies began the past century with a movement to break the self-regulation (*lassez-faire)*, as a form of controlling or reducing the economic risks this model created.

For this reason, Castel himself returns to Karl Polanyi's proposition of a process of the great transformation that the developed capitalist society experienced at the beginning of the 20th century. As expressed by Polanyi, self-regulation was a threat to society, as it was based on the flexibility of prices, putting at risk both producers and the workforce at the same time. Thus, it is important to protect both. This great transformation insofar as the constitution of a system of public regulation that broke what had been established in the logic of the autonomy of contracts was decisive for the protection of both labor and capital, in other words, guaranteeing the stability and the continuity of capitalist accumulation, and consequently, the very existence of capitalism. Public regulation of contracts does not work against capital accumulation, but rather works in favor of its continuity and stability.

According to Polanyi, self-regulation is based on three instruments: the price of labor defined through contracts established strictly via the labor market, the automatic creation of currency dictated by the gold standard and, the absence of barriers to the circulation of commodities inscribed in the logic of free trade. Two additional characteristics were part of self-regulation: a fixed exchange rate and passive monetary policy. By permitting the consolidation of capitalism with the destruction of the still-existing vestiges of the feudal regime, self-regulation appeared to be positive for capital accumulation, in spite of the fact that it depended upon the state for its own protection. Furthermore, the consolidation of capitalism would have been impossible without the role played by the states in the assembly and maintenance of the perverse colonial system.

Self-regulation simply resulted in the protection of capital accumulation, on one hand, and the loss of labor protections on the other. The emergence of the free labor market was simply an institution based on the adoption of contracts via buying and selling labor-power, free of restrictions associated with the feudal regime and open to capitalist exploitation. The crisis of competitive capitalism ended up showing that the model of self-regulation was sufficient to guarantee the emergence and consolidation of this form of economic and social organization, but was insufficient to assure its stability and continuity.

Thus, the expansion of the function of the state in the economy, beginning in the middle of the 19th century, appears as a fundamental requisite for the future of capitalism. With the creation of currency as forced tender as the most visible instrument of state intervention in the economy, the state establishes an external reference for contracts establishing prices. Polanyi considered self-regulation insofar as paradoxical, as its existence is dependent upon permanent state intervention in three spheres: protecting emergent capitalist production, making the free labor market possible and guaranteeing currency, either generalizing market relations or protecting wealth in monetary terms.

According to Polanyi, the end of the 19th century was marked by the appearance of imperfect public regulation through protective measures adopted by the states in relation to land, the objective of protecting national production, labor, controlling the migratory process and adopting a number of measures in relation to the protection of working conditions, money, and separating internal and external markets via the national currency as forced tender. As the author indicated, and also discussed by Keynes, public state regulation was insufficient for protecting capitalism from intense crises of falls in production and increases in unemployment, and, therefore, of the creation of situations of exacerbated instability and uncertainty that could put the very existence of this form of economic and social organization at risk. The First World War, economic instability in several European countries in the 1920s, the decline of the British economy, the crisis of 1930 and the Second World War all indicated the exhaustion and the risks of a determined form of regulation, in a context marked by an alternative economic system in construction since 1917 with the advent of the Russian Revolution.[8]

Polanyi discussed how capitalist development made it necessary to construct a mode of regulation that would permit the protection of man, nature, productive organization and currency so as to guarantee the continuity of the process of capitalist production, the stability of labor and income and the stability of prices aiming to contain the risk of deflation. It would also be necessary to create a monetary standard under the control of nations with the purpose of resolving the impasse of international trade, which began with the end of the gold standard.

Polanyi's argument showed the growing economic and social complexity produced by capitalist development, which came to require a new *modus operandi* in terms of the institutions and their functions, aiming to protect the system itself. While

(8) Karl Polanyi wrote the book *The Great Transformation* (1944) during the period of the Second World War. His reflections, like those of Keynes (1936) and Schumpeter (1942) were strictly associated with what we can call the 30 disastrous years of capitalism (1914-1945), in which instability and uncertainty recurrently menaced the developed societies, with the exception of the United States in the decade of the 1920s.

Marshall (1965) discussed the importance of social policy as an instrument of worker protection and Keynes (1926, 1936) the necessity of regulation of the economy by the state when the logic of the market is incapable of guaranteeing stability for capitalism, Polanyi showed the importance of regulation regarding the protection of production and capitalist societies as a whole. His analysis explained that the economy had never been completely autonomous in relation to politics, social relations and religion as its potential success depended intrinsically and permanently upon this symbiosis. The author's argument was based on his notion of *embeddedness*, which simply expressed the recurrent imbrications between economics and politics (Stiglitz, 2001; Block, 2001).

We can, however, better analyze this issue, especially in order to understand the progress and decline of inequality in capitalist development, since it is necessary to recognize that full autonomy cannot be established in the economy, but also that it is not accessible to politics and social relations. Furthermore, forms of regulation are constructed as part of the historic development of society insofar as the articulation of its economic, social and political dimensions. Finally, these dimensions possess a degree of relative autonomy.

As Schumpeter indicated, *...capitalism economy is no and cannot be stationary. Nor is it merely expanding in a steady manner. It is incessantly being revolutionized fro within by new enterprise, i.e., by the intrusion of new commodities or new methods of production or new commercial opportunities into the industrial strcuture as it exista at any moment. Any existing structures and all conditions of doing business are always in a process of change...Economic progress, in capitalism society, means turmoil* (Schumpeter, 1954, p. 31-32). At the same time in which the author asserts the inevitability of capitalism as a system of production in permanent transformation, a movement that he recognized as having already been indicated by Marx; Polanyi showed the complexity of this process by observing the symbiosis between economic, social and political dimensions.

This symbiosis is not easily resolved by society; on the contrary, solving the equation becomes a permanent process. A reflection, however brief, on the regulation of capitalism in the post-war period in its so-called virtuous phase and on its exhaustion and its relationship with the inequality prevalent in society permit the illustration of the complexity of the recurrent impasses of the process of accumulation and distribution of wealth.

One of the most precise approaches to the model of regulation of the post-war period was carried out by Aglietta (1976), and was the object of reflection in his most recent article (Aglietta, 1998). In his work, the author associates the development of the post-war period with the constitution of a salaried society, in which the prevalence of salaried labor, the importance of institutions of collective interests and social policy

were co-substantiated in public regulations, which resulted in broad direct and indirect redistributive process. This permitted the diffusion of the advantages of capitalism in terms of markets of goods and services, and not for the greater part of society; Castel (2009) has called this "regulated management of inequality".

Two vectors were fundamental in this process. The first is associated with direct distribution of surplus by greater regulation of contracts and labor relations established through collective bargaining and the State. In a macroeconomic context favorable to the expansion of production, which is also seriously discussed by Aglietta (1998) with Marglin (1990), other positive effects of regulating contracts and labor relations were enhanced by a growth in employment. The second vector, derived from social policies, is obviously related to the standard of financing provided by a progressive fiscal policy. The state appropriated a large part of the surplus, which was subsequently oriented to investments in infrastructure and social policy. This growth also strengthened the expansion of public revenue, and consequently, social spending. Furthermore, a favorable demographic configuration was observed in this model of growth, derived from the density of the active segment of the total population.

The functionality of the model of regulation based on the salaried society began to encounter difficulties in the 1960s.

The first pressure that fell on it was of a political nature. Regulation of contracts and labor relations were based on negotiation of salaries and on general working conditions, upon which a common set of rights and obligations were set up covering entire sectors, and in some countries, regulating at the national level. All of this regulation affected firms, without interference in labor processes and production. At the beginning of the mid-60s, union activity turned to issues related to the management of these processes. That is to say, once better conditions in terms of salaries and reductions in the intensity of labor, union activity turned towards the demands of improving the labor process, in particular towards overcoming repetitive work assigned to a function or task. In short, a demand for participation in the management of the process of production began, which meant the negotiation of decisions of how much and how to produce, and consequently decisions of investment and technological modernization. Tensions created by the new demands were co-substantiated with the movements of May 1968, which escaped the centralized command of the unions. These grassroots movements questioned as much the mode of management as the labor process as of that of the unions themselves, which had achieved a certain degree of beaurocratization and an absence of renewal of leadership.

The negotiation of distribution of results of the production process was no longer sufficient; negotiations on the decisions that permitted those results were required. In other words, the demands required progress in terms of capital-labor relations, considering the successes obtained thus far by workers.

On the other hand, the necessity of modernizing the structure of worker representation became critical, for at least two reasons. Since the movement demanded action on the decisions of production, a proposal for the representation corresponding with the workplace logically emerged. In the second place, this demand emerged also owing to lesser renewal of union leadership, which impeded a movement for mobility in the system of representation and, therefore, generated tension amongst the generations.

In relation to this type of tension, the observed dimension was broader. In the middle of the 1960s, the children of the welfare state entered into the labor market. A new generation came of age with hopes of upward mobility in the labor market, having the experience of their parents as a reference. Thus, the necessity of transformation of contracts and labor relations also appeared as a reflection of the advances of society itself, in terms of overcoming a world of work dominated by repetitive functions and tasks. For the new generation, which had had access to education, the perspective of occupying posts similar to those of their parents was not sufficient.

A clear political difficulty can be observed from the 60s in giving motion to a model of regulation that had allowed the process of redistribution of wealth in the postwar period.Another pressure, of an economic nature, began to emerge in the 60s, but became clearer in the mid-70s. The USA's fiscal problems would translate to a growing deficit in the decision to end the convertibility of the Dollar in 1971, at the same time that the financing of the American public debt was accompanied by a growth in innovations that expanded relationships between internal and external financial markets. The appearance of a fiscal problem, which was not limited to the American economy, was clear at the beginning of the 1970s.

The petroleum crisis of 1973 ended in igniting latent economic and political problems, imposing cost shocks on an economy that was already presenting signs of exhaustion in terms of growth as well as fiscal and monetary policy, to say the least. Due to the reappearance of an inflationary process, the necessity of restructuring an economy funded on wasteful energy use, the rise of the cost of money and political tensions of various kinds,[9] a certain distributive model of the regulation of capitalism and its state of inequality was put in check. Of the many difficulties that the model had to face, at least three deserve mention.

(9) It is impossible to explore the entire order of problems that the oil crisis effectively brought on. It suffices to mention that the American society relative to the war in Vietnam and the end of the decolonization of various countries of the European colonial system. The questioning of the political *status quo* found itself openly present in the developed countries. Also, as a part of this process the pressure for more gender equality, freedom of sexual orientation and defense of the environment came to fore, issues that found themselves absent or lightly treated by the regulated regulation mentioned by Castel (2009).

The first was the need to overcome an economy of waste, which implied major restructuring of the industrial system, both in terms of its pattern of consumption and the goods that it produced. The restructuring had broad potential of expanding labor conflicts, as it was associated with higher pressure on firms for autonomy in the process of decision-making, which generated tension in labor relations, and a reasonable possibility of producing unemployment. The firms sought to restructure labor and production processes, but without sharing the decisions, as the workers were demanding.

The other would refer to the pressure for a more austere fiscal policy, which was being created along with other instruments of economic policy, such as monetary policy in regards to the society fearful that the response to the crisis would carry a heavier tax burden. It is important to mention that such mistrust stemmed from the fact that society understood that given the difficulties experienced by businesses, tax increases would fall on families. At the beginning of the 1970s, the tax burden in the developed economies was situated at around 40% or more of the gross domestic product, and the pressures for their increase, both absolute and relative, were clear. The situation of crisis created, therefore, the dispute over upon whom the new tax burdens would fall.

The third pressure is associated with the political crisis of the institutions of representation. The uniting of interests in the post-war period founded on the guarantee of employment, a decent salary, vacation time, minimum working conditions and social policy had its strength challenged in the 1960s. This experience showed the existence of fissures that expanded during the 1970s and which made it difficult to move towards a new model of controlled regulation with similar results to those observed in the post-war period.

The tendency towards fragmentation of political interests translated to the actual institutions, which followed a movement of criticism of the standard of public, state intervention and of the corporatism of the political parties and unions. State regulation thus came to be seen as dysfunctional, following the argument that it had been overcome in economic terms as well as political ones (Ralws, 1971).

A recent OECD report on the role of governments in fiscal management and social policy continues to express this orientation that emerged at the end of the 1970s. According to the institution, *greater work may be needed on performance monitoring to better track the quality of services delivered and citizen satisfaction, as well as efficiency. These challenges may mean a growth in "co-design" of public services with citizens, an increase in public-private and public-non profit partnerships, better coordination of services across levels of government, or a continued shift in the role of government from service provider to service facilitator. In some cases, the dynamic*

*between citizens and government may also need to change. The New Public Management approach brought a view of citizens as consumers, and OECD member countries have gone further to view citizens as partners for designing, delivering and evaluating services(*OECD, 2009, p. 35).

The citizen is seen here as a consumer, and the function of public policy is to serve his or her expectations, establishing itself as a relationship of a nature similar to that of the market, and substituting the perspective that sees public policy as an instrument of protection. Also according to the document, it is necessary to redesign public policies in the direction of giving them autonomy in relation to the State, and for those that have continued under its management, it is fundamental to adopt a mechanism of efficiency similar to that encountered in the private sector.

In the last 40 years a movement for change in public regulation has been observed in which the non-state institutions have expanded their participation in the regulation of market and non-market contracts making the institutional structure in capitalist society more and more complex since the beginning of the century. It is false to think that we have returned to a society of individual contracts, or to market logic, as it appears in the arguments of the over-simplified discourse, critical of neoliberalism. It is undeniable, however, that the regulated management of inequalities of the post-war period has been overcome, having joined together with a new institutional framework of another, more complex kind. It can be observed that one of the results has been the growth of inequality in developed capitalist societies.

Following in the footsteps of Polanyi (1944), we can say that regulation and social and economic protections continue to be carried out by public and political institutions, but in a more complex structure and with results and characteristics distinct from those observed until the 1970s. Thus, it is interesting to examine two recent views on this process of institutional transformation.

The first can be found in a document produced by the American Political Science Association on the current situation of inequality in the United States and the risks for democracy in the country (APSA, 2004).[10] The results indicate that nine out of ten people from high-income families (with an income above U.S. $ 75,000 per year) vote, compared with half of low-income families (earning up to 15,000 U.S. $ / year).In terms of membership in any type of political organization, 73% of high-income Americans are members, and 23% of low-income Americans, the connection of the first group being principally related to political parties and associations or

(10) The document is part of a task force of the APSA, which produces documents on topics considered critical in American society. They are produced based on the formation of a group of associates of diverse perspectives and institutions and serve to stimulate internal debate in the Association.

interest groups and the second group to trade unions. The conclusion of the document states that *today, the risk is that rising economic inequality will solidify longstanding disparities in political voice and influence, and perhaps exacerbate such disparities. Our government is becoming less democratic, responsive mainly to the privileged and not a powerful instrument to correct disadvantages or to look out for the majority. If disparities of participation and infuence become further entrenched – and if average citizens give up on democratic government – unequal citizenship could take on a life of its own, weakening American democracy for a long time to come* (APSA, 2004, p. 20).

From another perspective (a controversial one that also explains the framework of institutional fragmentation), Mihaels (2007) argues that the politics of affirmative action are related to the fragmentation of interest and are part of the roots of the current process of a rise in inequality. The author argues that *in 1947 – seven years before the Supreme Court decision in Brown v. Board of Education, sixteen years before the publication of Betty Friedan's The Feminine Mystique – the top fifth of American wage-earners made 43 per cent of the money earned in the us. Today that same quintile gets 50.5 per cent. in 1947, the bottom fifth of wage-earners got 5 per cent of total income; today it gets 3.4 per cent... Why? Because it is exploitation, not discrimination, that is the primary producer of inequality today. It is neoliberalism, not racism or sexism (or homophobia or ageism) that creates the inequalities that matter most in American society; racism and sexism are just sorting devices* (Michaels, 2008, p. 33).

It can be said, then, that independently of the conclusions that the two considered documents reach, it is undeniable that they bring the focus of the current debate on regulation of capitalist society and its relationship with inequality to the discussion. Institutional fragmentation expresses another one of the agents and their relationship with the labor market and public policy. The complexity of this relationship is translated into the dimension of institutional fragmentation. The relationship between the unemployed with public policy and the state is completely different to that which offers both the employed and those in the informal labor market social protection. The representation of each of these is structured in its own way; there are diverse and not necessarily convergent objectives.

In short, it does not seem out of the question to argue that capitalism is now experiencing a process of transformation that is moving away from the reduction of inequality, a movement that cannot be explained by the absence of institutions. On the contrary, they have increased in number in the last 40 years at the same time as inequalities have grown. This transformation reiterates, as Michaels (2007) explains, a situation of subordination of a large part of the population to capital accumulation, being that accumulation is made through a more complex institutional structure.

In the primary redistribution of surplus, labor loses participation to profits in general, while these are increasingly transformed and appropriated into financial profits. In the secondary distribution of surplus, the States have maintained an elevated participation in GDP, but social and employment problems created by productive restructuring in a context of low growth and a rise in life expectancy and its effects on the demand for social protection, especially for the elderly (more complex retirement and health services) have eroded public policy, reducing expenditure per-capita. In the field of social claims, the demands for specific actions that lead to a multiplication of institutions and fragmentation of social policy have grown.

The Fundamental Relationship between Capitalism and Inequality

The objective of this paper has been to explore inequality in the genesis of capitalist society, and how it is constituted as a recurrent problem and is associated with its development. Thus, it is necessary to understand inequality as part of the process of capitalist development, understanding that it assumes its own characteristics in this economic and social form of organization, with two of these characteristics being most evident. The characteristic that is associated with recurrent transformation of productive bases that tends to systematically modify the distribution of surplus in favor of capital, imposing the consequential necessity of continuously reestablishing the relative contract to the primary appropriation of surplus generated. The other is related to the progressive institutional complexity that accompanies capitalist development, which tends to act on secondary distribution of surplus and that has played and continues to play a growing part in the determination of inequality.

The recurrence of these characteristics comes from the structural subordination of the predominant part of the population to capital accumulation. This subordination occurs through the necessity of access to currency to survive, and in a contest in which the properties of land, the means of production and the currency itself are exercised by few. Until the 1970s, advanced capitalism experienced the reduction of inequality recognizably related to the role played by public institutions in the distribution of primary and secondary surplus. Beginning at the end of the 1960s, the emergence of the crisis of public economic and political institutions in concert with the fragmentation of interests broke that movement, permitting its worsening.

The growth of inequality appears in conjuncture with a reorganization of public institutions. On the contrary to how it is explained in certain arguments regarding this process, the rise in inequality in the last 40 years in advanced capitalism was not due to the absence of institutions regulating market and non-market contracts. On the contrary, their growth and intervention in contracts can be observed.

There is not a movement towards a possible process of autonomy of contracts. Predominantly speaking, they continue being regulated by public institutions, even though they are more fragmented, be it in terms of their "organicness" or from the point of their actions, in relation to the interests that they represent and/or serve.

It can be stated that the current institutional relationship expresses a social and democratic regression (APSA, 2004), upon establishing a mode of regulation that reiterates the unequal distribution of surplus established in the primary sphere, and imposing that which was realized in the secondary sphere, validates this process. The construction of a concept of citizenship equivalent to the consumer is a part of this logic, signaling that the regime of efficiency is established according to the rate of return or of the satisfaction that goods and services provide. An image is once again created of a society founded in the equilibrium of contracts, annulling the preceding vision of subordination and the unprotected situation of the greater part of the population.

This perspective refuses the condition of **hypersufficiency** due to the disequilibrium of the labor contract which justified labor and social protections progressively exercised by public policies for the first 60 years of the past decade, even if it was a highly variable rhythm (Marshall, 1965; Titmuss, 1974), and therefore dismisses the founding dimension of inequality in capitalist society which was approached by thinkers of various political tendencies, such as Rousseau, Marx, Weber, Keynes and Schumpeter.

As a consequence of current public regulation, there are at least two types, both indicated by Keynes (1926). The first is the reactivation of the generating machine of inequality of capitalist accumulation in the sphere of primary and secondary distributions of surplus. The other is the reinstallation of contractual relations that put the stability of capitalist society at risk, the principle characteristics of these relations being the vast process of financialization of income and wealth, which has been highlighted by the recent crisis and the quantity of observations on the subject.

The impossibility for capitalism to construct a situation of equality or of equity, in terms proposed by Sen, of a stable and recurring nature, reopens, in logical terms, the debate over the necessity to realize a socioeconomic transformation as put forward by communist thought. This topic is beyond the scope of this essay, but it deserves mention in this analysis.

Whether it is the beginning of a new movement for the reduction of inequality or a process of political transformation in the direction of a new society, both require a new institutional arrangement and an institutional role in political regulation of economic activity that generates another social result, with less or no inequality. This new arrangement depends on reshaping the organization of interests and their

objectives, a reorganization of the political actors, which would require the defeat of the situation of accentuated fragmentation that characterizes the present. Returning for the last time to Polanyi (1944), it will be necessary for these powers from various sources to move once more in the direction of the construction of a convergence of interests that transform institutions and that reduce inequality, independently of the type of development desired.

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