



## Transcription

Democracy in Question? – Season 1, Episode 8

**How do economic inequalities corrode democratic processes?**

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**SR:** Welcome to "Democracy in Question," the podcast that reflects on the crisis of liberal democracy in these troubled times. I'm Shalini Randeria the director of the Albert Hirschman Center on Democracy at the Graduate Institute in Geneva, and the Rector of the Institute for Human Sciences in Vienna.

[00:00:30] My guest today is Branko Milanović. Branko is professor of economics at the City University of New York. And he's best known for his pathbreaking work on global inequalities, in which he has managed to shift the focus of the entire discussion on issues of inequalities of wealth. In his last book, "*Capitalism, Alone: The Future of the System That Rules the World*" Branko looks at how capitalism became the dominant system in all parts of the world, and he discusses what needs to change for capitalism to be able to deliver a more equitable future. Thank you for being here with me today Branko.

**BM:** Thank you very much, Shalini, it is always a pleasure. Even if this time we have to do it virtually.

**SR:** We have seen an intensifying backlash against capitalism in recent years. Some are even casting doubts about its legitimacy and its ability to contribute to an equitable society. Others are calling for a complete overhaul of the system if we are to meet the challenges of climate change, and of the current pandemic. Today, we are diving deeper into

the intersection of economics and politics. To answer with Branko the question, how do economic inequalities corrode democratic processes?

[00:02:00]

**BM:** If I may, actually, let me start a little bit with this issue of the crisis of capitalism. I have some trouble when people speak about the crisis. In the same way that for example, people spoke about the crisis 100 years ago. The reason is the following, capitalism has never been as powerful in terms of geographical coverage, including China, as it is now. So, it has been able to convert to capitalism, all these European countries, Russia, China, Vietnam, and everybody else. Secondly, it is also very powerful in our ordinary life, as we actually are basically using our leisure time, our homes, our cars, to become small capitalist machines of production. Thirdly, actually lots of world leaving aside the crisis of COVID now is quite actually happy with globalization and capitalism, because it is actually increasing their incomes. It seems to me that dissatisfaction is really limited, essentially, to the West.

And I think there are reasons for that, particularly in terms of global income inequality, because the West is actually obviously now losing the privileged position that it had over two centuries. Maybe the last reason why I'm uncomfortable with that statement is that I don't see a very clear alternative. When you look back, and actually I will quote Pareto who is one of the heroes of work in income inequality, and he was an anti-socialist, very strong anti-socialist. However, he believed that actually

socialism will win. But there was a very clear alternative ideology at the time, and we are talking about 1890, 1910. And I don't see that today, a little bit of a bearer of bad news to people who believe that actually, we have a blueprint of replacing or transcending capitalism. And I think so far that we don't have it.

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**SR:** That's your preface, but one of the dissatisfactions, we may not call it the crisis of capitalism, but one of the deep discontentment with capitalism is because of increasing economic inequalities, inequalities of income, but also inequalities of wealth, which we have witnessed over the past three or four decades, characteristic of Europe and North America. So, I think the first step would be to understand with you, how has this enormous wealth concentration come about?

**BM:** The huge inequalities in the broadest possible way can be related to one of the three things or all three of them together. The first one is globalization, which, of course meant first access to much cheaper imports coming from poorer countries, especially China. Secondly, outsourcing. And as we hear so much about that today, use of technology or really technological transfer to China, which of course weakened the position of the working class and the middle class in the United States. I don't think there is really any doubt. Then the second "culprit", is technological change. That is, of course also added to the weakening of the middle class, and the strengthening of the top 1% to 5%, people

who were actually very much comfortable working with new technologies had skills, languages ability to use the computer, ability to write, ability to project things, and to do things which were new, many of them having to do with computer software development and so on.

[00:05:00] And the third is the policy changes. So, the policy changes from weakening of the trade unions... I happened just to watch last night, a nice documentary about Reagan in the United States, you know, in early Reagan, and then there was this famous strike of the air traffic controllers, which really was the first big shot against organized labor. Likewise, as you know, of course, in England, Margaret Thatcher did the same thing several times with coal miners. So, there was weakening of labor, there were regulations which were anti-labor, there were reduction in the marginal tax rates, there was also reduction in taxes on capital. And so, all of these three elements, globalization, technological change, and policy really contributed to the rising inequality. And I would even say maybe more accurately, polarization, of the American sort of income distribution in the sense that you had people who have become richer and much richer, and you had people who have really fallen behind.

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**SR:** But you make another interesting argument in your book. And that is to say, for the first time, we have upperclass, which is not only earning very high dividends on their capital, be this inherited, or even self made capital, but is also hard working, and therefore earning extremely high

salaries through their own work. So, it is a combination of both high returns on capital, and extremely high wages. And that is something you argue is unique to the present situation and the present composition of the rich.

**BM:** Yes, absolutely, Shalini. This is something that is really unique, we never had that before. So, let me just say in the classical capitalism, you had, of course, aristocracy, and sometimes you had the clergy as well. And then you had, of course, rising power of bourgeoisie and capitalists, and then workers. But you know, capitalists were not working as hired labor. So, in other words, they were actually people who either manage their own assets, or they were playing a management role over their own companies, even physically being there. You know, like Ford was like managing the Ford Motor factory. Nowadays, and it's actually really new, you have, at the very top of the income pyramid, you have people who are in the top 10%, by capital income, but also the same people are in top decile by labor income, that has never happened. And actually, if you look at countries that are more capitalistic in the classical sense, like Brazil and Mexico, we find a very small overlap between these two groups. We find about 6% to 7% of people overlapping. But in the U.S., we find almost one third of the people who are in top by capital to be in top by labor.

So, this is really a new development, which sounds actually very good because we don't have this huge polarization between capital owners and

property owners and workers. On the other hand, it makes really the policy more difficult in the sense that these people are to some extent, are deserving rich. I mean, and in particular, because they work, they work more hours than people who are actually middle class, they work 70 hours a week. So how can you really then go and tax them and treat them as ethically non-deserving? So, I think that's the other facet of that issue.

**SR:** How does such a class reproduce itself? I'm an anthropologist so the very first thing I think about is marriage, whom are these people marrying?

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**BM:** They also tend to marry similar people by education level, by income level, and so on. So then dynamically, what happens, these people are highly educated, they have income from capital and labor, which makes them very risk resistant in the sense that actually, there are very few bad events that can happen which would then basically destroy them because they are actually very well diversified. They invest lots in children's education with themselves, and of course, by paying very high amounts of money from the very young age of the children. And then the children themselves, have the inheritance have all the social capital they can acquire from such educated and rich families. And then they go to schools, which are extremely expensive and which serve as a monopoly basically, for the rich kids. And then these schools enable them to get very highly paid jobs. So, you really have a very clear class reproduction

over an elite reproduction, which comes through all these elements. And this is something that I think one should be really concerned about.

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**SR:** So, this is somehow closing off yet another avenue of social mobility, right? Because education used to be seen as the great equalizer. That is something which in the social democratic vision would allow social mobility for children of families which were not born rich. But if education itself is now creating new closures through marriage, through the ideology of meritocracy, *the deserving rich*, which you just pointed out to, and through reproducing privilege by restricting access to elite institutions. Then we have another element in this self-sustaining upper class and its formation, is that right?

**BM:** That's absolutely right, I think we have basically sort of a very closed system there. And education plays one of...maybe the most important role. And I'm taking the U.S. example, which is a little bit extreme, because European examples have not really reached that stage yet. But when you look at huge cost of the elite education, which is really totally inaccessible to middle class American families. I mean, we are talking really here about the cost, which are 50, 60, and actually, with all other expenses, up to \$100,000 per child, per year. You know, that means if you have two children for four years each, so that means 800,000, almost a million, you know, for the expenses, so that makes it absolutely impossible.



[00:11:00] That also means that people who do have that amount of money are really having a monopoly on that type of education. Now, I know that the schools claimed, of course, that they are not interested, they don't care and so on, but the facts work against them. When you look at the origin of the parents, you will, of course, find that the top 1% in these top colleges in the United States, is 60 times more represented than the middle class. So, it is serving the top. And this is in that sense, the reproduction of the elite, because nobody else can access that type of education is a huge element for the reproduction of these advantages.

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**SR:** So, we have now seen the mechanisms by which you get a self-reproducing self-sustaining upper class, closed through all kinds of mechanisms which you have described. And the question is, what kind of political control does this class exercise? And in the book, you make a very pertinent observation when you write, that "*the formation of a durable upper class is impossible, unless that class exercises political control, and only politics used for that purpose can guarantee that the upper class stays on top in perpetuity.*"

**BM:** It's true. I think that actually what we are dealing with now is probably the smartest top class that ever existed in history, because it is well educated, it does everything correctly, in the sense of, as I just said, making sure that their children get all the advantages and on multiple

fronts, social capital, financial capital, and human capital. It is very conservative in social modes. So, we are not talking about like, easy spenders, and people who are like...had aristocratic manners where they would basically make dinners for 50 people and have 50 mistresses. So, this is a very different class. And that class, then, in order to precisely preserve that power, and transmit it fully to the next generation, then has to have a lock on political system.

[00:13:00] And that's what they are doing through their contributions to the political campaigns. Of course, wealth, as you said before, is extremely concentrated. But the contribution amounts are the sort of concentrate of debt concentrate. Really the people who are really super rich, they're also, in terms of amounts, giving the most money. And that obviously means... I mean, some people like Hillary Clinton were claiming, "Well, you know, they give the money because they care about this or that." But you know, these people are not fools, they have actually made it to the very top by squeezing workers, suppliers, consumers, everybody, so they are not going to actually decide, "Okay, well, I would really like to give 500 million, because I just feel like that." They always expect the return. And actually, we all expect the return, we don't work for free. The return is precisely that the politicians would do what is in their interest.

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**SR:** So, what we now see is how this class buys political influence and controls the political process, even in a democracy, where it's one person, one vote. So, you would assume that actually the number of the rich being much smaller than the number of the rest of us, they should not be having such a huge advantage. And yet, it's that top decile which calls the shots. So, let's look very carefully now, what evidence do we have, Branko? What exactly is this class doing with its money when it's buying political influence?

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**BM:** The evidence that we have is that the issues that matter, to the richer people, to the upper class, are the issues that are being discussed and proposed for legislation and acted upon. It is really this ideological hegemony that of course, we know all Gramsci talked about. It is not that they, obviously, buy politicians, they choose people whose preferences and whose careers have been similar in the sense that these people themselves are believers in what the upper class believes. You know, if you look at the backgrounds of people like Clinton or Blair, they come from a modest background, they have not come from a background of FDR [Franklin D. Roosevelt] or Winston Churchill. So, it doesn't mean that they have been *bought*.

But in order to succeed, as actually Clinton was saying clearly, is they needed to have money in order to go through their political career, starting from Arkansas, and all the way up to the presidency. So, when

you do that, then there is also a give and take in the sense that you actually talk and listen to these people. Finally, it is simply if we look at the movement from the sort of top private companies into government and out. I was reading, for example, I read the Wall Street Journal, and I read like, who is going to be the new administration and what they're going to do.

It's one group of people who are now from BlackRock who are replacing people who were previously with Trump, who were Goldman [Sachs]. It's really the same people, basically, you know, from one company or the other company. So, this is what I mean. So, I don't mean there is some kind of great conspiracy when 10 people sit in a room and decide, "Okay, this is the guy that we are going to give all the money, and we'll tell him what to do." It is your self interest to actually do what it is in their interest, if you want to succeed. If you don't want to succeed, you will not get any money and the end of the story is there, nobody's going to support you.

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**SR:** But so, they're two interesting points I pick up from then. One is a revolving door story where you are going from corporations into politics back into the corporations when you are out of power, when an administration changes. But then as you point out, it's just a question of which bank, which company. So, it's an inner elite competition, rather

than the kind of competition we would have expected in a liberal democracy.

**BM:** I don't think it's something new, financial capital, industrial capital, were always competing, but they are competing at the top. But of course, it means everybody else who is not part of that top is not in the game at all. And I think that's what's happening more and more.

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**SR:** Many of us would regard democracy as a primary good, as something which has a value in and for itself, not particularly because of any instrumental advantage it has necessarily in promoting economic growth or higher incomes. Of course, democracy may do that, too. But I think its instrumental advantage most people would argue is that it's able to reverse decision making. It's not only able to throw out a government out of power, but it can change decisions made once which may be more detrimental to a majority of citizens. So, in a sense, the liberal capitalist meritocratic system, which you have described, has a built in corrective, at least theoretically, whereas the Chinese kind of system must constantly demonstrate it's superiority be it through better management, less corruption, higher growth. So, it would be interesting now to look with you at the composition of the ruling class under the Chinese system, which you call political capitalism.

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**BM:** Democracy has, as you said, actually, and many people of course agree that it has this inbuilt corrective. It is inbuilt simply because you have a limited duration of the term. And then if the "mistake," has been made, or people voted for somebody that they got disappointed, then they have a means of changing that. In the Chinese type of system, we don't have that. Now, of course, we have more and more of now hybrid systems where actually...which are ostensibly democratic, but also you cannot get rid of the people in power for a long time. So, we have that situation as well.

Now, when it comes to the elite in China, I have recently worked with two co-authors, one of them is Chinese, and looking at the top 5% in China, based on household surveys, from 1988 to 2013. And one thing which is quite clear is that, of course, the elite has changed tremendously with three quarters, in 1988, was linked to the state sector. They were actually directors of the state companies, they were actually workers, they were people who were working in the government administration. Nowadays, the Chinese elite is three quarters, either private sector directly, which they call it owners, which actually have larger companies than eight people, or small sector, also capitalist or professionals. So, it's really dramatic change of the elite.

[00:19:30] What is also interesting is we looked at the participation of Communist Party members in the top 10% or 5%, and top 1%. The

returns to being CCP member at the very top are higher than for the other people. In other words, if I'm a really rich businessman, the return to me for being a CCP member is very high compared to the guy who is not a CCP member. And this we cannot prove but we actually believe that essentially these people use the membership, which is not actually easy to get in, because many people try to get in and they cannot, but they use it as an additional tool to improve the likelihood of their business being successful.

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**SR:** So basically, we are talking at the moment about different relationships between political and economic power. And if I draw you back to the original question of the relationship between capitalism and liberal democracy, I would put it to you that, in theory, we would say there is a certain autonomy of the political arena, in the way in which we would expect liberal democracies to function. And yet, what we are seeing is that the state has relatively little regulatory power over corporations, be it that it really doesn't possess it, be it as I call incoming states, they don't want to exercise it. So, they couch their unwillingness in terms of their inability to do so because it's politically more expedient. So, is that one of the elements which makes it so very much more difficult then, even in liberal democracies, to control this particular concentration of wealth and the interests of this class?

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**BM:** I think so. I think that when the chips are down, of course, the state is quite powerful, and they could exercise that power. I think whenever we had really sort of a head on head conflict between the state and be it a very large enterprise, a company, as it happened the United States in the past when they had movement to detrustification [antitrust laws] or demonopolization in the 1920s, I mean, the state won. And I don't think that actually the state would lose even today. But the thing is, actually, they're limited precisely by the political system, which exists where these companies and individuals who are very rich play a very important role in the political process, in the election, in the control of the media. We didn't mention the control of the media. But on Twitter, they put for the Chinese and the Russian Press Agency, they said State Affiliated Agency, but they don't put like for "The Washington Post," they don't put the newspaper owned by the richest person in the world.

[00:22:00] So, they have, of course, further broken into the media space of Bloomberg also, and control the media and control the political process. So yes, you can go against them. And I said, if there was a real, very difficult situation, yes, the state would exercise its authority, and they would win. But they are unwilling to do that, because they depend on them. They depend on them to be reelected, to run their campaigns and everything else. And the state, I believe in China, has still that autonomy, which the state in the U.S. does not have. And we have seen that most recently in relationship to Jack Ma, and to the IPO that was, as



you know, called off two or three days before it was supposed the largest IPO in the history of the world. And moreover, what I read, actually, that the Chinese sent two mid-level officials from the regulatory commission to tell Jack Ma the news. So that was obviously not done by accident. They precisely wanted to convey him the message like, "Who is the boss?"

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**SR:** So in a sense, if I come back, Branko, to your favorite author, or one of your favorite authors, Pareto, the kind of discussion we are having reminds me in a sense of Pareto's distinction between two kinds of elites, right? The Lions and the foxes. The lions, whom he says, who ruled by force, and the foxes who are much more sophisticated ruling class that rules both by economic power, and the ideological domination couched in terms of merit. And what makes this so-called meritocracy, so very difficult to dislodge is the self-understanding of this class as being *deserving*. And therefore, it makes it very difficult to come back to the first point you made, to tax this class in order to get to any kind of redistributive policies. Is that a good way to think about it? And if it is, the question is, what constituencies can we mobilize to, once again, have a system in which people can trust that their voice counts as it should, in a democracy?

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**BM:** Pareto always thought that capitalist democracies would be run by foxes, and indeed they are. So, what can we do? I sort of really fall on the lowest common denominator because I don't have any sort of a great insight in what we can do. In democracy, you still can have a vote. So, you can still organize, you can still actually have candidates and people who would actually go against that mainstream narrative and try to do something. Let me give you an example. When my son first time sent me a speech, maybe it was about six years ago by Bernie Sanders. And I listened to that and he told me he is a U.S. senator. I said, "No, no, no," my son's name George, "George, you cannot be right. I mean, this is not the U.S. Senator, U.S. Senator cannot speak like this." I've never seen a U.S. politician speaking like Bernie Sanders, it was just unbelievable.

So, it was possible that somebody with that particular sort of approach becomes a U.S. Senator, actually very serious contender for the presidency. And it was possible because of democracy. So, I think this is basically participation and working with people and working with young people and doing certain things is still possible. And even you look at the media, and that's why I'm a big fan of this totally open media bit, you know, Facebook, Twitter, or whatever, because it has really expanded our ability to read and to learn whatever we want to. And we are not limited by two or three newspapers or two or three TV channels. In that sense, I would see these two things as positive ways of sort of bringing up somebody new and making some meaningful change.

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**SR:** So thank you for providing these really valuable insights into how wealth and income inequalities are not only increasing but compounding one another, how unearned and earned wealth have come together to boost individual earnings of the new aristocracy, if I may call it that, and how this not only gets consolidated in certain households in the top 10%, but marriage compounds this further, and education skews it even more. So there is not that much good news on the table, except the fact liberal democracy although undermined through these inequalities in life chances and reduced social mobility may still be the winner of the day, because it has a self-correcting mechanism. And it has the opportunity, through voting, to change some of the decisions and the power holders through the next election. Thanks so much for these valuable insights, Branko. Thank you for being here today.

**BM:** Thank you.

**SR:** This concludes this episode of "Democracy in Question."