Inequality vs. liberalism
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Evidence that liberalism is undergoing its deepest crisis since the Great Depression surrounds us. Book after book warns of "the crisis of democratic capitalism," "polarized America," and "unequal democracy," and asks "can democracy survive global capitalism?" January 6 was only one sign of the foundering liberal faith: rising "deaths of despair," the loss of trust in basic government institutions on the part of large majorities of the population, flagrant corruption among office-holders, and the takeover of much of the Republican Party by rightwing extremists are all symptoms as well. At the core of the crisis is the steady rise in economic inequality in the United States. Does that mean that liberalism as a philosophy of politics and economics has failed?

To argue that the crisis has arisen simply because "capitalism does not work for some people" is simplistic. We need to be far more specific. The United States adopted a particular conception of neoliberalism as a result of the concerted efforts of an alliance of hard-right politicians, ultra-conservative donors, and well organized business lobbies. To give their movement a popular face, the partners in this alliance have propagated an ideology of national power, manliness, racial resentment and anti-liberalism. Jacob Hacker and Paul Pierson call this movement "plutocratic populism." Equivalent forms of antidemocratic populism have gained momentum in many other countries as well, in some cases subverting a pluralist democracy in the name of "ending the era of globalist liberalism," as in Hungary. Putin's Russia exhibits a still more extreme form of antiliberalism, where the regime has cultivated the cult of the strong leader, a messianic imperialism, and, now outright military aggression. These ideological amalgams are the 21st century equivalents of mid-20th century fascism.

America's adoption of a rightwing economic agenda from the early 1980s is the main reason we have seen a massive increase in the flow of economic rents to those wielding outsize policy influence. Rents arise from many sources, all stemming from the drive to prevent government from protecting the public interest. A few specific examples will suffice: health care companies shifting the cost of privatized health care services to patients and public and pocketing the profits; meat-packing plants exploiting underage children and migrants; tax and regulatory policies that encourage the private equity industry to suck value out of the real economy; government subsidies to financial institutions when they float bonds saddling poor communities with higher interest rates, and countless other ways. And the high level of rent incomes, as Joseph Stiglitz has argued, contributes to deepening economic inequality by concentrating their benefits at the top and holding down incomes for those at the bottom and in the middle of the distribution.

Some economists and politicians, to be sure, continue to dismiss the notion that inequality is a problem. For former US senator Phil Gramm, inequality is a "myth," because the tax and social safety net systems alleviate most if not all of the inequality arising from the labor market. Moreover, they consider the myth dangerous, since it incites populist calls for redistribution. Others argue that poverty, not inequality, is the real problem. For writers such as Steven Pinker, in *Enlightenment Now* inequality is an abstraction of little real relevance to societies or individuals, whereas poverty and deprivation are genuine social ills that require our attention. A third position is to defend inequality. Harvard economist Gregory Mankiw published an article provocatively entitled "Defending the One Percent." Another leading economist, Finis Welch, argued that without inequality, there would be no economics, because there would be no competition and no scarcity.

However, these economists tend to confuse neo-classical models with how the economy actually works. In their world, there is no rent-seeking by the rich (though there is rent-seeking by labor and the poor). Their corporations don't spend billions of dollars harvesting beneficial tax rules and regulatory exemptions, or promote doctrines that anti-trust regulation is tantamount to government overreach. Government, politics, rents—all are missing from the accounts of those that imagine pure market forces to dominate. Moreover, contrary to the view that inequality does not matter in itself, a substantial body of literature demonstrates that inequality affects people in ways that cannot be reduced to poverty. As psychologist Keith Payne writes, "inequality makes people feel poor and act poor, even when they're not." As to the claim that inequality is in fact quite low, the figures used to support that assertion rely on arbitrary and implausible counting methods, greatly overestimating low-end income and under-estimating incomes at the top.

One sign that rent-seeking is high in an economy is a divergence between profitability and productivity. Back in 1999, after analyzing Russia's economy after a decade of reform, a McKinsey report concluded that the most profitable enterprises were the least productive, whereas the most productive enterprises were the least profitable. Clearly pervasive cronyism and corruption helped account for this.

The United States shows signs of a similar divergence between productivity and profitability: firms with high market power can charge high markups, enabling them to raise executive pay and generate high returns to owners without raising wages commensurately. Although technological advances can account for some of the rise in firm markups, some is explained by favorable government tax and regulatory policies.

Nor can the high level of inequality in the United States be explained by economic forces such as "skill-biased technological change" and globalization. Although these factors certainly are at work, they cannot explain the Pareto's law (or fractile) pattern of distribution of wealth and income at top or the rapid growth of top-end incomes among those with similar levels of education. Moreover, other capitalist democracies have avoided the extreme inequality witnessed in the United States.

The streams of economic rents generated by the political privileges enjoyed by the wealthy not only feed inequality, they feed an exchange between wealth and power. Both partners share an interest in suppressing competition--market competition for businesses, political competition for politicians. The outlook of the beneficiaries from this exchange was neatly summed up by venture capitalist Peter Thiel, when he observed that "competition is for losers" and "capitalism and competition are opposites."

Therefore it is understandable why both market competition and political democracy are anathema to those benefiting from the flow of rent income. Democratization of political rights always raises the possibility that if political equality is realized, its exercise will lead to greater sharing of risks and rewards of economic growth among citizens, just as equality of economic rights threatens the advantages of those who have locked in market power through political influence.

As an ideal, liberalism promises equality of liberty both in politics and the economy. In the labor market, it means equal opportunity to choose employment, and in the market for products and services, for producers and consumer to enter and exit the market freely. In the political sphere, liberalism promises the equivalent right to equal freedom to choose among alternatives, as thinkers such as John Rawls and Robert Dahl have written. However, liberals have always understood that because we depend on society to ensure fulfillment of our needs, individual liberty cannot mean the right to exercise one's freedoms at expense of others' equivalent rights. The exercise of liberty for one therefore means ensuring the basic conditions of its existence for all. This is a task for society. The huge blind spot of free-market enthusiasts is their refusal to accept that simply opening up markets in a regulated or planned economy will not by itself create the conditions for equal participation in it: a market opening simply transfers existing hierarchies of power and status into the marketplace.

Liberals not of the neoliberal school have recognized three crucial facts about liberalism. First, a market economy serves society, not the other way around. Therefore it must be regulated within the system of rules and values that support liberal democracy, among them the opportunity to compete on a level playing field. Second, the normative justification of liberal democracy and a market economy is the ideal of the equal right of all individuals to realize their own moral purposes in a society in which all other individuals enjoy the same right. Finally, the principle of competition extends both to the economic and political arenas. Because market power and political power can accumulate to the point where it threatens equality of rights, the only sure constraint on antiliberal concentrations of power lies in a dispersion of competing interests. The government must help guarantee fair competition of legitimate interests, just as a pluralistic balance of competing interests helps guarantee maintainance of a system of democratic rights. Therefore, while pluralism in a democratic society allows a measure of inequality, the inequalities--as Robert Dahl famously put it--are "dispersed." It is that balance of competition and cooperation that sustains liberalism both in economy and government.