Has Liberalism Failed?

Our rising levels of inequality have put its ideals in crisis. These are the simple principles that can help bring it back from the edge.

By Thomas F. Remington

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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," or "unequal democracy." Another asks, "Can democracy survive global capitalism?"

The January 6th storming of the U.S. Capitol was only one sign that faith in liberalism is foundering: The increasing number of "deaths of despair," "the loss of trust" in basic government institutions by large majorities of the public, flagrant corruption among officeholders, and the rise of right-wing extremists are all symptoms as well. At the core of the crisis is the steady rise in economic inequality in the United States. So, has liberalism as a philosophy of politics and economics failed?

To argue that the crisis has arisen because "capitalism does not work for some people" is simplistic. We need to be far more specific about the problems of contemporary capitalism. The United States adopted a particular strand of liberalism called "neoliberalism" at the behest of an alliance of politicians, donors, and business lobbies. To give their movement a popular face, the partners in this alliance propagated an ideology of national power, manliness, racial resentment, and antiliberalism. Jacob Hacker and Paul Pierson call this movement "plutocratic populism."

Equivalent forms of antidemocratic populism have gained momentum around the world, which in some countries has led to the subversion of pluralist democracy in the name of "ending the era of globalist liberalism," as in Viktor Orbán's Hungary. Vladimir Putin's Russia exhibits a still more extreme form of antiliberalism, as the regime has cultivated a cult of the strongman, messianic imperialism, and outright military aggression. These ideological amalgams are the twenty-first-century equivalents of mid-twentieth-century fascism.

America's embrace of a right-wing economic agenda starting in the early 1980s is the main reason why we have seen a massive increase in wealth flowing to those wielding outsize policy influence. The beneficiaries of this wealth aim to preserve it by keeping the government from protecting the public interest. A few specific examples will suffice: Healthcare companies shift the cost of privatized healthcare services to patients and the public in order to pocket the profits; meatpacking plants exploit underage children and migrants; tax and regulatory policies encourage the private-equity industry to suck value out of the real economy; government subsidizes financial institutions when they float bonds saddling poor communities with higher interest rates. These practices are economically unproductive and inefficient, yielding "unearned income" known as "rents." According to Joseph Stiglitz, rents can deepen economic inequality by concentrating financial benefits at the top, holding down incomes for those at the bottom or in the middle.

Some economists and politicians, to be sure, continue to dismiss the notion that inequality is a problem. One camp contends that inequality is a "myth" because the tax system and social-safety net alleviate most of—if not all—the inequality arising from the labor market. Moreover, they consider the myth dangerous since it incites populist calls for redistribution. A second group argues that poverty, not inequality, is the real problem: Steven Pinker advances a theory that 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. The economist Gregory Mankiw published an essay provocatively titled "Defending the One Percent."

But these economists tend to confuse neoclassical models with how the economy actually works. In their world, there is no rent-seeking by the rich. Their corporations don't spend billions of dollars to secure beneficial tax rules and regulatory exemptions or to promote doctrines that antitrust regulation is tantamount to government overreach. Government, politics, rents—all of these factors are missing from the calculations of those who imagine pure market forces dominate the economy.

And 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 the 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 that are used to support that assertion rely on arbitrary and implausible counting methods, greatly overestimating incomes at the bottom and middle and underestimating incomes at the top.

The high level of inequality in the United States makes it an outlier among wealthy democracies; more incredibly, it somewhat resembles Russia in its extreme concentration of wealth at the top end of the income distribution. In the United States, the top one percent's share of income nearly doubled between 1978 and 2021, from 10 to 19 percent. In Russia over a similar period—1989 to 2021—the top one percent's share of income more than quadrupled, from 5.6 to 23.8 percent. In terms of wealth, the top one percent of Americans saw a one-third increase in their total share of national wealth between 1978 and 2021, from 21.6 to 34.9 percent. Meanwhile, the wealth of the wealthiest one percent of Russians more than doubled between 1995 and 2021, rising from 21.5 percent to 47.6 percent. In other words, almost half of all household wealth in Russia is owned by the top one percent, and the United States isn't too far behind.

The similarities between the Russian and U.S. economies—although vastly different in size—run deeper. In both economies, there appears to be a divergence between profitability and productivity—an indicator of high rent-seeking. In 1999, an analysis of Russia's economy after a decade of reform 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. In the United States, meanwhile, large and powerful firms charge prices that far exceed their production costs, allowing them to raise executive pay and generate big returns for their owners without raising employee wages commensurately. Although technological advances can account for some of the rise in these firm markups over the past forty years, it is also explained by favorable tax and regulatory policies.

Nor can the high level of inequality in the United States be attributed to economic forces such as technological changes that favor skilled over unskilled workers or globalization. Although these factors are certainly at work, they do not explain, for example, why such a large share of U.S. national wealth is in the hands of the few. Nor can they explain the rapid growth of top-end incomes among those with similar levels of education. Moreover, other capitalist democracies have avoided the extreme inequality present in the United States.

Liberals Against Neoliberalism

The rents generated by the political privileges of the economic elite not only feed inequality, but also shape the relationship between wealth and government. Both partners share an interest in suppressing competition—market competition for businesses and political competition for politicians. The outlook of those who benefit from this exchange was neatly summed up by venture capitalist Peter

Thiel's assertion that "competition is for losers" and "capitalism and competition are opposites."

This explains why both market competition and political democracy are anathema to those benefiting from the flow of rent income. Democracy's promise of political rights, after all, could bring about political equality, which might lead to greater economic equality among citizens—just as the equality of economic rights threatens the advantages of those who have locked in market power through political influence.

As an ideal, liberalism promises an 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 equal freedom to choose among alternatives, as thinkers such as John Rawls and Robert Dahl postulated.

But liberals outside the neoliberal school 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 liberty for all. This is a task for society. The glaring 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: Opening markets simply transfers existing hierarchies of power and status into the marketplace.

Liberals not of the neoliberal school recognize 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, namely, the opportunity to compete on a level playing field. Second, the normative justification for liberal democracy and a market economy is the promise of an equal right for all individuals to realize their own moral purposes in a society in which everyone else enjoys the same right. Third, the principle of competition extends both to the economic and political arenas. Because market power and political power can accumulate to the point where they threaten equality of rights, the only sure constraint on antiliberal concentrations of power lies in a rules-constrained multiplicity of competing interests. The government must work to guarantee fair competition of legitimate economic interests, just as a pluralistic balance of competing political interests helps to maintain democracy.

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 in both the economy and government.

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