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CAPITAL, LABOUR, DEMOCRACY AND THE END OF CAPITALISM

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Capital, labour, democracy and the end of capitalism

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Abstract

Since 1989, due to historical developments and the works of theorists such as Francis Fukuyama, authoritative sources have claimed that the combination of a "free market economy" and "liberal democracy built on equal rights" results in the most developed form of human society. Taking into consideration that development is driven by contradictions, the above premise is true if it is accepted that no contradictions exist within or between a free market economy and liberal democracy. If, however, such contradictions do exist, the potential development of human society cannot be said to ultimately conclude with capitalism. Therefore, democratic capitalism may be the most developed and final form of capitalism, but not that of human society in general. This essay aims to clarify the meanings of free market and democracy, and their relationship. Based on the general and specific definitions of democracy, it distinguishes between the concepts of *de jure* and *de facto* equality, and analyses the impact of the most important working mechanism of a market economy – competition – on manifold inequalities. It discusses the real inequalities manifested in income and the ownership of the means of production, and also the inequalities within capital, and between capital and wage labour. By reflecting upon these inequalities, the study looks at how free market forces work towards the erosion of democracy and constrain the practical utilization of democratic institutions.

JEL: E22, E24, F01, F50, F52

Keywords: wage labour, inequality, democracy, market economy, return on capital, competitiveness

1. Introduction

According to mainstream economic and social science theories, the combination of free market and liberal political democracy based on equal rights (i.e. the Western-type liberal democracy) is the most perfect form of human society. Since Francis Fukuyama's "The End of History", written in the aftermath of the collapse of alternative economic

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systems in 1992[2], this verdict has undergone several transformations, yet its essence remains the same. Namely, that the free market and democracy are two sides of the same coin. These are the attributes of a society to which every society aspires as part of their natural course of development, or to which they should all aspire[3].

It means that, according to the dominant theory as propagated by the chief ideologists in the ruling nations within the present global hierarchy, we live in the best of all possible worlds or, at least, will live in that world, when the economic and political institutions of our countries assimilate to that of the most developed ones. There is nothing to be surprised by here, because *ruling theories* have always claimed that in their times everyone lived in the best of all possible worlds. Hegel – quoted often by Fukuyama in his abovementioned work – considered the enlightened absolute monarchy the peak of development, to which he took the example from Prussia, his homeland that honoured him appropriately[4]. Fukuyama, who was born in the US and earned his Ph.D. at Harvard, considered North America and Western Europe to be the standard.

In our time, as measured by standard macroeconomic indicators, societies which prosper the most are characterised by the free market and equality in civil rights, despite reaching this phase after a dictatorial (state-controlled) catch-up period. However, such an experiential approach is insufficient when claiming that the current best is the best that ever can be. Indeed, even the existence and evaluation of the "experience" may also change, subject to the method of earning the experience, depending on the selection of factors to be evaluated and indicators we use for that[5]. The

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[2] Fukuyama (1992). The book is the improved version of a Fukuyama essay from 1989 with a similar title, but then ended with a question mark ("The End of History?"). It was the first essay of Fukuyama that stated that with economic and political liberalism, societies of Western Europe and North America „at the vanguard of civilization" have reached the end of history, the end of mankind's ideological and societal evolution. Fukuyama (1989).

[3] This message was not overwritten by Huntington's civilisation theory either, since he places the demarcation line between the "West" (committed to "constitutionality", "human rights", "democracy", the "free market", etc.) and the "other" civilisations. Huntington (1993: 40-41).

[4] "We have now arrived at the third period of the German World, and thus enter upon the period of Spirit conscious that it is free, inasmuch as it wills the True, the Eternal — that which is in and for itself Universal" – Hegel wrote (2001: 430). Frederick the Great, under the rule of whom Prussia joined the great states of Europe, "had the consciousness of Universality" (ibid. p. 457). If this consciousness of Universality becomes universal itself, it "brings us to *the last stage in History, our world, our own time.*" (Ibid. p. 462.)

[5] For example the per capita value and the rate of growth of the GDP, the magnitude and dynamics of the export, the trends of outward FDI, the state of the budgetary position, etc. Social indicators, such as

undeniable internal contradictions of the "currently existing best" (such as for example the alarming inequalities and poverty) have inspired Fukuyama, who, whilst maintaining that "80 per cent" of the neoclassical theory is still true, has attempted to explain the successes of an economy or a group within society with another "20 per cent" of *non-rational* social factors (traditions, morale, trust)[6]. Lately, Fukuyama also presumes that non-democratic regimes may also serve the public interest (see the concept of the "developmental state"), but in the end he returns to his original self (as the "Geist" of Hegel), and favours the advantages offered by democratic states. He claims that a liberal democracy which ensures the rule of law and accountability not only better supports economic growth, but – since even its unpopular decisions can rely on the agreement of multiple social actors – this system also receives more support from citizens and is less endangered by social explosions[7].

This study does not intend to debate all the above issues. Instead, it focuses on the relation between free market mechanisms and democracy by concentrating on the manifold inequalities between the actors of free market. It analyses what democracy means in general and within capitalism, and how it relates to the issue of equality between people; how political democracy is limited by the real, material inequalities produced by the free market serving a return on capital. Based on these, the study considers what future a political democracy can have.

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changes in poverty or inequality are not included in the factors of the evaluation, or if they are, they all together are still considered less important than the above mentioned aspects. When assessing the competitiveness indices used by WEF, Tamás Szentes found that the concept and the measurement methods of "national competitiveness" have become an ideological tool that can be effectively used against concepts aiming to reduce social and international inequalities. "The resulting over-simplifications provide a favourable soil and wide opportunities for political manipulations. It is perhaps not an over-exaggeration to say that they implicitly (willy-nilly) embrace and represent an ideology which corresponds to a (new) neo-liberal 'counter-revolution' in development studies." (Szentes 2012:10).

[6] According to Fukuyama (1995) the United States, Japan and Germany are characterized by a high level of trust (in voluntary social relationships), while China, Korea, France and Italy possess a low level of trust (extending to family relationships). The trust in non-family related relationships influences the size of corporations, and thus the success in the world market. The nature and extent of trust is determined by cultural factors. By stating this, Fukuyama approached Huntington (1993) who said that cultural differences explain history and the alternation of the world systems.

[7] Fukuyama (2012).

2. The content of democracy

The word democracy means "rule of the people". Democracy is the means of exercising power that is different from oligarchy (the rule of provincial lords and dukes), aristocracy (the rule of the privileged) and dictatorship in general that typically ignores the majority opinion. Democracy did not mean the total equality of all people in a single economic or territorial unit already when it was born in the sixth and fifth century B.C., and it absolutely did not mean the rule of the majority either[8].

The forms of dominance (what we know as states) are the properties of hierarchical societies and possess class characteristics. They serve the interests of the ruling classes, which also include the enforcement of the interests of other classes to a certain extent, in order to protect the system from being torn apart by its internal social contradictions ("interest only exists where there is contradiction"[9]). Therefore *political democracy, as much as oligarchy, aristocracy or dictatorship, is an attribute of class societies*. The hunter-gatherer society or the clan were not democracies or oligarchies etc., because they were not class societies.

In modern democracies every adult citizen is entitled to vote - however, this does not enable the majority to influence the significant processes of social reproduction: it is not the people that rule. *Power is based on the ownership of the means of production.* Social classes are defined by their relationship with the means of production. Classes comprise of people with a similar relationship with the ownership of the means of production (owners – non-owners) even though the internal structure of the classes is very differentiated and there are also groups on the verge of different classes (for example, groups of people who are non-owners, but who manage property according to the interest of the owners or wage-earner intellectuals that produce ideologies which serve the ownership classes).

Only the ownership of the means of production (not consumer goods) is considered here as "ownership", although the possession of means of production also enables the increase of personal consumption to a greater extent than without them. Therefore

[8] During the golden age of the Athenian democracy under the leadership of Pericles, women – and also foreigners and slaves without land or housing property – did not have voting rights, meaning that the majority of the society did not have it.
[9] Hegel (1979: 47).

"ownership" is an *initial advantage* that enables its possessors to rightfully gain further advantages, to stockpile them, to *accumulate* them. The advantage gained this way is a *cumulative advantage*. As soon as the ownership of the means of production enables the absorption of labour of others, the accumulation process speeds up. At present, cumulative advantage takes the form of capital and is accumulated through market mechanisms in which everybody can take part in as an "equal right". However, mainstream economics and the majority of the fragmented social sciences do not examine the origin of this cumulative advantage. (In fact, contrary to the regulations on the lawful acquisition of ownership, governments often neglect to investigate the actual circumstances of the creation of ownership, in case of, for example, introducing a tax amnesty).Yet in fact ownership has been usually *created* in an anti-democratic way, in many cases through outright robbery. In history, the first such act was the expropriation of (freely, vastly available) land – a robbery from nature, and through nature, from the human community that had lived previously in strong connection with nature. Land was firstly appropriated by clans, while the wealth-based differentiation within the clans also evolved. After the expropriation the accumulation and increase of ownership has usually been "lawful".

We will not describe the historic creation and alteration of patterns of ownership in detail herein, since hopefully the reader is already familiar with these processes, but we call attention to the following: 1) ownership (the means of production, suitable for gaining "further advantages", i.e. the accumulation of wealth) was possessed by different social groups during the changes of the form of the society. 2) The changes of the ruling/ownership class did not happen – and obviously could not have happened – in a democratic or "lawful" way: it was carried out through tribal and other wars, colonisations, enclosures, uprisings, the guillotine, etc., but at best via bloodless dictatorships and coups. 3) This alternation of the ruling classes *did not affect the division of the society into two main groups*, those possessing the means of production suitable for *accumulating advantages* and those without, resulting in groups of owners and non-owners.[10]

[10] For more details on the accumulation of advantages and the role of violence, see Artner (2014).

After the acquisition of ownership, the owners are "rightfully" entitled to the operation of these means of production, and the further advantages gained from them (wealth, power), since the new legal order is written by the new owners themselves.

3. Democracy in capitalism

Capitalism is a *class society* where the means of production are owned by a part of the society that has the *right* to operate these means of production. They may involve others in such operation, but *legally* they have the final word. This is guaranteed by codified laws, the "rule of law". Ownership, which is predominantly private ownership, is sacred and inviolable, and thus the rights to dispose of means of production, to operate the means of production and to dispose of the profit derived from the operation of the means of production are also sacred and inviolable. This does not mean that questions of minor importance cannot be discussed "democratically", with the involvement of non-owners, through corporations or other forms of negotiations regarding ownership, as seen in examples of certain "welfare democracies", but it means that the function of ownership, to multiply wealth, cannot be challenged[11]. The corporation should always be "competitive", meaning that it is profitable enough. All other issues may be decided democratically.

Equality of rights is a formal type of equality, applying to every constituent member of the "people" and in which every member of the society is represented as the "people", without any differences. The basis of the class society that generates real differences, namely ownership, is beyond the scope of equal rights. In liberal democracies everybody has the right to get and have ownership – through legal means, according to the legal order of the specific system, but after the property is acquired, democracy does not apply to the disposing of it[12].

Therefore, in the liberal rule of law, the territory of equal rights is beyond the sphere of *the initial advantage which entitles the gaining of cumulative advantage*, i.e. the

[11] Only some constitutions, including the Basic Law for Germany, express that the (operation of) private property shall serve the common good, and in case of a violation of public interest it may be expropriated. However, even in such cases, fair compensation shall be provided, so property itself is considered rightful. (Grundgesetz für die Bundesrepublik Deutschland, Artikel 14). "Common good" is not defined, but competitiveness shall obviously be considered as such.

[12] The administration of international political and economic processes is also beyond democracy, as Chomsky (1997) remarked e.g. with regard to NAFTA.

ownership of the means of production. Democracy does not apply to production. In production, the dictate of acquiring cumulative advantage and the requirement for competitiveness prevails. In this case, there are no rights typical for slavery or feudalism through which certain persons could directly control the actions of others, because people are free to choose the contractual relations they wish to participate in. However, the contents of the contract are a priori determined by the relation to ownership: those who have no ownership of capital can only offer to lease their labour, thus already in advance resigning the possession of what they produce through their work. Those who have ownership of capital will lawfully become the owners of the *whole* product created through the hired labour. They shall only return the price of the leased work specified in the contract. Therefore the hierarchy between the groups (classes) of society is no longer determined by *formal*, but by *real* relationships. *Extra-economic* coercions have been replaced by *economic* coercions: everybody lives off the "free" market. In order to be able to buy, they sell what they can. Those who have nothing else, sell their labour power.

Since the accumulation of advantage constantly moves forward on the basis of initial advantage, with capital being accumulated through profit, the bargaining power of capital owners increases, while the position of those who merely have their labour power decreases. This process is further supported by the increasing access of capital to the operation of those means of production (education, media, publishing) deemed suitable for influencing the attitudes of the population. Through these, the existing economic coercions can be presented as perpetual laws of human society. This is not substantially different from when the power of pharaohs or feudal rulers originated from god and was then sanctified by the church.

As a consequence of the "natural way things are going," the bargaining power of classes diverges. This continuously erodes the contents of political democracy and restricts democracy to formalities. Thus, even if the institutional system of political democracy expands, *real* inequality, both politically and economically, still grows. However, the increase of real inequalities shall necessarily impact the formal institutions of the political democracy and the operations thereof. Real inequalities increase *between* the classes and also *within* them. The two processes have a combined impact.

4. Inequality and democracy

The global system of capital is interwoven with inequalities that typically generate conflicts. Nowadays many people talk about income inequality, as this is the most striking form of inequality.[13] Many dispute that income inequality is increasing on a global scale. The experience is different when we consider global inequalities between people, or the inequalities within a country, or even when we compare countries on the basis of their per capita incomes.

On Earth, 1% of the people earn 15% per cent of all the income in the world and 8% earns half of the world's income. Global inequality is much higher today than it was in 1870, and it has even increased in the last decades. In the last two decades, the real income of the top 1% increased by 60%, while the income of the bottom 5% did not increase at all[14].. Meanwhile, the inequality between countries eased a little during the 2000s – due to the rapid development of emerging economies – but it is still severe and higher than it was in the 1970s[15].

Although income inequality is typically lower within countries than between them, it is mostly on the rise. Between the mid-1980s and the late 2000s, income inequality between the top income decile and the bottom income decile increased in 19 of the 27 OECD countries[16]. Nowadays, in OECD countries the richest 10% earns nine times more than the poorest 10%, and this proportion is 14 to 1 in the US and 27 to 1 in Mexico and Chile. In the United States, the top 1% receives 22% of all incomes, and since 2009 they have earned 95% of all increase of incomes[17].. In the average of OECD countries, the Gini index – a measure of the inequality of income – increased from 0.29 in the mid-1980s to 0.316 in the late 2000s. In emerging economies (BRICS[18], Argentina, Indonesia) inequality is even higher, and it has also increased in the last decades, with only a few exceptions (e.g. Brazil)[19]. At the same time, the number of people living in absolute poverty has decreased globally, due to the government policies of emerging economies, primarily China. Researchers of the World Bank argue that even if global inequality

[13] Milanovic (2011, 2012a, 2012b), Piketty (2014), Stiglitz (2013).
[14] Milanovic (2012b).
[15] See UNCTADStat, National accounts, Real GDP per capita, annual, 1970-2012.
[16] OECD (2011) 23. o.
[17] Stiglitz (2013).
[18] Brazil, Russia, India, China, South-Afrika.
[19] OECD (2011).

decreased in the upcoming decades (till 2030), income disparity within countries would still increase[20]. These apparently contradicting tendencies are explained by the fact that – again due to the policies of emerging countries, especially China, India, Indonesia and Brazil – a "global middle class" is being created[21], with incomes increasing during the last few decades, whilst the incomes of the poorest groups have barely increased or have not increased at all. The falling behind of this bottom group is expected to continue in years to come.

Shaohua Chen and Martin Ravallion, who have long researched this issue as economists working for the World Bank (Ravallion was one of the researchers who defined the original one-dollar threshold for measuring global "absolute poverty" in 1990), have developed a new method since 2008[22]. In this, they have also included nationally representative household surveys in order to be able to consider absolute and *relative* poverty - the number of people living in households with per capita consumption or income below the international and national poverty lines**.** According to this "weakly-relative poverty" indicator poor people are either the persons who are absolutely poor (living on less than 1.25 USD a day) or *considered poor in the country where they live*. Based on this combined measure, *in 2008 2.9 billion people were poor all over the world, including 200 million in developed countries, and the total count has risen since 1981 and also since 1990*[23]*.*

In order to remedy the situation, experts usually recommend speeding up the economic growth of poor countries and increasing aid activities. According to Branko Milanovic if these are not carried out, then migration pressure from the poorer countries to the richer ones remains strong. However, developed countries nowadays – due to their own economic and social problems – aim to restrict immigration. The problem of global inequality and local poverty are the two sides of the same coin[24].

But income inequality is merely a consequence. Its basic cause – and the ultimate cause of every social inequality – is the *inequality in access to means of production*. This has two dimensions: firstly, the inequality between those that possess means of

[20] Bussolo – De Hoyos – Medvedev (2008).
[21] Bussolo – De Hoyos – Medvedev (2008) and Milanovic (2012b).
[22] Chen – Ravallion (2012) and (2013).
[23] Ravallion (2013) and Chen – Ravallion (2012:34).
[24] Milanovic (2011) and (2012a), The World Bank (2013).

production and those that do not, and secondly, the inequality *within* the class that possesses the means of production. These are explained below, but beforehand we shall make an important detour.

4.1 Income inequality as a consequence of the reproduction of capital

The reproduction of capital in order to create surplus value takes place on a global scale due to the activity of transnational corporations. The world economy is hierarchical and utilising this hierarchy results in the generation of added value. At first sight, the hierarchy is determined by differences in the conditions of reproduction of capital, among them, especially, wage differentials. However, the differences in wages are also subject to the means of production endowment. Poorer countries possess less advanced means of production, and therefore their incomes are smaller and their wages lower as well. The more advanced technology combined with lower wages results in a more favourable return on capital (higher rate of profit) than applying the same technology in more developed, higher wage countries. Furthermore, because of their lack of advanced means of production, less developed countries seek to attract foreign capital with different direct and indirect policy measures (infrastructure, taxation system, deregulation, etc.), which further improve the local conditions of reproduction of capital.

Due to the worldwide spread of the neoliberal economic policies, the concomitant concentration of capital in transnational corporations and their heightened quasi-monopolistic competition the pattern of the cycles of reproduction of capital have been changed, becoming truly globalised. The length of the cycles has been shortened. *The intensive and extensive phase of the cycles overlap with each other in time but the two phases separate in space*[25]. The free flow of capital has made the relocation of production and technologies from one country to the other much easier than before. As a consequence the intensive/innovative phase of the cycle takes place in the developed countries (in the global "core" or "centre"), where the innovation is almost permanent and innovation follows innovation. Under the pressure of competition, very soon after an innovation appears, the innovator is forced to relocate the production to lower wage (semi-) peripheral countries to gain higher profit. Hence the extension of innovation, the

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[25] For more details see Artner (2014).

expansion of production, i.e. the extensive phase of the cycle, takes place on the periphery. During the extension of innovation on the periphery a new innovation takes place in the core and goes down the above described route.

This new pattern of the cycle of reproduction of capital has important consequences. Firstly, the technological lag of the periphery is rendered permanent. For this, crises hit the periphery usually harder than the core. Typically, those peripheries are the exceptions and able to survive crises better than the core, which have a large internal market (e.g. Brazil or Poland). These (semi-) peripheries have the possibility to redirect, at least to a certain extent, its production from exports to internal markets, especially if their government helps it through expansionist policy, such as in Brazil, or by keeping down wages well before and/or accelerating privatisation after the crisis, like in Poland. Secondly, the cycles of periphery are largely dependent upon the cycles of the core. This is true also for peripheries that have a large domestic market: their rate of economic growth falls even if not becoming negative, in case of crises of the core, and increases, in case of recovery of the core. Thirdly, while the permanent innovation and the increase in productivity causes a pressure on wages in the centre (wages only slightly increase, if they increase at all[26]), the extensive development pushes wages up on peripheries due to the increased demand for labour. This is how the "middle class" emerges in the (semi-) periphery. However, as the extensive development heightens wages and brings about the rise of the wage/GDP ratio, the capital of periphery (the capital of whatever nationality that operates in the peripheral country) depreciates and loses its competitiveness. If a new innovation arrives from the core, the production can smoothly continue with increasing the value added per unit of wages and even with increasing the absolute level of wages. In the case of the crisis of the core (like the crisis of 2008), however, when no new innovations fuel the production, a correction has to be carried out on the periphery as well, which may happen through austerity measures that cut back wages (internal depreciation) or by moving production to other countries where lower wages and the more favourable investment environment enables the increase of the profitability of the capital to an adequate level[27]. This further fuels the global

[26] In real terms the typical American earns 45% less, while those who only graduated from high school earn 40% less than four decades ago (Stiglitz 2013). In Germany, real wages have decreased right during the 2000s, in the period that is known for the prosperity and recovery of the German economy.

[27] See the increasing outward foreign direct investments of China and Brazil.

decrease of the share of compensation of employees to GDP or unit labour cost (in the following: wage share).[28] In this globally wavering process the absolute level of average wages may rise whilst the wage share tends to fall. The complex movement of the absolute and relative quantities makes understanding difficult. The income of an unemployed person may rise if she finds employment whereas her wage can be lower than the lowest wage in the country before she was hired. Even if this employee's wage is increased in the second month of her employment, this new wage can have a smaller share relative to the value added than her first month salary had, in case the value added increased by a larger proportion than the employee's salary.

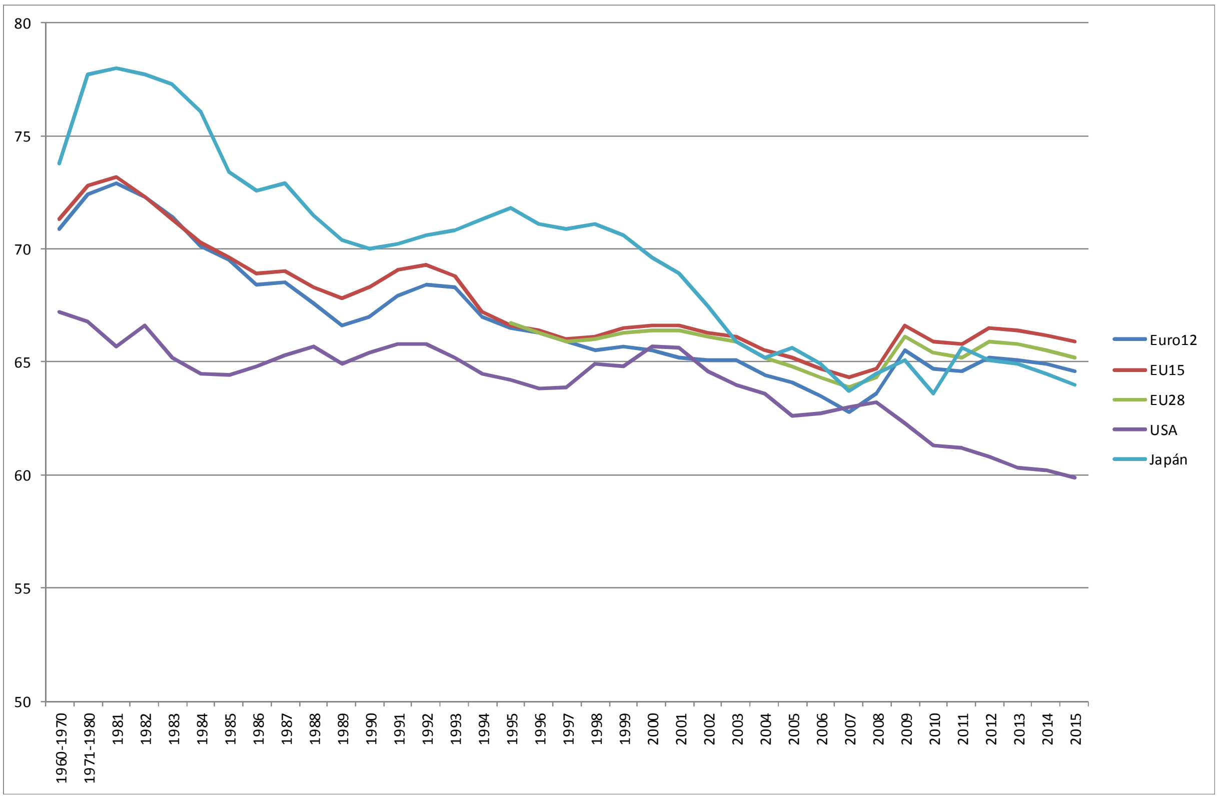
This explains how it is possible that absolute poverty decreased, while relative poverty increased in the world in the least decades. The relative impoverishment may coincide with high level of individual consumption. Resnick and Wolff (2003) argues that the rising standard of consumption of both productive and unproductive labourers in the US was accompanying by rising rate of exploitation – which is another expression of the fall of wage share in the value added – in the last 130 years. A high or at least satisfactory level of consumption with more or less decent work conditions – other than "hard labour" – may result in a contentment of the majority of society, a situation that Galbraith (1992) described in his book "*The Culture of Contentment"* at the dawn of the triumph of neoliberal globalisation.

In a few decades after the Second World War wage shares were on the rise in the developed countries as well, thanks to the then expansionist type of growth, the cheap oil and other raw materials, the financial aid to European countries in the frame of the Marshall Plan and the demonstration effect of Eastern European "socialist" countries. The crisis of the 1970s and the accompanying technological change – the birth of microelectronic technology – required restructuring of production. For this, free

[28] Eurostat defines real ULC as: "This derived indicator compares remuneration (compensation per employee in current prices) and productivity (gross domestic product (GDP) in current prices per employment) to show how the remuneration of employees is related to the productivity of their labour. It is the relationship between how much each 'worker' is paid and the value he/she produces by their work."(http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00130&plugin=1). This means, ULC equals with the compensation per employee divided by GDP per employee. The result of the division equals with the (total) compensation of employee per GDP (CoE/GDP). Although the term „employees" refers to employed labour only, while „employment" refers to all labour, including self-employed, it does influences the move of the CoE/GDP ratio meaningfully, as the share of self-employed in total employment is very small and has been increasing slowly: between 1995 and 2013 it increased from 0.2 to 3.3 per cent in the EU 15 and in the EU28 it reached 0.27 per cent in 2013. (Own calculations on the basis of Eurostat, Employment and unemployment [lfsa_egan] and [lfsa_esgan].)

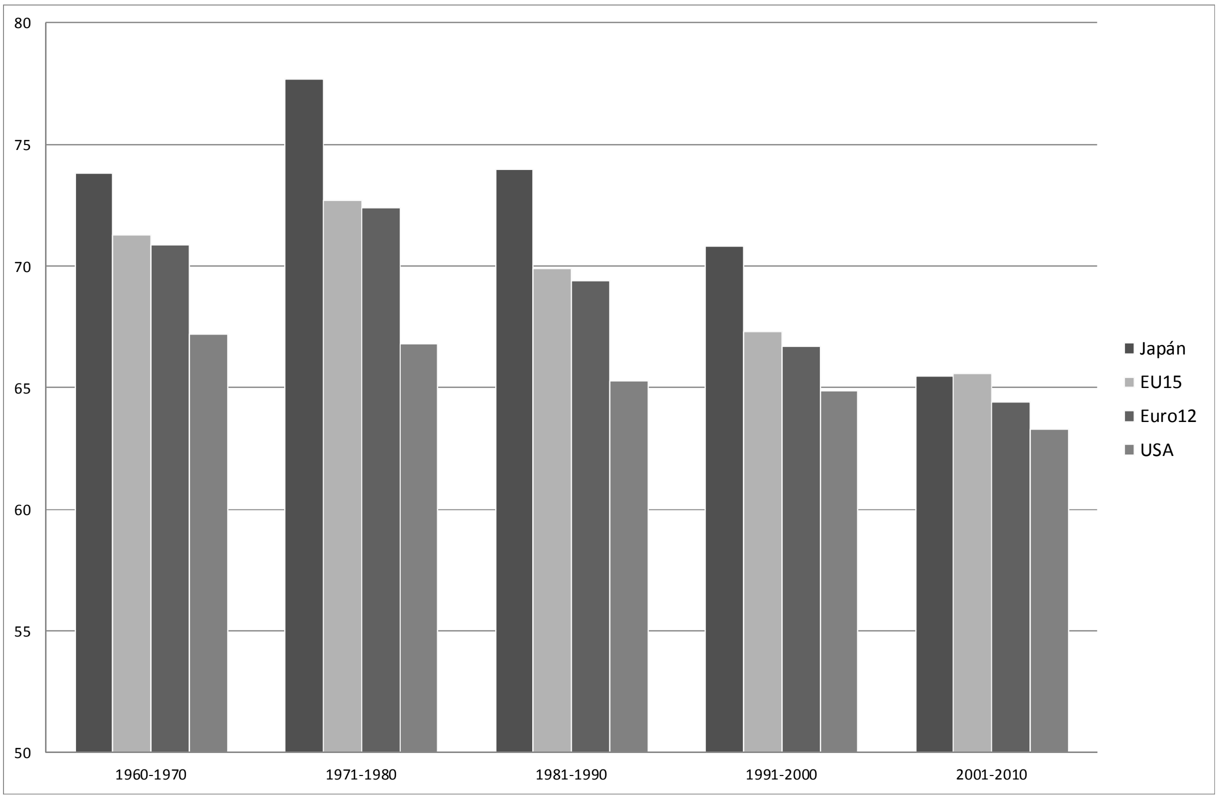
movement of capital was needed, as for this restructuring, capital had to be able to be withdrawn from sectors and regions and invested into others purely on the basis of the best profitability. Free movement of capital required serious changes in the institutional system. The turn towards neoconservativism (or neoliberalism) was born from these imperatives. The neoliberal world order has been developed in the 1980s and become hegemonic after the disappearance of the alternative social order in Eastern Europe. Since the 1990s national markets have been deregulated, interconnected, and whilst capital can move more freely than ever before. The logic, tendencies and results of "free" market competition have been unleashed. One of them concerns the wage share that has demonstrated an obvious tendency to decrease since the 1980s. (See Figures 1 and 2.)

Figure 1. Wage share, total economy, as percentage of GDP, 1960-2015



Source: Statistical Annex of European Economy Spring 2014 European Commission Directorate General Ecfin, Economic and Financial Affairs. Table 32. Adjusted wage share

Figure 2. Wage share, total economy, as percentage of GDP, by decades, 1960-2010



Source: Statistical Annex of European Economy Spring 2014 European Commission Directorate General Ecfin, Economic and Financial Affairs. Table 32. Adjusted wage share

Besides a decreasing wage share, free market mechanisms produce increasing inequalities in all parts of the socio-economic system, of which we shall examine the inequalities between capital and wage labour, within capital, and within wage labour, in the following sections.

4.2 Inequality in the ownership of means of production: capital and wage labour – statistical illustration

Access to the means of production is hard to measure. There are no international statistics available and even national statistics fail to include it in an unequivocal way. The unequal distribution of ownership of the means of production may only be presented through indirect data.

Just one example: within the assets produced[29] in the US in one year, the ratio of non-residential fixed assets rose from 33.7% to 38.9% between 1951 and 2012[30]. With the

[29] Produced assets: fixed assets, valuables, inventories.

[30] The share of privately held apartments within all produced assets did not change: in 1951 it was 32%, while in 2012 it was 31.9%. However, this ratio increased during the apparent prosperity that began

residential fixed assets not owned by the residents, the share of the private sector from produced assets rose to 49-51% in the 2000s, from the typical rate of 46-47% until the 1960s (in 2012 it was 50%). Also: between 1951 and 2012 the share of profit-oriented corporations from all assets (including not only private and fixed assets) rose from 14.4% to 20.9%, and within total annual produced non-residential private capital assets it rose from 20.7% to 30.7%[31].

All these suggest that the means of production used to generate profit keep piling up on one side of society. By accumulating capital, the ability to accumulate the income thereof is increasing: due to the accumulation of capital, the wealth of the class of owner increases, but the wealth of those not in possession of the means of production decreases.

The above examples indicate the increasing differences in the ownership of the means of production. Since the means of production (telecommunication, transportation, venues for assemblies and organisations, administrative tasks etc.) are also required to operate democratic institutions, this polarisation means that *the working class has a proportionately decreasing ability to use these institutions as well*.

As real (property-based) inequality increases, the space for democracy shrinks. Political democracy is being eroded. However this is not the only menace that threatens democracy within capitalism.

4.3 Inequalities within capital

Inequalities of access to the means of production and the incomes thereof also increase *within capital*. Not only does this lead to the weakening of democratic institutions, but eventually also to the strengthening of forces and regimes aiming to decimate them. Through the accumulation and concentration of capital large corporations develop. These are stronger than smaller enterprises or, to put it other

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during the mid-1990s (it rose to 35.8% in 2005), but after the bubble burst, it returned to its normal level. During the last decades, 63-65% of apartments in the US were held by *owners*, except for the years of the economic bubble when this ratio increased (2005: 69.1%) and then decreased to 65% in 2012. So one third of all the privately-held apartments serve the purpose of capital as well. (The ratio of government-owned apartments is minimal, approx. 2%.) Census Bureau, Housing Vacancies and Homeownership (CPS/HVS) Historical tables, Table 14.

[31] Source of data: US Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts Tables, Table 5.10., National Data, Fixed Assets Accounts Tables, Table 4.3.

way, their "initial advantage" is greater. They are able to draw profit away from companies owning smaller amounts of capital in several ways. For example: smaller suppliers of large corporations have to depress their prices due to competition; a smaller capital base enables only the use of less productive technologies, making the unit costs larger. Therefore, they will only be able to remain competitive with prices involving a smaller rate of profit; large corporations can sell their products (e.g. their advanced technology) at monopoly prices to smaller companies. As a result, smaller capitals are inclined or we can even say "forced" to push down wages and avoid taxes. The consequence of the latter is undeclared work, which comprises a substantial part of the "shadow economy"[32]. In the frame of competition, that is, the struggle for profit, it is mainly the smaller capital that sustains the shadow economy but this is mainly done under the squeeze of larger capital. Depressed wages and tax evasion result in lower prices and wages in the shadow economy. This indirectly contributes to keeping down wages in the formal, "declared" economy, where the larger companies are typically the major actors. In countries where the shadow economy is more extended relative to GDP, and these are typically the (semi)peripheral countries, larger companies can realize a higher rate of profit than in countries with a smaller shadow economy.

Let us illustrate this polarisation of the profitability of capital with some data. The turnover of the largest 100 non-financial transnational corporations (TNCs) in the world equalled to 12.1 per cent of the world's GDP in 2012. These 100 TNCs had only 16.9 million employees, 0.6 per cent of the total number of employees in the world. All the transnational corporations (not just the top 100) produce a quarter of the world's GDP, and the vertical "value chains"[33] they control account for 80 per cent of world trade. Due to the transfer prices within the corporations, the TNCs are able to extract more values

[32] Undeclared work includes wages that workers and businesses do not declare to the government to avoid taxes. In Europe undeclared work accounts for about two-thirds of the shadow economy, the other one-third comes from the so called "underreporting", i.e. when businesses report only part of their income. Relative to the GDP the shadow economy is roughly twice as large in the European periphery than in the European core. In 2013 the shadow economy in relation to GDP was 15-31 per cent in eleven Central and Eastern European countries, 19-27 per cent in four South European countries an Turkey and 7-16 per cent in the developed Western European countries (Schneider 2013:3-4.).

[33] Global value chains are defined as the fragmented and internationally scattered production processes, in which intermediate goods and services flow. These are controlled and administered by transnational corporations. Therefore, international trade is mostly trade within a corporation, or within the value chain covered with contractual relationships. However the role of the value chains in world trade is further increased by the fact that certain value parts are included in the account multiple times, due to their multiple border-crossings.

from the host countries of their affiliates. In 2011 TNCs had a capital stock of USD 21,000 billion (21 trillion) and they earned the income of USD 1,500 billion (1.5 trillion), which reflects a 7 per cent profit rate in general. Their profit rate was 5 per cent in the developed countries, while 8 per cent in developing countries and 13 per cent in transition economies. Two thirds of the profit (1.000 billion dollars) were withdrawn from the host countries and repatriated or invested in third countries. The part of the profit left in the host countries was only partially reinvested. [34]

Within the group of the eleven Central and Eastern European member states of the EU (CEE11) the average profit rate of inward FDI has climbed to 9.6-11.2 per cent in the four years prior to the 2008 crisis and then declined to 6.5-8.4 per cent in 2008-2013[35] – still higher than the profit rate that TNCs could realize in developed countries. According to Altzinger (2008), in 2005 Austrian firms realized 5.1 per cent return on equity in the EU15[36] but 9.7 per cent in the CEE-5[37] and 10.0 per cent in 14 CEE-countries[38] on average. The author concluded that "*the opening-up of CEE economies has helped to improve the overall competitiveness of the Austrian firms considerably"*[39]**.**

Because of its competitive disadvantage, the small(er) capital considers the large capital an "oppressor". In our age large capital is typically a global corporation, while small capital is typically a national one. *Therefore the conflict between the interest of the large and small capitals appears as a contradiction between "foreign" and "national" capitals.* Some governments serve the interests of the former, and some declare an interest in the latter.

The relationship between politics, politicians and the economy is thoroughly examined by the "public choice" theory, emphasising the prominent role of the personal interests of the politicians in making decisions that affect the country. Leastwise, one thing is for sure: both the politicians serving the interests of major international corporations (often referred to as the *comprador* elite) and those serving the interests of

[34] UNCTAD (2013) pp. IX-X, XIV-XV
[35] Own calculation on the basis of Hunya (2011) and (2014) and the Eurostat, National account Income, saving and net lending/ borrowing – Current prices (nama_inc_c).
[36] The member states before 1st of May, 2004.
[37] Poland, Hungary, Slovenia, Slovak Republic and Czech Republic.
[38] Albania, Bosnia and Herzegovina, Bulgaria, Estonia, Croatia, Latvia, Lithuania, Moldavia, Romania, Russia, Serbia and Montenegro, Slovak Republic, Ukraine and Belarus.
[39] Altzinger (2008:16).

smaller/national capital are tied by financial advantages to the groups they represent. But the interests of “national” capital – at least to a certain degree– overlap the interests of the groups in their country who possess no capital, since 1) the development of domestic capital means the development of domestic bases of production, and 2) the smallest companies (small and micro enterprises, own account workers), in their actual situations, are not substantially different from wage earners: the owners of these businesses have to sell their labour day by day, even if they “sell” it to their own enterprises.

Protectionist economic policies in preference of national capital are as old as capitalism. There is no developed country that has not applied protectionist policies openly or hiddenly at a certain stage of their development (and some also apply it today). The state is an institution that belongs to the national market and national capital, stems from them and serves them. Its “natural” task is the service of national capital. Exactly emulating developed countries in the 1980s, especially in the European electronics industry, so in our time the developing countries aim to train “national champions” (their own TNCs) which are viable in the global market, even in the form of state-owned companies. The number of state-owned TNC reached 845 in 2012 and almost 11 per cent of the global FDI flows were attributable to these companies. The majority of the state-owned TNCs were from emerging developing countries[40].*The profit-oriented state-owned company represent the interlocking of national capital and national state in the purest form.*

We can perhaps conclude that *with the progress of the global accumulation of capital, the inequalities necessarily increase between capitals and this fuel the fight for the control of state (laws and political power)*. “National” policies necessarily arise to protect weaker (national) capitals. Using our formerly used terminology, we could say that ”catching-up” or “national” economic policies mean the different forms and magnitudes of *transferring the initial advantage entitling to gaining cumulative advantage* (the values produced by the society) *to the domestic elite* (national capital).

Less developed countries are such because they lack advanced technologies that could ensure low unit labour cost, competitiveness and hence sufficient profit. In this

[40] UNCTAD (2013) pp. XIV.

situation, to strengthen the competitiveness (the profit-generating ability) of national capital, other tools aimed at reducing the unit labour cost are required. Conditions of the domestic labour market criteria have to be changed in such a way that is detrimental to employees: their share of the newly created value is to be reduced through the reduction of unit price of labour (higher work intensity, lower wages, smaller social contributions etc.), thus decreasing employees' relative (and ultimately their absolute) income position. However, such reduction of labour cost cannot be carried out with the means of a liberal democracy, as the example of any "modernising", "emerging" or "developing" state clearly shows (such as the "four Asian tigers", especially South-Korea under Park Chung-hee, or China, both analysed by Fukuyama[41] as well). *Therefore inequalities "within capital" (or between capitals) lead to the erosion of democracy.*

As we saw above, both the inequalities between capital and labour and the inequalities between capitals are harmful for democracy. There is, however an important difference. Although the increase of the inequality *between capital and wage labour* weakens the institutions of democracy or even renders them meaningless, the democratic institutions themselves *may* remain existent and even be extended in a "social partnership", resulting in unions gaining powers of control, support for non-governmental organisations, etc. This applies if the reduction of wage share in GDP is accompanied by an increase in productivity. In such cases the absolute level of (real) wages does not necessarily decrease, and the living standard of wage labourers may even increase. However, in the case of inequalities and fights for the rent-seeking possibilities *between capitals*, the state intervention on behalf of weaker capitals usually leads to direct violation of democratic institutions. The reason for this is that weaker (national) capitals are weak because their productivity is low and for this they are able to generate profit that is sufficient for a meaningful growth and technological development only by cutting back absolute level of wages. National governments can help to achieve this by different labour market (de)regulations, weakening trade unions, ceasing elements of social dialogue and strengthening forces of order.

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[41] Fukuyama (2012)

4.4 Reduction of wage share is unavoidable

The competition between different bases of capital eventually leads to the reduction of wage share, whilst other alternatives are unsustainable in the long run. With the wage share (the ULC) rising, no capital is able to produce profit consistently. State intervention also cannot help, because the state "bleeds to death" if it tries to use loans to help companies to stay in the market. Either the wage share grows, or the state accumulates debt to finance increased social expenditures in an attempt to increase the living standards of the population against the backdrop of a decreasing wage share. At some time, government overspending will become unsustainable, resulting in a need for austerity policy, which reduces prices and wages (an internal devaluation), thus decreasing the costs of capital and increasing the profit rate. Moreover, the wage share, having been increased or sustained by spontaneous market mechanisms in prosperous periods, is also to be reversed with the assistance of government in the declining phase of the cycle of capital reproduction. This restores the profit-generating ability of capital. This happened, for example, in the countries facing the crisis of the Eurozone in the 2000s, including Greece, Portugal, Italy and Ireland, even though not all governments of these countries pursued policies allowing the increase of national debt. Only very few countries, with a history of being developed countries in a special situation (such as Switzerland or Luxembourg) can allow the wage share to be sustained or increased for a longer period.

Within the frames of capitalism, government policies have to serve competitiveness (profitability) regardless of whether a government is built on large, transnational, "foreign" capital or smaller, domestic capital.

Let us examine the example of Hungary. Between 1994 and 2010 Hungary had "global-minded" governments (led by the neoliberal Hungarian Socialist Party), with the exception of four years between 1998 and 2002. These "global-minded", neoliberal governments based their policies primarily on the inflow of foreign capital. In 2010 a conservative "national (capital) minded" government, calling itself "illiberal", was formed with the help of the population that had tired of the social effects of neoliberalism in the previous years. This government has criticized the large profits of banks and suppliers of telecommunication and energy, the majority of which are foreign, gaining control of banks and industrial companies by renationalization[42] or regulation, whilst referring to the national interests and the interest of the people when doing all this.

Let us see now, how much the two policy orientations, the “global” and “national”, differ from the view point of the tendency of wage share and standard of living of the majority of population.

After the austerity measures of the so-called “Bokros-package”, from 1995 to 1999, the wage/GDP rate (the wage share) fell from 45.5 per cent to 42.9 per cent. Then, during the years of credit-based recovery of the global economy, and the “well-fare policy” of the socialist government (raising the minimum wage and wages in the public sector) the wage share increased again, to reach 45.9 per cent in 2007. In 2008 the financial crisis broke out, austerity measures were introduced and the wage share began to fall again. In 2014, it was 43.8 per cent, much lower than in 1995. Thus, Hungary’s competitiveness increased, since the real unit labour cost was 4.1 per cent lower in 2013 than in 2007. The decrease of the real unit labour cost since 1995 has been 9.5 per cent[43].

The “national-minded” government elected in 2010 has quickly implemented a number of changes affecting the distribution of national income. In 2011, this government introduced a flat rate personal income tax and a family tax discount aiming to support the “middle class” and raising children; terminated the tax returns on low incomes and increased the VAT rate from 25 to 27 per cent. With these measures, the majority of the middle class (teachers, doctors, public servants, subordinate employees of the private sector, pensioners formerly employed in these sectors) lost a part of their net income, while the incomes of “top ten thousand” actually increased further[44]. In 2014 the share of bottom eight income deciles from national income was smaller than in 2010, while the share of the ninth decile rose by 0.2 percentage points and the share of the tenth (the richest) decile rose by 2.6 percentage points. Thus, the ratio of the top and the bottom income decile rose from 4.8x to 6.5x between 2010 and 2013. Exactly the

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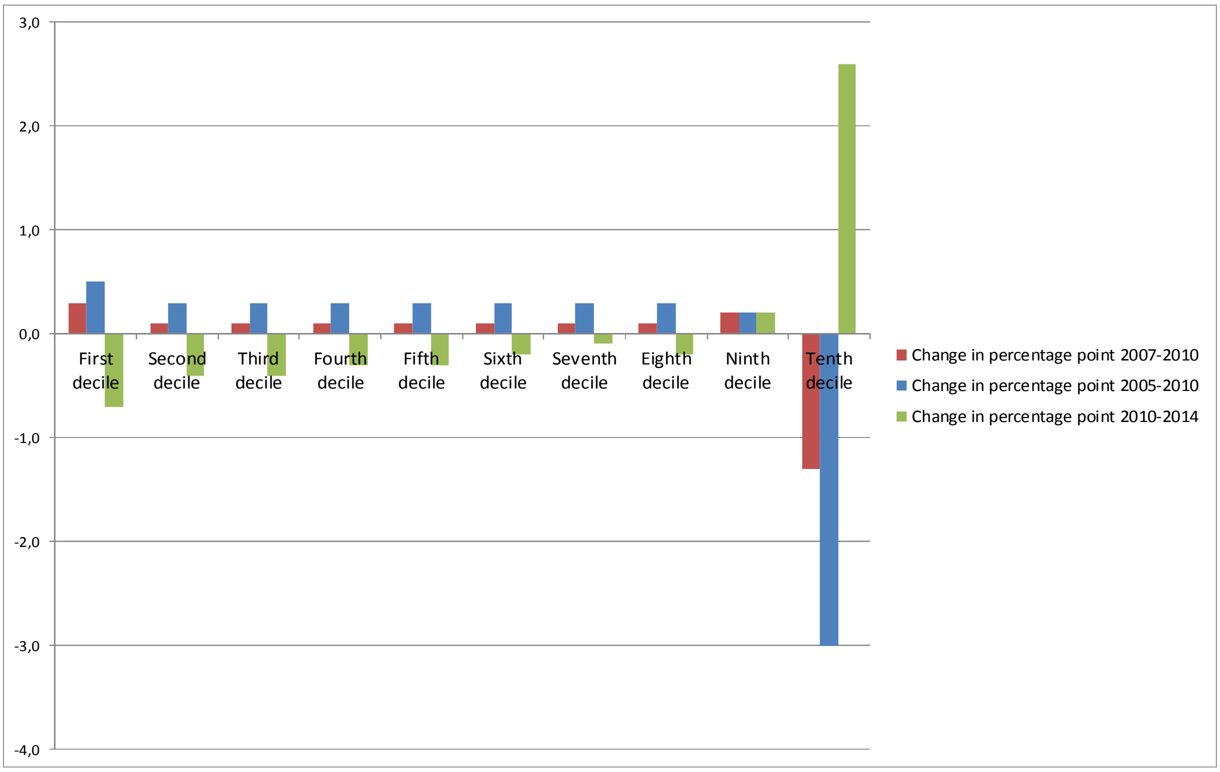
[42] Mihályi (2015) presents a good summary of the renationalization process in Hungary between 2010 and 2014.
[43] Eurostat Statistics by theme, National accounts, GDP and main components and Auxiliary indicators to National Accounts - annual data, Unit labour cost.
[44] Balázsy (2013).

opposite happened between 2005 and 2010 – even though 2006 was an "odd" year of the trend, since the share of income was significantly distorted in this year in favour of the top decile (Figure 3).

Figure 3. Income deciles of Hungary, share of equivalised national income 2005-2014, per cent



Sources: Eurostat, Distribution of income by quantiles (source: SILC) (ilc_di01)
Note: For years before 2005 Eurostat does not give data.

The government has introduced new special taxes to compensate for the lost hundreds of billions of HUF in the budget due to the flat rate of personal income tax. Directly or indirectly, these new taxes also decreased the income of the bulk of population. According to data from the Hungarian Statistical Office (KSH), the per capita real income in 2013 was practically the same as in 2007 and 2008, while real income and consumption decreased significantly (Figure 4).

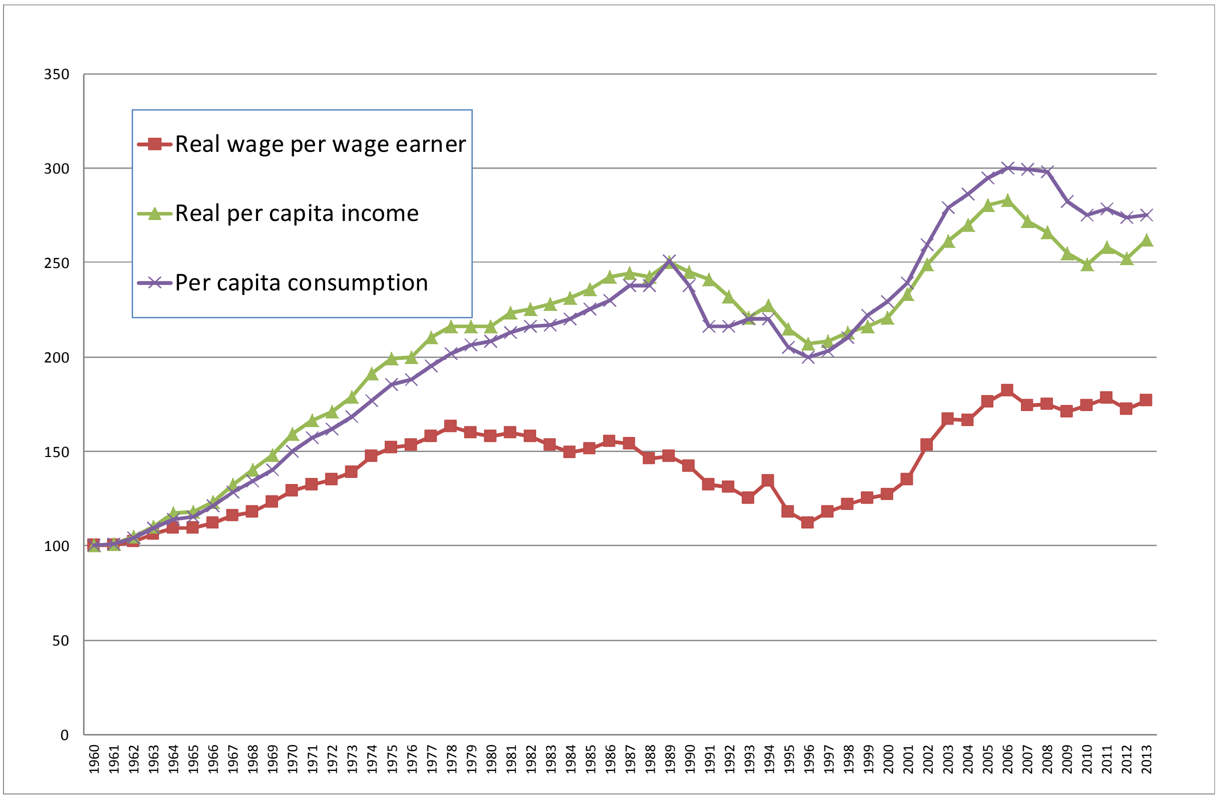
The reduction of unit labour cost through these changes is beneficial for capital in general, either small/national or large/"foreign"[45]. In 2012 64.5 per cent (an all-time record) of capital investments in Hungary were attributable to FDI inflow. In 2012-2013 the inward FDI stock in Hungary increased significantly, reaching 83.8 per cent of the

[45] Obviously, FDI inflow is also affected by other factors. Due to the accession to the EU for example, in the 2000s the FDI stock in Hungary could grow even though the wage share increased.

GDP in 2013, at that time the 9th largest ratio in Europe[46] and the 3rd largest ratio in Eastern Europe[47].

The fight for position (or competition) between large and small or global and national capitals does not modify the tendency of wage share (ULC) to decrease and, thus, the gap between capital income and labour income to increase. What is more, the competition between capital is itself is what makes the decrease of wage share and the increase of gap between capital income and labour income inevitable. As these developments are the *inherent results of competition between capitals* it is not possible to have a "democratic" decision on these issues. The capital ownership differentials, both between capitals and between capital and labour, lead to differences of incomes that lead to *differences in access to democratic institutions and in the ability to utilize them for the purposes of protecting interests*.

Figure 4. Real wage, income and consumption in Hungary, 1960-2013(1960=100)



Source: Hungarian Central Statistical Office Tables (STADAT) – Long time series, Table 3.2. Household income and consumption (1960–2013) http://www.ksh.hu/stadat_long

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[46] After Luxembourg, Belgium, Ireland, Malta, Switzerland, Bulgaria, Cyprus and Estonia.

[47] UNCTAD World Investment Report 2014, Annex Tables. Web table 3., 5. and 7. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx

4.5 Inequalities within wage labour

Quite naturally, the reduction of wage share reflects an *average* that conceals wage differentials. The reduction of wage share is perpetrated as inequality increases.

Such differences among those that live solely upon the sale of their labour power increased in the last decades in many countries, including the most developed ones that would perhaps provide evidence for Fukuyama's truth - namely that developed free market economy and liberal democracy will always be the best possible social order.

The Gini-index, which represents general income inequality incorporating both capital and labour incomes, has already increased in a lot of developed European countries (e.g. Germany, Denmark, Finland, Norway, France, Sweden and the EU15 average) before the start of the crisis in 2008, but the same is true for the ratio of the working poor. Inequality within the working class is reflected better, for example, by the fact that unemployment was around only 2-3 per cent in the 1960s in Western Europe, whilst in the "peaceful years" before the crisis in 2008 it had already reached 7 per cent in the EU15 on average. In regards to wage inequalities, we could also consider migration towards more developed areas, resulting in the creation of dual job markets, including the group of those who work under worse conditions for lower wages, and other groups consisting mainly of natives, who work under better conditions for higher wages. Furthermore, those who work part-time are even more affected by poverty than those with full-time jobs. Yet part-time employment is still supported by governments and their advisers for varying reasons[48].

In Germany, the Schröder government introduced the system of "Mini-jobs"[49] that created a low-waged social stratum and hence contributed to the decrease of the wage share on national level. In December 2013, 7.5 million Germans, or one in every five employees, held "mini-jobs". Of them, 2.3 million employees took a "mini-job" as secondary job, indicating that for many employees the wage from the first job is not enough to meet their needs[50]. The minimum wage (8.5 EUR per hour), introduced in 2015, has to be applied for "mini-jobs" as well, meaning that working hours have to be

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[48] During a period of crisis for example, or for persons in a certain stage of life, or because it is still better then inactivity.

[49] Mini-jobs have been a form of part-time employment since 2003 that enjoy tax exemptions and reduced social insurance payments for up to 400 EUR per month until the end of 2012 and 450 EUR since 2013.

[50] White (2014).

reduced if the concerned parties do not want income exceeding 450 EUR per month. German employers have expressed their strong opposition to the nationwide minimum wage arguing that it would destroy their competitiveness and cause unemployment.[51] Retail traders would be especially hard hit, as they employ around 900,000 "Mini-jobbers", of whom, more than a quarter of a million earn less than 8.50 EUR per hour.[52]

Since 2012 in the United States fast food workers in about 60 cities have been protesting against what they describe as "poverty wages" and demanding a pay increase to 15 USD. By now the campaign has also gone global, reaching 200 cities in 30 countries. The U.S. federal minimum wage is 7.25 USD an hour, not enough to lift workers out from poverty.[53] In April, 2015, in Warsaw, tens of thousands workers, farmers, miners, teachers, railway workers, lorry drivers and many others, participated in the protest organized by All-Poland Alliance of Trade Unions (OPZZ) calling for a raising of the minimum wage.[54]

In Hungary differences have also increased within the different classes of employees. A gap has opened between the average wages of men and women (16.3% in 2007, the 17th highest percentage in the EU; and 20.1% in 2012, the 6th highest value[55]), workers of the public sector and the private sector, and also between the incomes of blue- and white-collar (i.e. manual and non- manual) workers. The absolute and real incomes of physical (manual) workers in the public sector decreased the most (Table 1).

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[51] Schuseil (2014).

[52] Biehl and Mehringer (2014).

[53] Aol Real Estate http://realestate.aol.com/blog/videos/green-living/517915855/ , Bajekal (2015) and Malo (2015).

[54] ZIE.NL. http://www.zie.nl/profile/Ruptly/overige/Poland-Tens-of-thousands-of-workers-march-against-labour-policies/we5zd1rf8pdk

[55] Eurostat online database Gender pay gap in unadjusted form in % - NACE Rev. 2 (structure of earnings survey methodology) [earn_gr_gpgr2]

Table 1. Relation between manual and non-manual workers' net earnings in budgetary institutions and business sectors in Hungary 2008-2014, per cent and percentage point

Ratio of net earnings, per cent	2008	2009	2010	2011	2012	2013	2014	2008-2014 change in percentage point
Manual workers/non-manual workers, national economy total	57,6	58,2	57,5	54,8	52,7	51,9	50,4	-7,2
Manual workers/non-manual workers, business sector	53,7	53,3	53,0	47,8	46,8	46,4	46,0	-7,7
Manual workers/non-manual workers, budgetary institutions	62,9	62,3	59,4	64,1	54,6	52,7	48,2	-14,7
Budgetary instititions/business sector, non-manual workers	85,1	79,5	79,2	69,4	67,4	67,8	68,0	-17,2
Budgetary instititions/business sector, manual workers	99,7	92,9	88,8	93,2	78,6	77,0	71,2	-28,5

Source: Own calculations on the basis of Hungarian Central Statistical Office, STADAT, Table 2.1.45 Average net monthly earnings of manual workers in the national economy and 2.1.46. Average net monthly earnings of non-manual workers in the national economy.

In the 27 member European Union the rate of working poor in the 18-24 years of age cohort increased from 9.7 to 11.4 per cent on average between 2005 and 2013. For the EU15 the increase was even faster, from 8.7 to 10.9 per cent. [56]

4.6 The longing for "change" and "order"

Growing divisions within society and the related growth of social uncertainty has historically increased the desire for "change" and "public order" and the "strong hand of government" among members of the society. This reflects the fact that *a society based on liberal democracy is absolutely not in control of its own fate*. The political reason for this is that liberal democracy is built on a form of representation where citizens, by using their votes, transfer the right to decide about their own fate into the hands of others[57]. The economical reason is that the goods produced reach the majority of people indirectly and only in part: those who produce these goods themselves have to buy them on the market. They are alienated from their own products. Both production and politics (the two essential elements of social life) are alien to the people.

[56] Eurostat database: In-work at-risk-of-poverty rate by age and sex (source: SILC) [ilc_iw01]

[57] Buchanan (1954), a member of the "public choice" group, emphasises that for a person in agreement with a minority opinion, the decision of the representatives of the majority opinion holding power through democratic means, is just as dictatorial as the decision of an autocratic regime would be. However, this is also true if the subject person voted for the government himself. As soon as decision is transferred to someone else, it is no longer his decision, the government can also adopt decisions he does not agree with. One way or the other, the decision is external to him.

The general desire for "change" and "order" has an entirely different character to the order that the ruling class wishes for. This difference, however, frequently remains concealed, especially in case of crises in less developed countries. When the architecture of capitalism is shaken and a chaotic situation takes place the possibility for a change in power grows. Weaker (typically "national") capitals may hope to get closer to rent-seeking abilities through taking over the governance of state. This is almost always not the kind of change and order which the majority of people would want.[58] However since large (global) capital most clearly represents the unjust nature of gaining cumulative advantage, and small (national) capital has a conflict interest with large capital, people can easily feel themselves to be in the same boat with the interests of national capital . This feeling can be effectively encouraged by a "national (capital) minded" government. This way, wage earners' wish for a "stronger state" gets to serve the interests of (national) capital. This situation helps reduce the wage share, through further increasing the differences between working people. For example, governments push measures that favour the "middle class" (but in fact the upper-middle class) and which are closely related to the support of domestic capital.

5. Future of democracy

Above we saw that the state of democracy is linked to social injustices, of which, the inequalities in disposition of the means of production are decisive. Democracy strengthens or weakens in an inverse relation to these inequalities. The paradox is this: that democracy gains the most by reducing inequalities, yet the decrease of inequalities presupposes a limitation of market forces, competition and accumulation of capital.

Democracy may be eliminated in two ways: 1) through dictatorship, with maintaining the hierarchical order of society or 2) through the extension of democracy, including the democratic control of the means of production. The latter will sooner or later touch upon the issue of ownership, which has always been at the epicentre of the most critical events and turning points in the history of mankind.

[58] There is nothing special or new about this. Mutatis Mutandis, what Soboul wrote about the pre-revolution years in France is still true today: "The people think that the problems of famine and the costliness of food can be solved the simplest way if the government announces a controlled economy, and applies it with the most strictness, not refraining from confiscation or price control either. So in the field of economy, the people demanded right the opposite of what the bourgeoisie did, because in this regard - as in every other - bourgeoisie wanted complete liberty." Soboul (1989 [1983]) p. 38.

If the issue of ownership is left unaddressed, "democracy" is restricted in service of the interests of the reproduction and accumulation of capital. The reproduction and accumulation of capital, however, as we intended to prove above, works for the erosion and periodical suspension of democracy in the long run. In a hierarchical world order there are always countries that work to extend democracy and to alleviate inequality. This fact puts government policies in the spotlight[59]. However, given the nature of "democracy", the aims of governments and the content of their policies *serve specific interests*, or in other words, they belong to the specific society. Our current society is based on the division of capital owners and those without capital ownership and the power of capital owners. This means that eventually all capitalist governments pursue policies that help the reduction of wage share in the long run.

If the government intends to include the interests of those without ownership (of the means of production) in its policy, it shall, first of all, provide access to goods in the forms of free and high quality education, healthcare, affordable transportation and housing. If these are further supplemented by *basic income provided to everyone on a universal basis (UBI)*[60], society would be more liberated from major inequalities and poverty, and become more viable. On the basis of their large GDP, wealthier nations would be able to implement an UBI – yet it is very telling that no developed countries have introduced UBI yet[61]. For less developed countries UBI is hardly possible even if their governments would like it. From a global viewpoint, the same thing is true for the situation of underdeveloped countries as for the status of the poor within a given society. *So redistribution of income and wealth should also work on a global scale.*

However, such redistribution contradicts the logic of market competition and its aiming for profit. Why would a corporation increase the volume and rate of its profit, if the surplus has to be redistributed to those it overtook in the competition to gain this surplus? If a government offers a preference to those living off wages, salaries and benefits and thus extends the boundaries of democracy, it works against the interest of capital accumulation. By doing this the government in question holds back economic

[59] Stiglitz (2013) writes: "[I]nequality is a product of political and not merely macroeconomic forces. It is not true that inequality is an inevitable byproduct of globalization, the free movement of labor, capital, goods and services, and technological change that favors better-skilled and better-educated employees."
[60] Van Parijs (2000), BIEN (s.a.).
[61] Concerning why UBI is not feasible in the frame of capitalism see Artner (2014).

growth and halts the drive of the development of productive forces that are used to generate profit on the long run. This, *remaining within the frame of capitalism*, would result in the decrease of competitiveness of companies in the given country with consequences for the labour market and public revenues. This explains why Keynesianism has failed in many regards. A shift in political and economic direction would become necessary as it happened in the developed market economies in the 1980s. As this turn is dictated by the needs of capital - that is, the needs of a part of the society only, the turn presupposes a restriction on democracy. Unleashing the drive of market forces in order the restore competitiveness and sufficient profits leads to an increase of inequalities that further erode democracy. To mitigate these problems, government interventions are needed again – that, however, diminishes the forces driving production. This policy cannot be maintained in the long run. And so on, and so forth. To escape from this vicious circle the driving force (the motivation of profit, i.e. the free market) would need to be replaced.

6. Summary

Democracy is an instrument of domination, an attribute of class societies. The subject of this domination is to ensure disposition of the means of production for the ownership class of society.

The legal order of liberal capitalism ensures the private ownership of the means of production and control over the surplus created by operating them, and thereby also ensures the accumulation of capital ownership. In this system, the quantitative and qualitative development of production is driven by earning a return on capital. Reducing labour costs is an indispensable condition to the latter. Although, in the global cycle of accumulation of capital, the wage share may increase in a certain location at a certain time, the requirements of the reproduction of capital will sooner or later enforce a correction resulting in the decrease of wage share everywhere. This causes income inequalities to grow, which discredits democratic institutions for people with lower incomes and also hinders their use of democratic institutions.

Competition establishes and strengthens the hierarchy between accumulated capital as well. Smaller, weaker capital requires the government's assistance to increase its competitiveness, and to reduce unit labour costs. Without advanced technology, this can be achieved by reducing the unit price of labour (labour cost/hour worked). This takes place particularly clearly during the time of crises, when governments have to introduce austerity measures to support even the strong capital in strong economies. Such cases also undermine people's trust in democratic institutions and hinder their operation.

Due to its nature, capitalist reproduction creates and strengthens hierarchies. The accumulation of capital by smaller companies is hindered by the quasi-monopoly of large companies. The working class is also differentiated, divided into well-paid and badly paid groups. The marginalisation of the lowest income groups and the risk of marginalisation of groups in the middle classes increase the desire for a "change" and "order" in a large part of society. Disadvantaged groups in the hierarchy can consist of the smaller, typically "national" capital, the masses of those living off wages, salaries and social benefits. The government acting in the interests of the national capital and limiting democratic institutions in order to help the change of elite may seem to be – and can be interpreted as they are – on the same side of the battlefield as the disadvantaged against the "global capital" and its "neoliberal order". This situation favours the introduction of autocratic regimes. In order to strengthen its social basis, the emerging national capital and its "anti-liberal" government can effectively use nationalistic rhetoric and some gestures to the upper and upper middle classes. This situation feeds the neglect of those falling behind, the enrichment of the upper strata and social polarisation in general.

Due to their logic, free market mechanisms pose a threat to democracy. Precedent can be found in frequently applied dictatorial methods during a "catch-up" period, for example, South Korea in the 1960s and 1970s under Park Chung-hee, who based its policy on national capital or Chile in the 1970s and 1980s under Augusto Pinochet, who relied on foreign capital investments. These may be tamed to become more democratic at a higher stage of development, but this cannot change the dictatorial manner of disposing of the generated surplus, the *reduction of the wage share*. Politics, the political form of ruling dominance, aligns with the ownership structure of society that provides the economic form of generating surplus.

In the light of our arguments, we can state that Fukuyama would have been more exact in saying that the combination of free market and liberal democracy is the most developed form of capitalism and as such, it is *the end of capitalism*.

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