Department of Political Science

Major in Politics, Philosophy and Economics

Chair in Macroeconomics

Long-Term Cycles and Income Distribution:
the profound influence of systemic dynamics on economic inequality

Thesis Supervisor: Massimo Ricottilli

Candidate: Andrea Andrenelli
074202

Academic Year: 2015/2016

TABLE OF CONTENTS

Introduction

This Bachelor's Thesis seeks to reflect, as far as possible, the diversity of teachings obtained during the course of study in Politics, Philosophy and Economics (PPE). PPE allows pupils to familiarize with a wide variety of notions in the Social Sciences, thus enabling students to conduct multi-layered analysis of themes which cut across several academic disciplines. Hence, in the spirit of my course of study, I decided to approach the topic of economic inequality. The reader would easily recognize the vastness of this proposition; for this reason, the dissertation is limited to the examination of long-term trends and income inequality. The thread which runs through this dissertation, and lies in the background of its sections, is then the discipline of Distributional Economics. This shall be considered as the central focus of the Thesis, and a full understanding of this subject has been best achieved by building on the intellectual foundations laid by the course in Macroeconomics.

With regards to the structure of the Thesis, it is essentially divided in three sections, mirroring the study of systemic cycles and income inequality from the perspective of International Relations (IR), Economics, and Philosophy respectively. The first section lays the groundwork for analysis, relying heavily on the IR school of World System Theory (WST) as inspired by Antonio Gramsci and developed by Immanuel Wallerstein. In this domain, the main interpretative scheme is provided by the Italian scholar Giovanni Arrighi; his *The Long Twentieth Century: Money, Power and the Origins of our Times* influenced the architecture of the entire study. Arrighi, in line with the tradition of WST, performs a historical analysis of the capitalist system, and the results he derives therefrom are highly controversial: the progression and expansion of the capitalist world-system is understood as a succession of systemic cycles of accumulation, each carried out by a different hegemon, which set up structures to secure political and economic power over the rest of the world-economy. Four world-powers thus succeeded one another: the Genoese, Dutch, British and Unites States' hegemonies; each of these introduced innovations which represented radical steps forward in the evolution of the system, be them the invention of credit in the Italian city-states or the Industrial Revolution under the British hegemony.

However, the main reason to present Arrighi's theory does not have to do with the specificities of the historical study of hegemonies; the crux of the matter is the idea of systemic cycles of accumulation and their recurrence. Arrighi deems that every time a hegemon passed on the baton to the next world power, certain systemic tendencies repeated themselves with unambiguous regularity. Indeed, when a hegemon is on the rise, it orchestrates the material expansion of the world economy, and growth attracts capital towards profitable opportunities in the real economy; however, when a hegemon reaches the commanding heights of the capitalist system and profit opportunities vane in the real economy, it then organizes financial markets as to consolidate its political power, and financial expansion takes place because of the attractive rate of returns on investment offered in these markets. According to the reading, at the end of every cycle there is no more room for material expansion and the real economy declines, financial capitalism erupts, and the distributional implications of the whole process are clear: rentiers can benefit from high returns on investment, but workers suffer because of the lack of growth, labour and real economic activity. The United States' cycle of accumulation does not escape this logic, and the current financial expansion is but a symptom of the conclusion of its cycle.

In order to further examine the proposed scheme, the second section adopts the tools of economic analysis and seeks to corroborate or refute the theory advanced by the Italian scholar. Initially, the dissertation focuses exclusively on one of the three systemic tendencies: the decline of the real economy. A short literature review on the conditions of labour in the United States, deemed to be representative of wider systemic dynamics, immediately seems to confirm the view advanced by WST; higher productivity is not matched by higher wages, good jobs are on the decline and the real economy is suffering. However, when the analysis is extended to the capitalist world system as a whole, findings are not consistent across countries and time, and this seems to challenge the proposed understating.

In light of this difficulty, Thomas Piketty's *Capital in the Twenty-First Century* is employed as the main interpretative instrument to make sense of the three systemic trends identified above: decline in the real economy, the increasing importance of capital and rampant income inequality. By setting the scene with the Two Fundamental Laws of Capitalism, the dissertation carries out the sort of systemic analysis elicited by World System Theory, however attempting to provide empirical grounds and focusing on the study of macroeconomic indicators. Although the Fundamental Laws of Capitalism cannot be considered as laws with absolute meaning and applicability, they help in explaining what exactly is occurring at the world-system level, focusing on the fundamental causes of income inequality and the interrelation between the three trends. Capital accumulates steadily and furthers its reproduction over labour, growth is low and the rate of return on investment high; this all seems to resemble Arrighi's predictions. In addition, a plethora of mechanisms, which might or might not be related to the fundamental causes of income redistribution, amplify the divergent tendency and, to varying degrees, are common to the world-economy as a whole. These include financial globalization, lowering labour compensation, the demise of the Welfare State, the loss of bargaining power on the part of workers, and financialization in domestic economies. The bleak picture resulting from this integrative understanding is that of a minority of capital owners turning into rentiers, with rising wage inequality and a tendency towards social polarization.

The consequences of this analysis are the object of the third section, which looks at these issues from the perspective of Normative Ethics and Public Policy. The whole account is worrying only and insofar as income inequality is considered undesirable; only and insofar as 'it is wrong'. Hence, dispensing for a while of constructivism and relativism, the dissertation looks at how a fair distribution of income would look like according to Normative Ethics, by briefly presenting four theories: Utilitarianism, Liberal Equality, Libertarianism and Marxism. Each one of these theories offers valuable insights into certain dimensions of the problem, and the impossibility of declaring one theory superior to the others could jeopardize the attempt of a philosophical reflection on inequality, rendering the exercise inconclusive. In light of this obstacle, Amartya Sen's *The Idea of Justice* suggests that the object of the ethical examination shall not be the definition of an ideal society, but rather the search for intersections among the existing theories, which are equally logical, survive critical scrutiny, and simply mirror diverse conceptions of the 'good life'. Thus income inequality is not to be addressed in order to achieve some clear distributional outcome which is absolutely ethical, but rather because the impressive magnitude of the phenomenon makes it easy to agree on its intolerableness, even among radically disparate conceptions of fair distribution. This is however a supposition; is it ultimately public deliberation which is to determine whether or not the current levels of economic inequality, and the related mechanisms, are tolerable.

At last, in order to conclude the interdisciplinary study of income distribution, some policy prescriptions are presented. Relying on Antony Atkinson's *Inequality: What Can Be Done?*, proposals such as State intervention in leading technological development, the creation of a Public Investment Authority, tax policy and the issuing of saving bonds are briefly treated as tools in the hands of policy-makers, which can at least partly address the problems presented in this study. The objective of this very last part is that of providing an arrival point to the whole Thesis.

1.1 Laying the groundwork- World System Theory

The present study seeks to offer an understanding of inequality in relation to long-term tendencies and systemic dynamics. In these terms, this first section adopts a broad focus and unfolds on a somehow different plain from conventional economic analysis, drawing on notions from Political Economy and International Relations. With this intention in mind, I will, following Karl Marx's suggestion, "take leave for a time of [the] noisy sphere, where everything takes place on the surface and in view of all men, and follow into the hidden abode of production, on whose threshold there stares us in the face 'No admittance except on business'". Here, according to him, "[w]e shall at last force the secret of profit making"[1]. This section is thus to investigate what Fernand Braudel understood as *zones d'opacité* which, according to him, "...hovering above the sunlit world of the market economy and constituting its upper limit so to speak, represents the favoured domain of capitalism... Without this zone, capitalism is unthinkable: this is where it takes up residence and prospers"[2].

Venturing in the field of study referred to by Marx and Braudel might at first seem intimidating; yet, an integrative approach to the topic will allow an analysis of capitalism as a system, uncovering what forces drive its progress and which pressures determine its development. Although this might appear abstract and general, the ensuing paragraphs will clarify what is meant by systemic analysis, delineating what aspects of today's economic system will be examined and, later on, how exactly the study is related to unfavourable distributional outcomes today.

The general framework for understanding capitalism as a system is provided by the International Relations (IR) school of World System Theory. A key assumption of this analytical framework is that capitalism is sustained by the nation-state system, where each unit concentrates on the pursuit of power. As Max Weber understood it, the economic system is dependent on "...the power of competing national states in a condition of perpetual struggle for power in peace or war. This competitive struggle created the largest opportunities for modern western capitalism"[3]. An essential characteristic of this system, which contributed to its formation, is that " [t]he

[1] Karl Marx, *Capital, Vol. III* (Moscow: Foreign Languages Publishing House, 1959):176.
[2] Fernand Braudel, *The Structure of Everyday Life* (New York, Harper & Row, 1981):24.
[3] Max Weber, *Economy and Society* (Berkeley, CA: California University Press, 1978):353-4.

separate states had to compete for mobile capital, which dictated to them the conditions under which it would assist them to power... Hence it is the closed national state which afforded to capitalism its chance for development".[4] The nation-state is thus considered to be the basic unit composing a larger system. This creates competition for mobile capital in the inter-state system, which is an important force in the development of capitalism.

A second fundamental feature of World System Theory is the focus on hegemony. World hegemony refers to the power of a state to exercise functions of leadership and governance over a system of sovereign states[5]. In this respect, World System Theory is to a great extent inspired by the Italian intellectual Antonio Gramsci, who emphasised that, with reference to hegemony at the national level, "the supremacy of a social group manifests itself in two ways, as 'domination' and as 'intellectual and moral leadership'"[6]. Hence hegemony involves both an effort of domination over antagonistic groups, evident in the capacity to liquidate and subjugate rivals by force, and the exercise of power as moral and intellectual leadership. The hegemon is thus both an aggressor and an actor capable to acquiring centrality and gravitating force of its own. This concept will again serve the purpose of clarifying the role of hegemonic powers in relation to capitalist development at a later stage in this study.

A third key feature of this theory is its attention to history. As explained by Robert Nisbet "[w]e turn to history and only to history if what we are seeking are the actual causes, sources, and conditions of overt changes of patterns and structures in society"[7]. This approach is vehemently advocated by Immanuel Wallerstein, a prominent thinker in World System Theory. As he explains "[i]f we are to deal with social transformation over long historical time (Braudel's 'the long term'), and if we are to give an explanation of both continuity and transformation , then we must logically divide the long term into segments in order to observe the structural changes from time A to time B"[8]. Despite this division, the scholar is aware of an element of continuity among segments, and hence sees these as progressive stages in the development of a social structure.

[4] Ibid.3

[5] Giovanni Arrighi, *The Long Twentieth Century: Money, Power and the Origins of our Times* (London and New York: Verso, 2010):28.

[6] Antonio Gramsci, *Selections from the Prison Notebooks* (New York: International Publishers, 1971):57-8.

[7] Robert A. Nisbet, *Social Change and History* (New York: Oxford University Press, 1969):302-303.

[8] Immanuel Wallerstein, *The capitalist world-economy* (Cambridge: Cambridge University Press, 1997):3.

These fragments are defined a posterior and illuminate our comprehension of the past, and can provide tools for interpreting present economic dynamics.

Once the main tenets of World System Theory are hereby presented, it remains to explain how exactly they are relevant to the study of the distribution of income and wealth in today’s societies. In this regard, long-term systemic changes conceived by Giovanni Arrighi will be adopted as the main interpretative tool to analyse cycles of accumulation, their recurrence and their relation to present discussions in the field of distributional economics.

1.2 The Four Systemic Cycles of Accumulation

Giovanni Arrighi's study of systemic cycles of accumulation in his *The Long Twentieth Century: Money, Power and the Origins of our Times* carries considerable implications for di Political Economy and International Relations. In the book, Arrighi succeeds in providing an account of how capitalism progressed from the 14th century onwards, advancing a theory which can explain the upswings and downturns of the system.

The central idea of this work is to see capitalist history as a continuous succession of systemic cycles, "... defined here as consisting of a phase of material expansion [of capitalism] followed by a phase of financial expansion promoted and organized by the *same* agency or group of agencies"[9]. Therefore, four cycles can be identified in history: the Genoese, the Dutch, the British and the United States' systemic cycles of accumulation. Capitalist elites are the agencies fostering the development of these cycles but, as Pirenne explains, "the group of capitalists of a given epoch does not spring from the capitalist group of the preceding epoch. At every change in economic organization we find a breach of continuity"[10]. This idea of breach and continuity of systemic tendencies resonates with Wallerstein's understanding of history as a coherent succession of segments, thus lending consistency to World System Theory as an interpretative framework.

Yet, many points might at first be unclear. What is the 'zero point' in the development of capitalism? What marks the beginning and end of systemic cycles? What enables the rise of a hegemon? What is the relationship between financial and political power within hegemonies? Most importantly for this dissertation, what is the role of material and financial expansions in this theoretical framework, and what are its implication for distributional economics? It will be the subject of this sub-section to expand upon Arrighi's analysis and arrive at a satisfactory understanding of these questions.

[9] Ibid.5:89

[10] Henri Pirenne, "Stages in the Social History of Capitalism", in R. Bendix and S. Lipset, eds., *Class, Status and Power: a Reader in Social Stratification,* (Glencoe, IL: The Free Press, 1953):502

Starting with the assumption that "there are as many classes of capitalists as there are epochs in economic history"[11], where is the first capitalist class to be found and where did capitalism originate? The answer is in "the Mercantile Economy... in its first form, when it is embodied in a system of city states".[12] Here, "...the state, depending for its survival on power, was compelled to constantly to seek more power", and in this context the "jungle law" prevailed[13]. This is again in line with Weber's understanding of power and its pursuit by the units of a broader system. Hence, this is the situation in which capitalism as a historical social system was born, with the escalation of competitive struggles raging within the Italian system and the heightening of power struggles in the rest of Europe. More precisely, the combination of turbulence in the Italian city-state system, the Anglo-French Hundreds Years War (1337-1453) and the Schism that split the papacy (1378-1417), created an unprecedented demand for capital to finance state-making and war-making activities.

In this context, history first witnessed the emergence of high finance. In Florence, "[t]he great bankers were at the same time members of the...wool guilds so that international banking and commerce in cloth developed co-extensively"[14]. Thus, success in the wool sector enabled the Florentine merchants to turn into lenders, and in this sense the 14th century "drastic curtailment of industrial production in Florence was not the result of any use or threat of force... Rather, it was the expression of the strictly capitalist logic of action that guided Florentine business enterprise"[15]. The emergence of this capitalist logic is an important element to bear in mind, as it dictated indifference to Florence as to whether the self-expansion of capital occurred through the purchase, processing, and sale of commodities or through financing the struggle of the various components of the world-economy.

Yet, the rise of the Florentine merchant class, particularly embodied in the Medici family, does not correspond to the birth of systemic cycles of accumulation. Due to the purely financial nature of Florence's power, "[o]nce hostilities ceased, the golden age of Florentine high finance in general, and of the Medici in particular, drew rapidly to a close"[16]. This is because of the

[11] Ibid.10:50
[12] John Hicks, *A Theory of Economic History* (Oxford: Clarendon Press, 1969):56.
[13] Garrett Mattingly, *The Armada* (Boston, MA: Houghton Mifflin, 1959):50.
[14] Oliver Cox, *Foundations of Capitalism* (New York: Philosophical Library, 1959):164.
[15] Ibid.5: 102
[16] Ibid.5: 109

essentially capitalist nature of the merchant elite, which lacked instruments of enforcement and state-making powers. It must be underlined that the major innovation of credit, introduced by the Florentine merchant class, brought advantages in terms of efficiency, but also lead to a dispersion of economic and political power which could naturally be expected from the use of the credit system. As Frederic Lane put it, in the "fifteenth and sixteenth centuries... we find that the key innovating enterprises usually combined characteristics of government with characteristics of business"[17]. Florence suffered the lack of the former element which, instead, contributed to the rise of Genoa as a capitalist power and initiated the first cycle of accumulation.

In addition, systemic conditions combined with Florence's conduct were main factors leading to its failure. Florence indeed stipulated an alliance with the Papacy "on the basis of trade in religion on Rome's account"[18], however failing to ensure the territorialist protection needed to establish a sound hegemony. This major weakness was accompanied by the introvert and consolidative policies of the de Medici family, evident in the infamous *Tumulto dei Ciompi* in 1378, which resembled those of the main Italian city states like Venice, where "In Pareto's classic formulation, entrepreneurs turned into rentiers"[19]. The lack of an effective territorialist protector and introvert policies meant that "when at the end of the fifteenth century the European world-economy entered a new phase of expansion ender the impact of the so-called Great Discoveries...the capitalist classes of Venice, Florence, and Milan played no active role in the promotion and organization of the expansion"[20], thus remaining at the margin of trade and steeply declining in power.

However, Genoa did not suffer this same fate. Where the rise to power of the merchant class in Florence was absolute, as the example of de Medici can demonstrate, Genoa remained largely controlled by the landed aristocracy, which did not cease its strongholds to the bourgeoisie. As Heers explains "[w]hile it may be relatively easy to rise to the merchant or banking class... and acquire the title of 'nobilus' quite quickly, entry into the nobility or landed aristocracy is firmly

---

[17] Frederic Lane, *Profits from Power: Readings in Protection Rent and Violence-Controlling Enterprises* (Albany, NY: State University of New York Press, 1979):39.
[18] Ibid.5:98.
[19] Lauro Martines, *Power and Imagination, City-States in Renaissance Italy* (Baltimore, MD: The Johns Hopkins University Press, 1988):171.
[20] Ibid.5:110

closed... [t]he separation of the two is clear-cut"[21]. This social barrier hindered the domestic expansion in wealth and power of the bourgeoisie which, holding capital and means of payment in excess, organized themselves in the *Casa di San Giorgio* in 1407. In this context, the Renaissance merchants and bankers understood that it was both in their interest and in their power to introduce an invariant unit of account to settle their mutual businesses and thus gave birth to the *moneta di cambio*, the first sort of "sound money" in history.

How is this relevant to systemic cycles of accumulation? Sound money and abundant means of payments transformed the Genoese bourgeoisie into the main financer of the Iberian region; out of this commercial tie, motivated by the city-state's need to seek profit opportunities beyond its vicinity, a "protection-producing" relation emerged. Perfectly in line with Schumpeter's interpretation, "without protection by some non-bourgeoisie group, the bourgeoisie is politically helpless and unable to not only to lead its nation but even to take care of its particular class interests"[22]. Commercial relations hence prompted "political exchange"[23], which was at the origin of the "material expansion of the first (Genoese) systemic cycle... organized by a dichotomous agency consisting of an (Iberian) aristocratic territorialist component... and of a (Genoese) bourgeoisie capitalist component"[24]. This twofold composition of hegemonic power is at the core of the concept of systemic cycles of accumulation.

Although this alliance propelled the material expansion of trade, it was followed by the consolidation of the *nobili vecchi* bankers. The establishment of the Piacenza fairs, which were markets to ensure that "...the capital of the Italian cities was all drained towards Geonoa"[25], caused and unprecedented financial expansion. In this system, "finance rather than trade had now become the primary locus of the [Iberian-Genoese] relationship", and it was "...the Genoese fairs of exchange which made it possible for Philipp II to conduct his world power policy decade after decade"[26], providing clear evidence in favour of the thesis that a clear relationship between financial and political power exists within hegemonies. This process can be associated with the

---

[21] Jacques Heers, *Gênes au XVe Siècle* (Paris: SEVPEN, 1961):561-2.
[22] Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (London: George Allen & Unwin, 1954):138.
[23] Ibid.22:138
[24] Ibid.5: 123.
[25] Fernand Braudel, "The perspective on the World" in *Civilization and Capitalism, 15th-18th Century, vol.III* (New York: Harper and Row, 1984):168.
[26] Peter Kriedte, *Peasants, Landlords, and Merchant Capitalists: Europe and the World Economy, 1500-1800* (Cambridge: Cambridge University Press, 1983):47.

diminishing opportunities for profit in the real economy, as exploration ceased to be fruitful and market saturation in the existing arena followed suit.

While the Piacenza fairs benefitted the Genoese class they also constituted the main element leading to its downfall. Multiple actors representing "nations" were now challenging the existing scheme by entering mutual agreements, ensuring that the largest possible number of promises of payment would offset one another directly or indirectly, thus bypassing the system of *monete di cambio* and reducing the risks associated with carrying physical money with them. The Genoese hegemony was therefore dislodged from the commanding heights of the capitalist world-economy, and it was directly confronted by the Netherlands in the Dutch war of independence.

This detailed description of the Genoese cycle serves to clarify what constitutes a systemic cycle of accumulation. As already noted, this is defined as "a phase of material expansion followed by a phase of financial expansion promoted and organized by the same agency or groups of agencies"[27]. Thus financial expansion marks the end of a systemic cycle, which is preannounced by a "signal crisis" and results in its "terminal crisis". Following Mensch's "metamorphosis model", the economy thus "evolved through a series of intermittent innovative impulses that take the form of successive S-shaped cycles"[28], reflecting the establishment, rise and stabilization of world hegemonies before they pass the baton to the next world-power. While an actor gains the driving seat of the world economy and, in a later phase, sustains finance capitalism to its advantage, it takes up what Gramsci understood as a hegemonic position, up until its ability to regulate and lead the system of accumulation to the detriment of others is weakened by the rise of a rival centre[29]. Once confrontations come to a close, surplus capital can again find its way back into a new phase of material expansion under the direction of a new hegemon.

So the Dutch hegemony succeeded Genoa, relying on the natural and geographical advantage of supply from the Baltic region. Benefitting from the systemic circumstances of disequilibrium between demand for and supply of grain and naval stores, the Netherlands exploited the Baltic route and strived to maintain this imbalance by force to ensure the advantageous stability of prices. As in all successive cycles of accumulation, the Dutch hegemony emerged because it was

[27]Ibid. 5: 89
[28] Gerhard Mensch, *Stalemate in Technology* (Cambridge, MA: Ballinger, 1979):73.
[29] Ibid.5:164

able to supersede the previous world-power in at least one key aspect; in this case, it was the "internalization of protection costs", which "were brought under the range of rational calculation"[30] . In this way, the Dutch charted companies performed the function of maintaining the above-mentioned disequilibrium in the world-economy, ensure expansion and exploitation of new markets, allow the regional consolidation of the House of Orange and, notably, later transformed Amsterdam into the entrepôt of world finance constituting the backbone of the mature hegemony.

However, the escalation of inter-capitalist and inter-territorialist struggles again prioritized finance over industry. The war of Austrian Succession (1740-48), commercial warfare between England and France, the Seven Years War (1756-63) meant that, "[b]y the 1760s, all the states of Europe were queuing up in the offices of the Dutch money-lenders"[31], and wars were fought for the balance of trade rather than the balance of power, in line with mercantilist thought[32]. In this context, Charles Boxer witnessed that "[t]he merchant-bankers and the wealthy reinters might never have 'had it so good'", while "the well-being of that class of people who lead a working life [was] steadily declining"[33]. In conditions of systemic instability, London would rival Amsterdam and so would the third systemic cycle begin.

At this point, it is worth underlining the tremendous impact of the Industrial Revolution in both empowering Great Britain as the ensuing hegemon and in drastically affecting the history of capitalism thereafter. As Henri Pirenne explains, "the invention of machinery and the application of steam to manufacturing completely disorganized the conditions of economic activity"[34], and the abovementioned phenomena recurred again "but with tenfold intensity"[35]. The importance of the Revolution is underscored by Karl Marx, who illustrates how advent of steam and manufacture initiated an interrelated chain of revolutions which "made necessary a revolution in the general conditions of the social process of production, i.e., in the means of communication

[30] Niels Steensgard, *The Asian Trade Revolution of the Seventeenth Century, The East Indian Companies and the Decline of Caravan Trade,* Giovanni Arrighi, *The Long Twentieth Century: Money, Power and the Origins of our Times* (London and New York: Verso, 2010):148.
[31] Ibid.25: 246
[32]Johnathan Israel, *Dutchy Primacy in World Trade, 1585-1740* (Oxford: Clarendon Press, 1989):383-4.
[33] Charles R. Boxer, *The Dutch Seaborne Empire 1600-1800* (New York: Knopf, 1965):293-4.
[34] Ibid.10:515
[35] Ibid.10:515

and transport"[36]. The key implication of this event for the present analysis is its role in forging hegemonies of unprecedented extension and power. The means provided by industry created profit-opportunities beyond the familiar confines of Europe, providing incentives to expand and increase the breadth of production and distribution processes, while relationships of complementarity linked the fate of separate units in order to ensure sources of inputs and outlets for outputs. The history and succession of hegemonies would now unfold on a new plain, with phenomena of expansion, centralization and decline of hegemonies acquiring unprecedented preponderance.

The impressive expansion of the British capital goods industry thus proceeded on a world scale. As from the 1870s British capitalism succeeded its material expansion; "the entire world became part of this economy"[37]. This led to states "caged" in a UK-centred global division of labour[38], while imperialism and 'free-tradism' developed hand in hand. The reason why the British hegemony superseded the Dutch world-system lays in its internalization of production costs, which were brought under the organizational domain of capitalist enterprises, contrary to Genoa and Amsterdam who "...were content simply to accept... [goods] at the end of the trade circuit, wherever agents or local merchants had stocked them on their behalf"[39]. This innovation was again a step forward in the evolution of capitalism as an economic system.

Yet, once again the saturation of the market and the decline of profit opportunities led to the reallocation of capital from industry to more profitable investments in financial assets. In this same context the Rothschild would become the main financers of the British government and support its market-making and empire-making activities, leading to the spectacular increase in the United Kingdom's public debt. Again, using Gerhard Mensch's terminology, a "signal crisis" in the 1870s would preannounce the demise of the existing system; again, this process was distinguished by unprecedented financial expansion and the diversion of capital from the real economy to the financial economy, and from one duo of political-financial power to another, as "London gained ground on Amsterdam as a rival centre of high finance"[40]; again would the

---

[36] Ibid.1 383-4.
[37] Eric Hobsbawn, *The Age of Capital 1848-1875* (New York: New American Library, 1979):32.
[38] Micheal Mann, *The Sources of Social Power.* Vol. I *A History of Power from the beginning to A.D. 1760* (Cambridge: Cambridge University Press, 1986).
[39] Ibid.25: 295.
[40] Ibid.5:163.

decline of the hegemon be accompanied by the 'good times' for merchant-bankers and wealthy reinters, in the period known in this case as *belle époque*;. By this same theory, the "terminal crisis" would occur in the 1930s and the British regime of accumulation would collapse to give way to the fourth and last systemic cycle, orchestrated by the United States.

The American world system would again rise and centralize power as the previous hegemonies had done, yet displaying innovative elements of its own. It indeed superseded the British hegemony by internalizing transaction costs through the development of multinational corporations, engaging in economic activity along the sequential sub-processes of production. In addition, "[i]n the world monetary system established at Bretton Woods, in contrast [with previous monetary systems], the "production" of world money was taken over by a network of governmental organizations"[41], thus ensuring a firm grasp on financial markets. Then, Arrighi identifies the Eurodollar crisis of the 1970s as the "signal crisis" of the American world-system, caused by the ponderous financial expansion which "outstripped the growth of global trade and output"[42], received by some commentators as a "Revolution"[43]. According to this reading, the present world system, held together by the United States, is on the verge of a terminal crisis.

The aim of this entire section is to provide solid grounds for thinking about the present crisis in a long-term perspective. As Arrighi makes clear, analysing the segment of history we currently live in means "...investigating the present and the future as part of an ongoing historical process which presents elements both of novelty and of recurrence in comparison with the closing... phases of all previous systemic cycles of accumulation"[44]. It is hence on three recurrent elements of systemic cycles that attention particularly needs to be drawn for the present discussion; these indeed provide a juncture with recent empirical study. They are: first, the decline of the real economy, and of profit opportunities therefrom, occurring alongside the expansion of capitalism; second, financialization of the economy, caused by the collapse of the hegemon; third, and most importantly, the redistributive implications of the two tendencies.

[41] P.287

[42] Andrew Walter, *World Power and World Money: The Role of Hegemony and International Monetary Order* (New York: St Martin's Press, 1991):200

[43] Robert Gilpin, *The Political Economy of International Relations (*Princeton, NJ: Princeton University Press, 1987):144.

[44]Ibid.5: 221

1. Starting from the assumption, proposed by Adam Smith, that “[w]hen the trade or practice becomes thoroughly established andwell-known, the competition reduces...[profits] to the level of other trades”[45], Karl Marx concluded that, “the real barrier of capitalist production is capital itself”[46]. Marx explained that “the capitalist mode of production involves a tendency towards absolute development of the productive forces... while its aim it to preserve the value of existing capital and promote its self-expansion”[47]; these two are fundamentally contradictory. It is hence an important contention in the presented scheme that the real economy tends to decline with the development of a systemic cycle of accumulation. Paolo Sylos-Labini deems that expansion of trade draws to a halt either because it *comes* to an end, due to low-profits which cannot compensate for risks, or because agreements or governmental regulations established with the aim of keeping profits to a tolerable level *bring* expansion to an end[48]. Is this hypothesis convincing? Does it find validation in recent literature in the the field of Economics?

2. A second crucial point, which complements and reinforces the first, is financial expansion and its role in the demise of the capitalist system. In light of this, what Rudolf Hilferding has termed in 1910 “finance capitalism” as the latest and most developed stage in systemic development[49] is but a recurrent feature of our economic history, occurring because the wealthy seek profit opportunities and high returns on their investment independently from the nature of such investments, be them physical or financial. According to one estimate, by 1979 foreign exchange trading amounted to 17.5$ trillion, “eleven times the total value of world trade”, and five years later it ballooned to 35$ trillion.[50] Beginning in that decade, capitalism thus experienced a radical change in its structure, and the re-emergence of finance capitalism in the 1970s “can be interpreted as

[45] Adam Smith, *An inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen, 1961):128.
[46] Karl Marx, *Capital Vol. III* (Moscow: Foreign Languages Publishing House, 1962):244-5.
[47] Ibid.38:244-5.
[48] Paolo Sylos-Labini, “Competition: The Products Markets”, in T. Wilson and A.S. Skinner, *The Market and the State: Essays in Honour of Adam Smith* (Oxford: Clarendon Press, 1976):219.
[49] Rudolf Hilferding, *A Study on the Latest Phase of Capitalist Development* (London: Routledge & Kegan Paul, 1981).
[50] Gilpin, *The Political Economy of International Relations (*Princeton, NJ: Princeton University Press, 1987):144.

reflecting the same underlying contradiction between the self-expansion of capital and the material expansion of the world-economy"[51], as Arrighi makes clear. How is this radical change relevant to the study of distributional economics?

3. These systemic tendencies carry with them considerable distributional implications. As Arrighi advocates, the tendency of trade expansion to slowdown influences competition for mobile capital, and thus sustains the expansion of finance capitalism. This has an impact on inequality; as the scholar explains:

   > This tendency brings about massive, system-wide redistributions of income and wealth from all kinds of communities to agencies that control mobile capital, thereby inflating and sustaining the profitability of financial deals largely divorced from trade and production. All the *belle époques* of finance capitalism- from Renaissance Florence to Reagan and Clinton eras- have been characterized by redistribution of this kind[52].

   the end of material expansion and the 'post-signal crisis' period are then "wonderful moment" for capital accumulators, and the contrasting pressures on finance and labour become more and more evident. Kevin Phillips understood the problem as well, and his explanation deserves to be quoted for the purpose of clarification:

   > Finance cannot nurture a [large middle] class, because only a small elite portion of any national population – Dutch, British or American – can share in the profits of bourse, merchant bank and countinghouse. Manufacturing, transportation and trade supremacies, by contrast, provide a broader national prosperity in which the ordinary person can man the production lines, mines, mills, wheels, mainsails and nets. Once this stage of economic development yields to the next, with its sharper division from capital, skills and education, great middle-class societies lose something vital and unique[53].

Can this last central thesis find validation? Are we really living on the verge of a terminal crisis, where systemic tendencies are dismembering our societies into polarized classes? Can this proposed scheme find empirical evidence? For the purpose of answering these questions, the

[51]Ibid.5:227
[52] Ibid.5: 373
[53] Kevin Phillips, *Boiling Point: Republicans, Democrats, and the Decline of Middle-Class Prosperity* (New York: Random House, 1993): 197.

next section will attempt to integrate World System Theory and Arrighi's systemic cylcles of accumulation with recent academic analysis in the field of distributional economics. As previously stated, the objective of this study is to focus on distribution of income and wealth, and it will hence not address the question of the collapse of the American systemic cycle of accumulation or the succession of a next hegemon. Rather, the aim is to integrate International Relations and Economics in their different yet comparable understanding of the tendencies they respectively identified.

2.1 The Real Economy and the Problem of Labour

The real economy is the locus of labour, the space where it thrives and acquires value, where the "manufacturing, transportation and trade"[54] identified by Kevin Phillips takes place; the part of the economy where goods are physically produced and distributed and which is complemented by the financial economy. Attention to labour and the real economy is no doubt influenced by my personal values, elegantly enshrined in the first article of Italy's constitution: "Italy is a democratic Republic founded on labour.";[55]however, the presented scheme justifies a focus on labour on quite different grounds. Can an examination of labour and of its importance serve to corroborate Arrighi's theory of systemic cycles with regards to the real economy? By taking labour as the representative element for the real economy as a whole, would it corroborate the thesis of declining profit opportunities occurring with systemic expansion? In this sense, are wages declining? Can an understanding of this topic from the perspective of Economics add something to the analysis of this dissertation?

To begin with, are the importance of labour and its compensation declining? This question has drawn much attention by scholars and politicians in the United States and research in this area followed suit. The Harvard Business School considered the Unites State as "[a]n economy doing half its job" and expressed worries as to the "troubling divergence on the American economy", where large and midsize firms rallied from the Great Recession but the middle and the working-class citizens are struggling.[56] However, the analysis offered by Porter and Rivking embraces a classical approach which does not seem to grasp the real nature of the phenomenon at work; according to the authors, the absence of education and workplace skills penalizes the lower social strata, which is then less employable[57], while it is the pessimism of small and medium enterprises on infrastructure improvements which leads to undesirable equilibria.[58] There is no mention of worrying long-term tendencies or disrupting systemic dynamics, and this can hardly resonate with the proposed scheme.

---

[54] Ibid.53
[55]Sito del Senato Della Repubblica. Senato.it: https://www.senato.it/documenti/repository/istituzione/costituzione_inglese.pdf
[56] Michael E. Porter and Jan W. Rivkin, "An Economy Doing Half its Job", *Harvard Business School* (September 2014):2.
[57] Ibid.57:21
[58] Ibid.57:27

The troubling employment situation in the American economy has however been observed by more than one angle. John Schmitt and Janelle Jones indeed focus on a slightly different aspect of the problem: "Where have all the good jobs gone?"[59]. The signals coming from this study are encouraging: skills and education cannot account for the divergence in remuneration, as "if technological change were behind the decline in good jobs, then we would expect that a higher... share of workers with a four-year college degree or more would have good jobs today", while they are less likely to have a good job than three decades ago.[60] Hence, despite the substantial upgrading in quality of the workforce, the real economy is on the decline and 'good jobs' disappear; how do the authors understand the phenomenon? The main cause is the "large-scale restructuring of the labour market that begun at the end of the 1970s", and a variety of factors like fall in unionization rate and real value of the minimum wage, deregulation of industries, decline in state and government jobs and the dysfunctional immigration system, which are explained by "policy decisions, rooted in politics", rather than by technological change.[61]

In addition to the lowering quality of jobs, American analysts also commented on wage stagnation and inequality resulting therefrom, which are further indicators of the worsening position of labour in the US economy. In this regard, the Economic Policy Institute intelligently examined "the growing gap between overall productivity growth and the pay of the vast majority of workers"[62]. The picture is then crystal-clear: while the period 1948-1973 witnessed a net productivity growth in the total economy of 96.7% accompanied by a 91.3% increase in the wage of average private sector production/nonsupervisory worker (group comprising over 80% of private payroll employment and hence representative of the typical American worker), the period 1973-2014 saw a productivity growth of 72.2% on the side of a critically low increase in wage compensation of 9.2%[63]. This widening gap between productivity and income is occurring because of low compensation and the reduced employment rate[64], earning inequality[65], and

[59] John Schmitt and Janelle Jones, "Where Have All the Good Jobs Gone?", *Center for Economic and Policy Research,* (July 2012).
[60] Ibid.59:5.
[61] Ibid.59:15.
[62] Josh Bivens and Lawrence Mishel, "Understanding the Historic Divergence Between Productivity and a Typical Worker's Pay: Why It Matters and Why It's Real", *Economic Policy Institute*, (September 2015).
[63] Ibid.62
[64] Lawrence Mishel and Jared Bernstein, *The State of Working America 1994-1995* (Washington D.C.: Routledge, 1995).

because of policies concerns which prioritized price stability over the growth of the real economy[66]. The impression is that labour has lost its primacy in the United States, as 'good jobs' disappear and work is dramatically underpaid, with unfavourable business and government policies.

However, as the present study seeks to conduct a systemic analysis of long-term dynamics, it needs to assess whether the evidence can be regarded as revealing of systemic tendencies or rather particularistic, by bringing in instances from more countries. With this aim in mind, the study "Wages, productivity and employment: A review of theory and international data" by the British Institute for Employment Studies assumes remarkable usefulness. To begin with, the authors deem the evidence from the US to be "a statistical artefact due to qualitative changes in compensation packages"[67] and, more constructively and empirically, observe that "[a]cross the EU member states and other similar western economies, there is great variation in the development of productivity between 1995 and 2009, using the indicator of GDP per hour"[68]. Then, relying on measures of total compensation included in OECD datasets, the authors show, among other things, that "[i]n Sweden, Canada, Denmark, Norway, Italy and Switzerland, real wages grew faster than GDP per hour",[69] concluding that "changes in the labour share may not accurately represent the development of labour compensation in relation to productivity", but rather stem from the particular characteristics of given economies[70].

The data seems to challenge the understanding of the wage-productivity gap as the exemplary factor of the decline of labour in the world-system economy, and thus places a severe strain on the theoretical framework so far proposed. In light of the difficulty, the next chapter will not attempt to isolate the real economy from the financial economy, separating labour and finance, but rather seeks to analyse the two, and their related systemic tendencies, as two faces of the same coin. This does not mean that the wage-productivity gap cannot be regarded as significant

---

[65] Peter Harrison, "Median Wages and Productivity Growth in Canada and the United States*", CSLS Research Report*, 2009.
[66] Susan Fleck, John Glaser, and Shawn Sprague, "The compensation-productivity gap: a visual essay", *Monthly Labour Review* (January 2011).
[67] Nigel Meager and Stefan Speckesser, "Wages, productivity and employment: A review of theory and international data", *Institute for Employment Studies*, (May 2011):30.
[68] Ibid.67:28.
[69] Ibid.67:31.
[70] Ibid.67:36.

evidence in favour of the claim that work is being devalued, and neither does it prove that the issue does not pose moral questions or is not part of a wider phenomenon; rather, I intend to search for an analytical framework which can complement this evidence, and then insert the specific problem of wage-productivity gap in this context. In order to adopt a broader focus and connect the dots between the decline of labour and the rising financialization of the economy, the present study is then going to draw on recent literature in Political Economy.

2.2 Labour and Capital - Systemic Tendencies

As previously stated, the aim of this study is to perform systemic analysis of long-term tendencies and adopt a broad focus, going beyond the "sunlit world of the market economy"[71], with the aim of uncovering the forces which lay at the bottom of the present capitalist crisis. Looking at the wage-productivity gap, the dissertation found there to be evidence in favour of the thesis that labour is losing its value in the United States, but failed to extend these results to the whole capitalist system. In light of this difficulty, the problem of the wage-productivity gap in the United States is going to be included and understood as part of a broader phenomenon that is the unbridled accumulation of capital and its negative implications for an equal distribution of resources.

In this context Thomas Piketty's *Capital in the Twenty-First Century* represents a major step forward as "[t]he novely of this study it that it is…the first attempt to place the question of the capital-labour split and the recent increase of capital's share of income in a broader historical context"[72]. But what is the capital-labour split? What is meant by capital's share of income? It is essential to define these terms and lay out some of the building blocks of Piketty's empirical analysis which are, according to the presented reading, coherent with Arrighi's understanding of systemic cycles.

To start with, *Capital in the Twenty-First Century* elaborates a theory which can connect the dots between the declining labour share and financialization of the economy. Yet it is important to clarify that, whereas *The Long Twentieth Century* commented on the purely financial aspect of capital, Piketty considerers national capital or national wealth as the sum of nonfinancial assets (land, dwellings, machinery, patents), financial assets (bank accounts, bonds, stocks) less of financial liabilities (debt),[73] and then goes on to analyse capital's importance with respect to labour and their mutual relation.

Before going on to the details of the author's message, it might be useful to familiarize with a few key concepts. First, the capital/income ratio is the most natural and useful way to measure capital stock in a particular country, by dividing that stock by the annual stock of income. For

[71] Ibid.2
[72] Thomas Piketty, *Capital in the Twenty-First Century* (London: Harvard University Press, 2014): 220.
[73] Ibid.72:48.

example, if a country's total capital stock is the equivalent of six years of national income, we write β = 6 (or β=600%). This indicator can effectively "measure the overall importance of capital in a society".[74]

Having devised an index to measure the stock of capital, Piketty elaborates the "First Fundamental Law of Capitalism"[75], which links the capital stock to the flow of income from capital. The law is the following:

$$\alpha = r \times \beta$$

where *r* is *the rate of return on capital.*

For example, if $\beta = 600\%$ $r = 5\%$, then $\alpha = r \times \beta = 30\%$.

In other words, if national wealth represents the equivalent of six years of national income, and if the rate on return on capital is 5% per year, then capital's share in national income is 30%.

In addition, the "Second Fundamental Law of Capitalism" establishes that the capital/income ratio β is related in a simple and transparent way to savings rate *s* and the growth rate *g* according to the following formula:

$$\beta = s/g$$

For example, if $s = 12\%$ and $g = 2\%$, then $\beta = 600\%$.

Which means that if a country saves 12 percent of its national income every year, and the rate of growth of its national income is 2 percent per year, then in the long run the capital/income ratio will be equal to 600 percent: the country will have accumulated capital worth six years of national income[76].

The Fundamental Laws of Capitalism provide an incredibly useful toolkit to analyse the systemic tendencies which are the object of the present study, as they permit the investigation of measurable factors and their role in shaping the direction of evolution of the capitalist world system in its entirety. Then, excluding the saving rate *s*, the present study will attempt to uncover

[74] Ibid.72:51
[75] Ibid.72:52
[76] Ibid.72:166

how and to what extent growth rate *g* and rate of return on investment *r* shape the evolution of capitalism. These factors need to be considered because of their dramatic influence on capital stock β and income from capital α, which indicate capital's importance in respect to labour and its share.

2.3 The First and Second Fundamental Laws- not absolute Laws

It is worth stopping for a reflection on the Fundamental Laws just presented; these have not to be taken as absolute Laws, meaning that these formulas might mean different things depending on how they are interpreted.

For example, let's focus on equation β = *s/g* and try to interpret it differently. Here $g = {}^{\Delta Y}/_{Y}$, change in output, savings equal $s = {}^{S}/_{Y}$, the volume of savings over what is produced, and $\beta = {}^{K}/_{Y}$, which in the amount of capital in output and indicates the state of technology in a given economy. Looking at the equation as β = *s/g*, the implication would be that the only way to increase growth is to increase the stock of capital in a given economy: $\Delta K = \beta \Delta Y$.

Yet, in equilibrium I=S, the equation could be looked at as g=s/β, meaning still a different thing. Indeed, where I=S growth would be best achieved by the increase in investment; however, here a considerable capital stock β would make it more costly to achieve growth, requiring higher investment. The higher the capital stock, the more costly it is to grow. The message is radically different depending on which variables are considered dependent or independent.

Similarly, α=r x β can be looked at from a different perspective. Looking at the equation as r=α/β, the meaning of the formula would be: given the state of technology in a given economy β, the rate of return *r* is determined by α. Yet, what is α? This is nothing but profits over output, determined as:

$$\alpha = \frac{\text{profits}}{\text{output}} = \frac{\text{output} - \text{cost of labour}}{\text{output}} = \frac{output - wL}{output}$$

where *w* is the average wage and *L* is the number of employed workers. Dividing everything by output, α = 1 – *wl*, where *l* is the inverse of average productivity in the economy: output/L (labour force). The message to be drawn is that, considering things in this different light, the rate of return would be determined by:

$$r = \frac{1 - wl}{\beta}$$

This all underlined the importance of workers' pay according to this different reading: the higher the profit (meaning the lower the average wage bill) given the state of technology β, the higher is the rate of return on investment. Yet, the higher amount of capital β in a given economy, would lower the rate of return on investment.

A concluding remark is that, according to the presented reading, what ensures growth in a given economy is the amount of productive investment; this all differs from Piketty's interpretations and deserves to be mentioned.

2.4 Growth

Growth is an important factor for equalization, especially when fuelled by demographic growth. For example, in a society where output per capita grows fivefold every generation, it is better to count on what can earn and save from one's own labour rather than inherited wealth, as income from previous generations is inevitably smaller than income in the present. Yet, according to UN estimates[77], demographic growth seems already on the slowdown, and thus a regime of low growth could be expected from the future.

Yet, going from suppositions to empirical data, how has the rate of output so far evolved? The following table, displaying data from Pikett's *Capital*, shows per capita output since the Industrial Revolution:

Table1.1: Per capita output growth since the Industrial Revolution (average annual growth rate)[78]

Average annual growth rate	**Per capita world output**	Europe	America	Africa	Asia
0-1700	**0.0%**	0.0%	0.0%	0.0%	0.0%
1700-2012	**0.8%**	1.0%	1.1%	0.5%	0.7%
incl.: 1700-1820	**0.1%**	0.1%	0.4%	0.0%	0.0%
1820-1913	**0.9%**	1.0%	1.5%	0.4%	0.2%
1913-2012	**1.6%**	1.9%	1.5%	1.1%	2.0%
1913-1950	**0.9%**	0.9%	1.4%	0.9%	0.2%
1950-1970	**2.8%**	3.8%	1.9%	2.1%	3.5%
1970-1990	**1.3%**	1.9%	1.6%	0.3%	2.1%
1990-2012	**2.1%**	1.9%	1.5%	1.4%	3.8%
1950-1980	**2.5%**	3.4%	2.0%	1.8%	3.2%
1980-2012	**1.7%**	1.8%	1.3%	0.8%	3.1%

Between 1910 and 2012, the growth rate of per capita output was 1.7% per year on average at the world level, including 1.9% in Europe, 1.6% in America, etc.

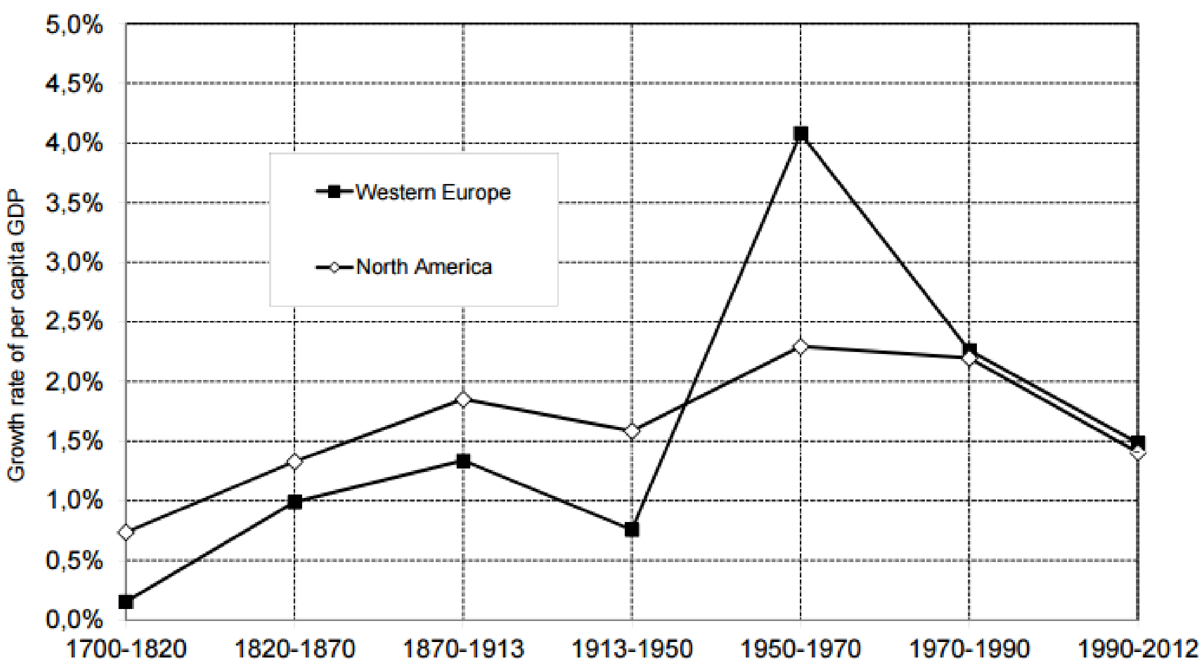
Sources: see piketty.pse.ens.fr/capital21c

[77] United Nations Department of Economic and Social Affairs: Population Division, "World Population to 2030" (New York, 2004). URL: www.un.org/esa/population/publications/.../WorldPop2300final.pdf
[78] Ibid 72:94.

The reason why this data is important is because it shows that rates of output growth beyond 2% are exemptions which can be largely associated with catch-up phenomena and demographic growth. This has led some to the conclusion that rates of growth are destined to slow down in the most advanced countries, and these may even sink below 0.5 percent per year between 2050 and 2100[79].

In addition, it is noteworthy that Piketty's estimates on growth align with Arrighi's phases of material expansion of the real economy. The following figure illustrates this relationship in the context of the British and United States' hegemonies, showing the growth rate of per capita output since the Industrial Relvolution. Moreover, Figure 1.1 provides grounds for justifying the impressive rate of growth at 4% between 1950 and 1970 on the basis of a European catch-up phenomenon towards American levels.

Figure 1.1: The growth rate of per capita output since the Industrial Revolution[80]



The growth rate of per capita output surpassed 4% per year in Europe between 1950 and 1970, before returning to American levels. Sources and series: see piketty.pse.ens.fr/capital21c

[79] Robert J. Gordon, "Is the US Economy Growth Over? Faltering Innovation Confronts the Six Headwinds", NBER Working Paper 18315 (August 2012):2.
[80] Ibid.72:97.

The assumption that low-growth can be expected from the future is then not unfounded at all. The data seems quite clear, as Piketty points outs, "there is no historical example of a country at the world technological frontier whose growth in per capita output exceeded 1.5 percent over a lengthy period of time"[81]. In addition, looking at the last few decades, lower growth rates are found for the wealthier countries: between 1990 and 2012, per capita output grew at a rate of 1.6 percent in Western Europe and 1.4 percent in North America. The belief in growth rates of 3% or 4% per year are thus proven wrong by both history and logic.

Coming back to the Second Fundamental Law of Capitalism, low growth has tremendous implications for the capital/income ratio. Where:

$$\beta = s/g$$

a decrease in the rate of growth translate into an increase in the capital stock of a country relative to its national income. Why is this worrying? Connecting this with the First Fundamental Law of Capitalism, the picture might be clearer:

$$\alpha = \mathrm{r} \times \beta$$

An increase in capital stock might lead to an increase in the capital share of income to the detriment of labour, which is the same systemic tendency identified by Arrighi towards the end of a systemic cycle of accumulation. However, this reading implicitly relies on one assumption which is all but obvious: an increase in the capital stock does trigger a proportional decrease in the rate of return on investment, which would nullify the effect of a larger β. Therefore, for the proposed scheme to be complete and perform a comprehensive analysis, rate of return on investment *r* needs to be further examined and its relation with β established.

[81] Ibid.72:93.

2.5 Rate of Return on Investment

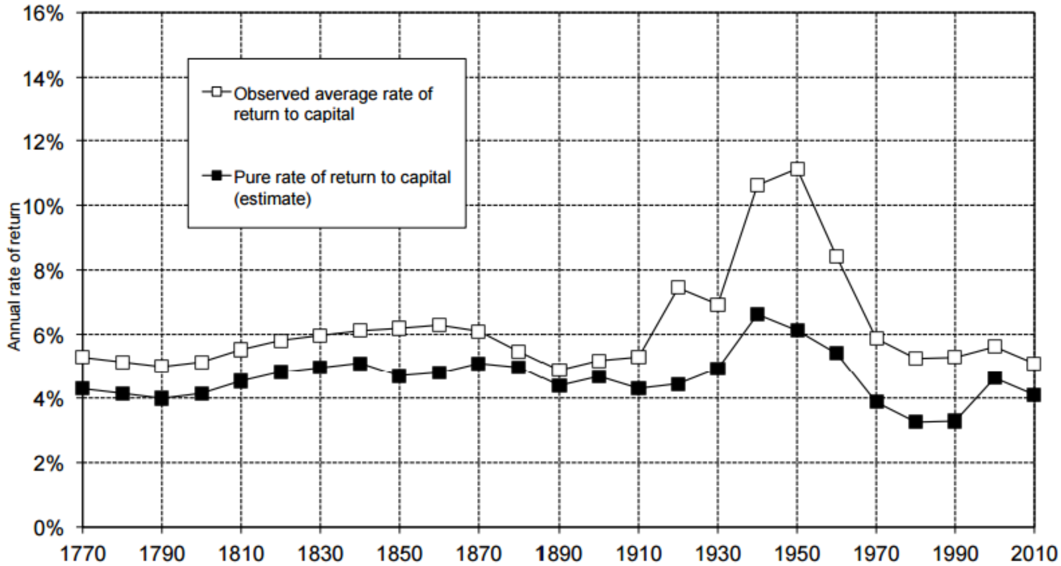
An important question to be answered is: how is the rate of return on capital determined? Empirical data is a good way to begin this discussion: Figure 1.2 and 1.3 show the average and pure return on capital in Britain and France in the period 1770-2010; these are the only countries for which data is available throughout the entire period. The indicator is arrived at by adding the various amounts of capital included in national income, regardless of legal classification (rents, profits, interests, royalties, etc.) and then dividing by the national capital. The result is then equal to the average rate of return *r*; subtracting taxes (or rather estimate of the average tax rate regardless of the legal classification of capital) the result is the pure rate of return. The data shown in Figure 1.2 and 1.3 seems straightforward: despite slight fluctuations, which arguably correspond to the change of hegemonies theorized by Arrighi in the inter-war period, return on capital seems to be quite stable over time, around 4/5%.

How can theory account for facts? What determines the return on capital? Simple economic explanations usually provide two models for answering the question; in the first model, which assumes pure and perfect competition in both capital and labour markets, the rate of return on capital is equal to the marginal productivity of capital. In more complex models, return on capital depends on the relative bargaining power of the various parties involved. In any case, the forces determining *r* are technology (what is capital used for?) and abundance of capital stock (abundant supply should diminish return on capital).

Yet, the central question for this dissertation is not to theorize how return on capital is determined, but rather establish if an increase in β (stock of capital) will lead to a decrease in *r* which leaves income from capital unaffected. The question then is not if whether *r* decreases with an increase in β, which can naturally be expected according to the laws of supply and demand, but how fast *r* decreases. Indeed, if *r* falls less proportionately when β increases (for example, if *r* decreases less than half when is doubled), then capital's share increases when β increases. Based on historical evolutions observed in Britain and France, this second case seems more applicable in the long-run: income from capital follows the stock of capital which indeed accumulated to a considerable extent in the eighteenth and early nineteenth century[82].

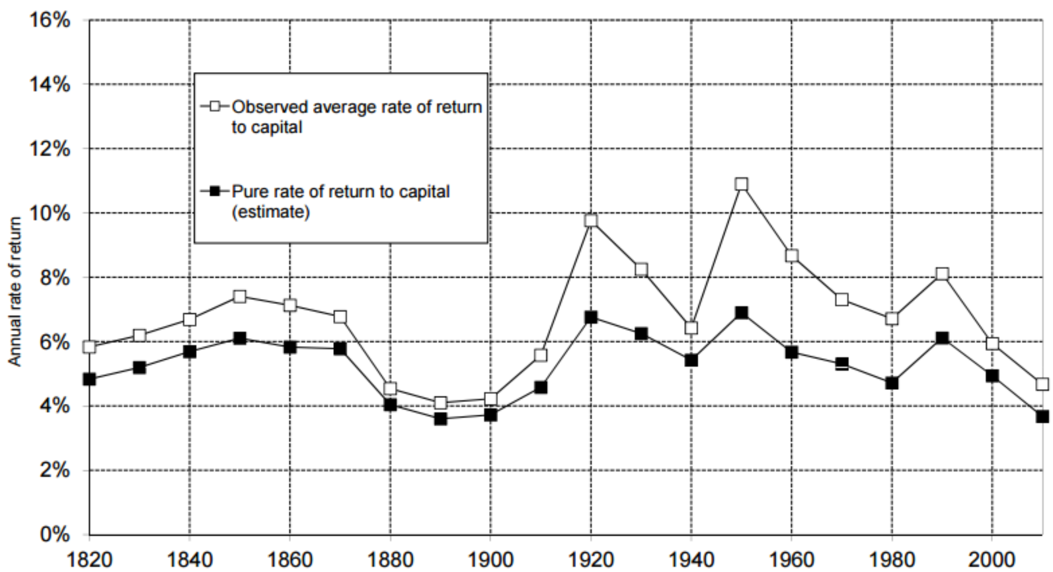
[82] Ibid.72:200-201.

Figure 1.2: The return on capital in Britain, 1770-201



The pure rate of return to capital is roughly stable around 4%-5% in the long run.
Sources and series: see piketty.pse.ens.fr/capital21c.

Figure 1.3: The return on capital in France, 1770-2010

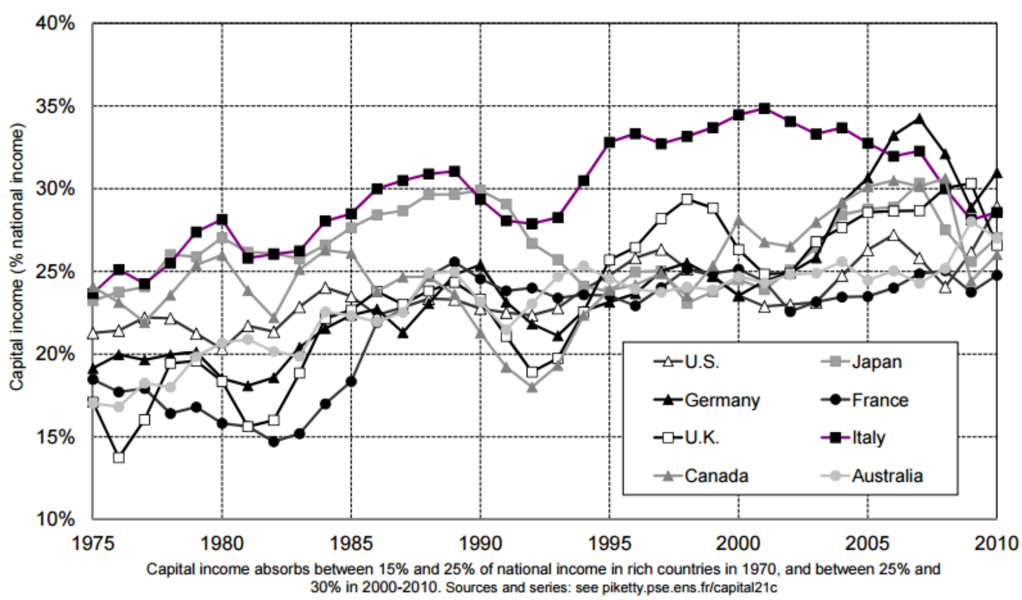


The observed average rate of return displays larger fluctuations than the pure rate of return during the 20th century.
Sources and series: see piketty.pse.ens.fr/capital21c.

These findings challenge much of the established theory on capital's share in output. Beginning with Arthur Bowley, the theory that the capital-labour split remains constant over time was first introduced in Economics;[83] The Cobb-Douglas production function picked up this suggestion and then treated share of income as a fixed parameter[84],arriving at similar results. This assumption was even defended by John Mayard Keynes, which called the capital-labour split "one of the best-established regularities in all of economic science".[85] However, it is worth noting that international organizations today recognize that the capital share of income is not constant. For example, the IMF investigates the effect of globalization on the labour's share in output,[86] while the OECD notes the "secular downward trend" in the labour share.[87]

A last, the thesis of an increasing capital share and declining labour share is confirmed by empirical evidence; the data is shown in figure 1.4 below:

Figure 1.4: Increase in Capital Share



[83] Arthur Bowley, the Change in the Distribution of National Income, 1880-1913 (Oxford, Clarendon Press, 1920)
[84] Charles Cobb and Paul Douglas, "A Theory of Production", *American Economic Review 18*, no.1, (March 1928): 65-139.
[85] John Maynard Keynes, "Relative Movement of Wages and Output", Economic Journal 49 (1939):48.
[86] Anastasia Guscina, "Effects of Globalization on Labour's Share in National Income", IMF Working Paper. URL:https://www.imf.org/external/pubs/ft/wp/2006/wp06294.pdf
[87]International Labour Organization, "The Labour Share in G20 Economies" (February 2015). URL:https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf

The central thesis advanced by Arrighi is then confirmed by empirical data: capital is acquiring a larger share in output to the detriment of labour. However, for the purpose of critical analysis, it is worth noting that that Piketty and Arrighi's accounts do diverge on some points. For example, while Piketty theorizes a virtually stable rate of return of investment throughout history and growth which fluctuates according to demographic changes and catch-up processes, Arrighi assumes the rate of return to change abruptly and growth to slow down when a hegemon is on the verge of collapsing. This can however be considered a minor difference, as the two agree on the general tendency of r and g: independently from a stable or increasing r, what matters is the difference between r and g which causes diversion of resources towards the top of the social ladder. A second difference between the two investigations is that while *The Long Twentieth Century* adopts a century-long perspective, the *Capital* focuses on the time period going from to the Industrial Revolution up until around 2010. Yet, for the purpose of integrating their views, this does not seem to be a major obstacle. Third, as previously stated, while Arrighi discusses the heightened importance of capital only in relation to its financial form, Piketty considers nonfinancial capital as well; yet, the French scholar acknowledges that investment in nonfinancial assets "decreases sharply as one moves higher in the wealth hierarchy" and that "true wealth always consists primarily of financial and business assets"[88].

The list of divergences between the two texts surely contains many more items; however, the purpose of the analysis so far proposed is to show that the accounts of Arrighi and Piketty can to an extent be pulled together and reinforce each other, effectively performing the sort of systemic analysis this dissertation has the aim of performing. One last point which needs to be clarified to complete the scheme is how exactly systemic tendencies are unfavourable to a fair distribution of resources.

2.6 From systemic tendencies to inequality

How are the dynamics of the capital/income ration and capital-labour split, identified with the Second and First Fundamental laws of Capitalism, related to inequality in society? In order to answer the question, Tables 1.2 and 1.3 display revealing information: capital, across time and space, is always more unequally distributed than income from labour.

[88] Ibid.72:260.

Table 1.2: Inequality of labour income across time and space

Share of different groups in total labor income	**Low inequality** (= Scandinavia, 1970s-80s)	**Medium inequality** (= Europe 2010)	**High inequality** (= U.S. 2010)	**Very high inequality** (= U.S. 2030 ?)
The top 10% "Upper class"	**20%**	**25%**	**35%**	**45%**
including: the top 1% ("dominant class")	*5%*	*7%*	*12%*	*17%*
including: the next 9% ("well to-do class")	*15%*	*18%*	*23%*	*28%*
The middle 40% "Middle class"	**45%**	**45%**	**40%**	**35%**
The bottom 50% "Lower class"	**35%**	**30%**	**25%**	**20%**
Corresponding Gini coefficient (synthetic inequality index)	0.19	0.26	0.36	0.46

In societies where labor income inequality is relatively low (such as in Scandinavian countries in the 1970s-1980s), the top 10% most well paid receive about 20% of total labor income, the bottom 50% least well paid about 35%, the middle 40% about 45%. The corresponding Gini index (a synthetic inequality index going from 0 to 1) is equal to 0.19. See technical appendix.

Table 1.3: Inequality of capital ownership across time and space

Share of different groups in total capital	**Low inequality** (never observed; ideal society?)	**Medium inequality** (= Scandinavia, 1970s-1980s)	**Medium-high inequality** (= Europe 2010)	**High inequality** (= U.S. 2010)	**Very high inequality** (= Europe 1910)
The top 10% "Upper class"	**30%**	**50%**	**60%**	**70%**	**90%**
including: the top 1% ("dominant class")	*10%*	*20%*	*25%*	*35%*	*50%*
including: the next 9% ("well to-do class")	*20%*	*30%*	*35%*	*35%*	*40%*
The middle 40% "Middle class"	**45%**	**40%**	**35%**	**25%**	**5%**
The bottom 50% "Lower class"	**25%**	**10%**	**5%**	**5%**	**5%**
Corresponding Gini coefficient (synthetic inequality index)	0.33	0.58	0.67	0.73	0.85

In societies with "medium" inequality of capital ownership (such as Scandinavian countries in the 1970s-1980s), the top 10% richest in wealth own about 50% of aggregate wealth, the bottom 50% poorest about 10%, and the middle 40% about 40%. The corresponding Gini coefficient is equal to 0.58. See technical appendix.

A larger and larger capital share with respect to labour is then a problem in itself, as it tends to favour wealth over labour, and the restricted class of capital owners relative to the majority of the population, which earn their income through work. This can be explained through the mechanism of wealth accumulation connected to the Fundamental Force of Divergence $r>g$. This mechanism is a feature of capitalism as "there appears never to have been a society in which the rate of return on capital fell naturally and persistently to less than 2-3 percent, and the mean return we generally see…is generally closer to 4-5 percent"[89], while growth only exceptionally exceeds 1-2 percent.

Factors keeping the rate of return on capital *r* at high levels, despite the increase supply of capital, comprise technology, which multiplies the possible use of capital over labour, and globalizing financial markets, which offer a wider and wider range of opportunities for capital investment. Most interestingly for this dissertation, it is international competition for mobile capital which ensures stable and high returns on capital investment, as it pushes States to lower the tax burden on investors and offer favourable interest rates to beat competitors. The consistency with Arrighi's account is here impressive.

To this it must be added that, even within wealth owners, additional mechanisms encourage the concentration of capital in fewer and fewer hands. Financial globalization figures again in the list, as capital markets become more perfect and hence offer an increased number of profit opportunities to those holding capital in excess. In addition, even return on capital might itself be determined by the wealth of the investor, as economies of scale in portfolio management reduce costs, and investments of large sums are often guaranteed on more profitable terms, amplifying and aggravating the effects of $r>g$. This reading seems to be confirmed by empirical data, as Roine and Waldenström show that the share of the top 1 percent in total personal wealth between the early 1980s and the 2000s rose from 22 percent to 24.4 percent[90].

Moreover, inequality within labour tends to be reinforced by the capital-labour split. Data shows that inequality tends to grow procyclically, and when capital increases in the national income, so does inequality within labour income[91]. The observed inequality of income noted at the

[89]Ibid.72:358.
[90] Anthony B. Atkinson, *Inequality: What Can Be Done?* (London: Harvard University Press, 2015):72.
[91]Ibid.72:288.

beginning of this section in the United States is then related to the latent systemic dynamics of the capitalist world-system, and the picture now appears to be complete. The negative impact of a decreasing labour share in the economy is all the more confirmed by the study “Labour Market Institutions and the Personal Distribution of Income in the OECD”, where Checchi and Garcia Peñalosa estimate that, in sixteen OECD countries from 1970 to 1996, a 1 percent point rise in the wage share is associated with a 0.7 percent point reduction in the Gini coefficient[92]. The impact of a decreasing labour share on inequality seems then to be clear, and some would argue even quantifiable.

However, it is worth noting that these fundamental forces are not the only ones at work in determining undesirable outcomes when it comes to the distribution of resources. The dynamics identified in this section do not exclude political and economic processes, studied by many scholars, which are part of the problem. It is difficult to establish whether phenomena of this sort are in some way related to the more fundamental inegalitarian spiral produced by capitalism; yet, these processes deserve to be mentioned, especially for the purpose of clarification.

A further phenomenon contributing to the creation of inequality is the decline in the Welfare State. The relation between Welfare regimes and low economic inequality seems to be beyond doubt; although with varying degrees, the welfare state appears to be an important institution for the fair distribution of resources.[93] Although the success of public transfer policy to the least well-off might depend on institutional types of welfare states, it remains that “social insurance institutions are of central importance for redistributive outcomes”, as Korpi and Palme admit.[94] Yet, while the welfare state held its own for a significant period, starting from the 1980s it was then unable to keep up, as data from Britain[95], Germany[96] and Finland[97] can demonstrate. OECD

[92] Daniele Checchi and Cecilia Garcia Peñalosa, “Labour Market Institutions and the Personal Distribution of Income in the OECD”, *Bonn Institute for the Study of Labour* (July 2005).
[93] Wiemer Salverda, Brian Nolan & Timothy M. Smeeding, *The Oxford Handbook of Economic Inequality* (Oxford Handbooks Online, 2012).
[94] Walter Korpi and Joakim Palme, "The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries", *American Sociological Review*, Vol. 63 (October, 1998), pp. 661-687.
[95] Antony Atkinson, “What is Happening to the Distribution of Income in the UK?”, *Proceedings of the British Academy* (1992):317-351.
[96] Ibid.90:66.
[97] Hannu Uusitalo , Changes in Income Distribution During a Deep Recession and After (Helsinki: National Institute for Health and Welfare, 1999)

Secretary General explained in his 2011 report "Divided we Stand" that "from the mid-1990s to 2005, the reduced redistributive capacity of tax-benefit systems was sometimes the main source of widening household-income gaps".[98] Whether or not the decline of the welfare state can be related to the systemic tendencies identified in this section remains and interesting point for discussion, which will however not be treated here.

Similarly, the worsening conditions of workers vis-à-vis employers may or may not be related to the reduction of the labour share in the economy; in any case, it constitutes a major factor generating inequality in labour income. Collective bargaining contributed to the rise in labour incomes, especially in the 1970s. This is confirmed by the data relating to Italy[99], where the Scala Mobile (SM) significantly affected wages, causing Ignazio Visco to ascertain in 1979 that there was a "market tendency for the range of earnings to become narrower"[100]. Similar data relates to Sweden[101] and Finland.[102] Likewise, national income and minimum wage policies, promoted by collective bargaining, can be thought of as encouraging economic equality[103]. The disappearance of this set of factors certainly had an impact on the distribution of income and wealth.

At last, financialization, which this time can be easily associated with the systemic tendencies identified so far, markedly influenced the distribution of wealth and income. One indicator which can grasp the phenomenon is the market value of companies listed in the stock exchange relative to their book value, well embodied in the Tobin's Q. There has indeed been "general tendency for Tobin's Q to increase in the reach countries since 1970",[104] and "[h]ence, as expected, the increase in overhead obligations in the form of interests and dividends come at the expense of the share of wages in national income", as Petra Dünhaupt makes clear when

---

[98] Organization for Economic Cooperation and Development, "Divided We Stand: Why Inequality Keeps Rising"(2015).

[99] Christopher L. Erickson and Andrea Ichino, "Wage differentials in Italy: Market Forces, Institutions and Inflation" in Richard B. Freeman and Lawrence F. Katz, *Differences and Changes in Wage Structure* (Chicago, University of Chicago Press, 1995):265.

[100] Ignazio Visco "The Indexation of Earnings in Italy: Sectoral Analysis and Estimates for 1978-79" *Rivista di Politica Economica* (1999):151-183.

[101] Tor Eriksson and Marcus Jäntti, "The Distribution of Earnings in Finland 1971-1990", *European Economic Review* (1997):1736-1779.

[102] Ibid,101.

[103] Ibid.90.

[104] Ibid.72:191

investigating the effect of financialization on labour's share of income[105]. This aspect of financialization and financial globalization is central all the more because, as previously stated, it stimulates competition for mobile capital and creates profit opportunities for investment far beyond geographical confines. Additionally, this process can be thought of as contributing to the decline of the Welfare State, as financial assets are not taxed by governments, contrary to nonfinancial assets, and hence deprive States of valuable resources. All things considered, financialization is probably a very important process, related to systemic tendencies, which has an impact on labour's share of income and wealth concentration; it deserves attention and hence poses important moral questions.

Although the picture is bleak, it can be held to be clear. Systemic tendencies inherent in capitalism push towards higher capital/income ratios and increase capital's share in national output to the detriment of the labour share, and this generates inequality. In addition, processes which might or might not be related to the more fundamental tendencies in turn prompt the unequal distribution of income and wealth. These processes actually contributed to the decrease in inequality up until the 1980s; yet, as Anthony Atkinson summarizes, "the welfare state and the expansion of transfers, the rising share of wages, the reduced concentration of personal wealth, and the reduced dispersion of earnings as a result of government intervention and collective bargaining… have gone into reverse…or come to an end"[106]. How are we then to behave, as a society, when confronted with the abovementioned phenomena? What sorts of arguments need to be developed in order to face this crisis? Are we to seek a better distribution of resources on moral grounds? If policies which can actually redistribute resources do exist, do we have an ethical responsibility for actuating them?

[105] Petra Dünhaupt, "The effect of financialization on labor's share of income", *Berlin School of Economics and Law* (2013).
[106] Ibid.90:75

3.1 Inequality as an ethical concern

The problem of inequality is not a problem in itself, but rather assumes negative connotations only and insofar as it conflicts with the moral norms of a given society. This is well explained by Thomas Piketty, who indeed believes that:

[w]hether such extreme inequality is or is not sustainable depends…on the effectiveness of the apparatus of justification. If inequalities are seen as justified, say because they seem to be a consequence of a choice by the rich to work harder or more efficiently than the poor, or because preventing the rich from earning more would inevitably harm the worst-off members of society, then it is perfectly possible for the concentration of income to set new historical records… the key issue is the justification of inequalities rather than their magnitude as such[107].

Yet, it would be naïve to neglect the major difficulties that anyone would encounter in establishing what is right, desirable or just when it comes to inequality, all the more because the phenomena so far analysed involve a wide variety of States, meaning a wide variety of conceptions of the 'good life', cultures and beliefs. However, the social scientist is not to content himself with the conclusion that relativism and constructivism render the study of this issue impossible, but should rather strive to overcome this impasse.

In this regard, the present dissertation recognizes the valuable attempts at surpassing the difficulties of constructivism and relativism. First among others, John Hendry's *Ethics and Finance* effectively structures the debate on the moral implications of today's financial development, successfully establishing a framework to analyse system-wide phenomena which can be useful in the present discussion. The scholar distinguishes between "ethics" and "morals", which are sometimes used interchangeably by philosophers themselves. Hendry explains:

By "ethics" I shall generally refer to the philosophical question as to how people should live, including how they should behave to themselves and others, what rules of principles they should apply, etc. By "morality" I shall generally refer… to a system of norms that *actually prevails* in *any* given society, together with the socially accepted justifications of these and the attendant structure of blame, etc.[108]

This distinction stems from the recognition that there are three possible grounds for moral judgment. First, there is the emotional ground – "I think something is wrong because I feel it is wrong emotionally. I find it repugnant…" – second, there is the cultural basis, "I think it's wrong

[107]Ibid.72:264.
[108] John Hendry, *Ethics and Finance: An Introduction* (Cambridge: Cambridge University Press, 2013):52.

because it goes it goes against the culture and norms of my society"; third, and most importantly, "I may think it's wrong on the basis of some kind of rational argument", and the latter are ethical arguments. Of course moral and ethical grounds are not strictly separate when we make a judgment, and even logical explanations are often informed by emotional or cultural notions; however, if progress in the discussion on whether inequality is or is not to be tolerated can be made, it can only proceed in the direction of rational arguments, towards Normative Ethics rather than particularistic morality.

How, then, have theories of Normative Ethics evolved to instruct on the fair distribution of resources, such as income and wealth? This dissertation will single out four main theories of distributional justice: Utilitarianism, Liberal Equality - in its contractualist form as conceived by John Rawls -, Libertarianism and Marxism. Each one of the theories offers major insights on how society's goods should be distributed, and they are to a large extent competitive, as their combined use would be problematic due to their conflicting axioms. Can one of these theories be regarded as superior to the others, and thus inform on the most desirable distribution obtainable in any given society? A definite answer to this questions would carry enormous implications for policy-makers, who would then just need to implement measures with the aim of achieving the desirable outcome. Hence, an examination of these theories can shed light on the crucial question mentioned above.

Utilitarianism is a simple yet controversial theory of justice. This theory has several attractions: first, it conforms to our intuition that well-being matters because of its consequentialist component; whether an act or policy in question is ethically just depends on whether it does or does not do some identifiable good to people, and not because of the intrinsic nature of the act[109]. Second, it is strictly egalitarian, as it requires giving to each person equal weight in the consideration of utility-maximizing measures. How is the theory relevant to distributional questions? The answer is straightforward: people who lack resources will, in general, get more utility out of each additional resource that those who already have many resources.[110] Hence, societies shall opt for distributions of income and wealth which maximize overall utility,

[109] Will Kymlicka, *Contemporary Political Philosophy: An Introduction* (Oxford: Oxford University Press, 2002):10
[110] R.B. Brandt, *Ethical Theory* (Englewood Cliffs: Prentice-Hall, 1959).

Nevertheless, strict adherence to utilitarian logics might sometimes lead to undesirable outcomes. An example is that Utilitarianism might violate individuals' rights to a fair share of society's resources. According to Hare, individuals do not actually own resources, but rather enter in their possession insofar as a better distribution is not found, meaning a distribution which is utility maximizing[111]. This means that where the welfare of society is maximised, for example, by everyone using my backyard, I would lose the entitlement to legitimately enjoy that space. This controversy would assume dramatic connotations when dealing with minorities, whose rights would be overridden for the enhancement of common utility.

A second, competing theory of justice is Liberal Equality, as initially conceived by John Rawls in its contractualist form. The theory explains that, if individuals were to draft a social contract establishing the rules for a fair distribution of resources behind a 'veil of ignorance', they would opt for a "maximin strategy"[112]; for example, imagine these three possible distributive schemes in a three-person world:

a) 10:8:1
b) 7:6:2
c) 5:4:4

Reasonable individuals would pick the third scheme even though the first two have a higher average utility. This sort of reasoning motivated the philosopher's conception of the Second Principle of Justice, also known as the Difference Principle, which states:

Social and Economic inequalities are to be arranged so that they are both:

a) To the greatest benefit of the least advantaged and,
b) Attached to offices and positions open to all under conditions of fair equality of opportunity[113].

Rawls's theory is attractive because it recognizes individual's entitlements to a fair share of resources, it considers equality as desirable and yet tolerates unequal distributional outcomes where they benefit the least advantaged members of society; the philosopher hence strikes a fair balance between equality and efficiency. At last, equality of opportunity, which is quite

[111] R.M. Hare, "Justice and Equality", in J. Arthur and W. Shaw, *Justice and Economic Distribution* (Englewood Cliffs: Prentice Hall,1978)
[112] Ibid.109:66
[113] John Rawls, *A Theory of Justice* (London: Oxford University Press,1971):302-303.

uniformly regarded as a moral concept in the developed world, finds space in John Rawls's theory of justice.

Yet again, even this contractualist approach presents some fallacies. The major argument against Rawls's distributional framework is that it would legitimate the subsidy of individual's irresponsible choices. In a hypothetical situation, two individuals might start off with equal access to resources and equality of opportunity, yet their choices would lead them to different positions in society; the hard-working individual might at the end be bound by an obligation to share the fruits of his/her sole labour with the less-ambitious individual. As Dworkin points out, the distributive scheme should rather be "endowment-insensitive" and "ambition-sensitive"[114], rewarding industrious workers while penalizing indolent individuals and, at the same time, equalize opportunities and endowments. The Difference Principle does not make any distinction between chosen and unchosen inequalities.

A third theory which provides ethical guiding principles on the distribution of income and wealth is Libertarianism, as understood by Robert Nozick. The philosopher relies heavily on the liberal principles as embraced by Kant and Locke; one concept of outstanding importance in his distributional scheme is the Kantian principle of self-ownership, which underlines "the existence of distinct individuals who are not resources for others"[115]. In addition, Nozick believes, in line with John Locke, that appropriation in always legitimate as far as 'enough and as good' is left in common for others, and privatization is desirable because it avoids the "Tragedy of the commons", where overall welfare is a lot smaller compared to a situation of private property[116]. The theory has the advantage of protecting individuals as ends in themselves and legitimates free markets outcomes as the result of people's past choices.

The theory evidently has some major weaknesses. First, Charles Fried advances an interesting argument with respect to personal freedom. Although Nozick seeks to protect individuals as ends in themselves by prohibiting the distribution of resources, which would deprive someone of the fruits of their own labour, this might not be the best way to achieve "substantive self-

---

[114] Ronald Dworkin, "In Defence of Equality", *Social Philosophy and Policy* (1983):31.
[115] Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books,1974):33.
[116] Ibid.115:177.

yownership"[117]. Legal entitlements and formal freedoms are important, but income and wealth are sometimes necessary to obtain freedom to pursue legitimate aims, such as education. To quote a sublime passage by John Stuart Mill:

> No longer enslaved or made dependent by force of law, the great majority are so by force of poverty; they are chained to a place, to an occupation, and to conformity with the will of an employer, and debarred by the accident of birth both from enjoyments, and from the mental and moral advantages, which others inherent without exertion and independently of deserts. That this is an evil equal to almost any of those against which mankind have hitherto struggled, the poor are not wrong in believing[118].

It makes little sense to attribute full responsibility to individuals for distributional outcomes, and self-ownership is best guaranteed by access to basic resources rather that by absolute rights over the fruit of one's own labour. Other theories of justice make a better job in dealing with rights of compensation for undeserved disadvantages.

At last, Marxism provides ethical guidelines which are yet different from those proposed by Utilitarianism, Liberal Equality and Libertarianism. The theory advances the strong argument that theories of just distribution concentrate too much on distribution, rather than on the more fundamental question of production, as noted by Holmstrom[119]. As long as production is not addressed, inequalities will naturally proliferate. In addition, Marxism generally rejects the liberal emphasis of juridical equality, claiming that equal rights have unequal effect and, more importantly, explaining that judicial conflict arises from the circumstances of unequal ownership of the means of production and, once public ownership of the means of production is achieved, attention should be shifted on satisfying necessities according to the maxim "from each one according to his ability, to each one according to his needs"[120]. The theories hence provides valuable insights onto the more fundamental causes of inequality and casts a critical eye on judicial equality.

However, Marxism in turn suffers from major weaknesses. The often cited criticism of Marxism is that it is simply utopian and cannot work in practice, and the fall of the Soviet Union can

[117] Charles Fried, "Distributive Justice", *Social Philosophy and Policy* (1983):55.
[118] John Stuart Mill, "Chapters on Socialism", *Collected Works* (Toronto: University of Toronto Press,1967):710.
[119] Karl Marx, *Critique of the Gotha Programme,* 1875.
URL:https://www.marxists.org/archive/marx/works/download/Marx_Critque_of_the_Gotha_Programme.pdf
[120] Ibid.119.

provide evidence for this argument. In addition, one can hold the Marxist maxim of distributing resources according to people's needs to be too general and abstract; whose needs should be satisfied? What degree of need satisfaction should be achieved? At last, the Marxist view of judicial equality might be considered to be too extreme: rights do not necessarily push individuals into interpersonal conflict as Buchanan maintains[121], and judicial safeguards can exist on the side of an egalitarian and just societies.

How is one of these theories to be considered superior to the others? Despite this analysis, it seems inevitable to face an impasse when it comes to ethical judgment in the field of distributional economics. Even though philosophers might resort to Normative Ethics rather than morality to enable some sort of discussion on the grounds of justice, it seems impossible to prioritize one set on principles over the others. This would theoretically translate into the impossibility of enacting public policies with the aim of reducing inequality and creating fairer societies, as the very idea of fairness seems to vary considerably even among scholars who employ reason.

[121] Allen Buchanan, *Marx and Justice: The Radical Critique of Liberalism* (London, Metheun, 1982):57.

3.2 From the contractarian to the comparative approach

At this point, Amartya Sen's *The Idea of Justice* can come to the rescue of what would look like a lost cause. The philosopher illuminates discussion on theories of justice by embracing Antonio Gramsci and his thoughts on perception:

In acquiring one's conception of the world one always belongs to a particular grouping which is that of all the social elements which share the same mode of thinking and acting. We are all conformists of some conformism or other, always man-in-the-mass or collective man[122].

This passage shows great awareness of the inevitable condition of individuals as embedded in social realities; perception is influenced by their society and culture. Contrary to Henry Sidwick, who maintains that "whatever is right for me must me right for all persons in similar circumstances"[123], Amartya Sen is conscious of the plurality of reasonable arguments which can all make sense, following impeccable logics and stemming from the rich plurality of existing norms and values. This leads Sen to conclude on the "plurality of non-rejectability" of theories of justice[124].

Yet what about measuring these theories in terms of their attention to equality, for the purpose of the present dissertation? According to the philosopher, all these theories actually seek equality of some sort:

…[T]he battles on distributional issues tend not to be about 'why equality', but about 'equality of what?'… equality in some spaces (for example, income, wealth, utilities)…tends to go under the heading of 'egalitarianism', whereas equality in other spaces (for example, rights, liberties or what are seen as just deserts of people) look like anti-egalitarian claims. But we should not be trapped by the conventions of characterization, and must also note the basic similarity among all these theories in arguing for equality in *some* space, and insisting on egalitarian priority there, while disputing- explicitly or by implication – the conflicting demands of equality in other (in their views, less relevant) spaces[125].

What sort of approach should then be fostered? A theory of justice should then first "reduce injustice and advance justice, rather than aiming only at the characterization of perfectly just

[122] Antonio Gramsci, *Letters from Prison* (London: Jonathan Cape, 1975):324.
[123] Henry Sidgwick, *The Methods of Ethics* (New York: Dover, 1966):Preface to the 6th edition, p. xvii
[124] Amartya Sen, *The Idea of Justice* (London: Penguin Group, 2009):200.
[125] Ibid.124:295.

societies"[126]; second, it should be informed by reasoned argument, and go beyond the simple 'you are right in your community and I am right in mine'; third, it should focus on actual behavior of individuals rather than worry with how the perfectly just institutions should look like. This calls for realized-focus comparison rather than transcendental institutionalism[127].

Amartya Sen then sides with comparative theories of justice and argues against the contactarian approach of the four theories mentioned above. "The theory of justice, as formulated under the currently dominant transcendental institutionalism, reduces many of the most relevant issues of justice into empty…rhetoric", while their goal should be the "elimination of some outrageously unjust arrangements…on which agreements can be generated through public discussion, despite a continuing divergence of views on other matters"[128].

Then, there is no need for inequality of wealth and income to be incompatible with a transcendental theory of justice which focuses on the basic structures of a perfect society; nor should a community unanimously agree on what sort of equality shall be prioritized. Rather, if the topic is to be discussed, it needs to be subject to Social Choice Theory as conceived by Kenneth Arrow. Although theories of justice might follow different logics, what matters is to find intersections among them which can be agreed upon, leaving outside the areas where agreement is not found[129].

This might for example occur in the context of capabilities, rather than achievements. While it might be hard to agree that certain outcomes are universally attractive, it is easy to agree on the desirability of empowering individuals with the capability to choose their destiny. Opportunities and freedoms do not necessarily need to be the utmost urgent priority in a theory of justice, but Sen identifies the capability approach as a workable point of intersection, which can withstand critical scrutiny or debate[130].

Can this then inform public policy in some way? If yes, how can it do so? Sen is quite clear on this point:

---

[126] Ibid.124:ix.
[127] Ibid.124:7.
[128] Ibid.124:338.
[129] Ibid. 1224:95.
[130] Ibid. 124:225.

[it is] difficult to expect that a perfectly just society can be unanimously identified. Agreements on particular justice-enhancing moves are material enough for public action… and for that guidance, unanimity on the nature of the perfectly just society is not needed.[131]

A very last consideration which can conclude this dissertation is then the analysis of how Sen's impulse has prompted public policy proposals, by focusing on recent literature.

[131] Ibid.124:35.

3.3 Public Policy proposals

Anthony Atkinson explicitly refers to Sen' capability approach when proposing measures to reduce inequality in his *Inequality: What Can Be Done?*. As Atkinson maintains, "I am not seeking a transcendental solution…Rather, I start from the pragmatic concern that current levels of inequality are too high and that this outcome in part reflects the fact that the balance of power is weighted against consumers and workers".[132] It is indeed the case that, although income inequality in only one dimension of inequality in capability, "it remains the case that achieved economic resources are a major source of injustice"[133], as the present dissertation has shown. As the author makes clear:

> [H]ere I am concerned with the direction of movement. This is in the spirit of Amartya Sen's *The Idea of Justice*, where he says that, in contrast with most modern theories of justice, which concentrate on the 'just society',… [the] book is an attempt to investigate realization-based comparisons that focus on advancement or retreat of justice. The aim is progressive reform rather than transcendental optimality[134].

Atkinson thus puts forward a plethora of policy proposals which can effectively work for the reduction of injustice. Although these proposals do not address the fundamental causes of divergence identified in section 2, they attempt to attenuate their effects and target the series of processes which contributed to the amplification of inequality trends. Some of the solutions deserve to be mentioned in order to provide a full and complete picture of the problems identified in this study, from the roots of the phenomena to practical measures which can be employed to address their effects.

Within the domain of the real economy, technological development should be given a clear and precise direction, in order to avoid its adverse effect of the distribution of profits from labour to capital. In this regard, as Mariana Mazzucato advances in her remarkable *The Entrepreneurial State*, the State should strive to direct innovation and technological development, by investing in those enterprises which can most beneficially impact on society[135]. As Mazzucato clarifies, technological change is not an exogenous variable, which spreads vigorously out of the 'animal spirits' of private investors; rather, behind major innovations there is the continued and

[132] Anthony B. Atkinson, *Inequality: What Can Be Done?* (London: Harvard University Press, 2015):14.
[133] Ibid.132.
[134] Ibid.132:236.
[135] Mariana Mazzucato, *Lo Stato Innovatore: sfatare il mito del pubblico contro il privato*, (Bari: Laterza, 2013).

determined effort of the public sector, which provides the instruments and margins for development[136]. Out of this analysis, Atkinson draws Proposal 1:

The direction of technological change should be an explicit concern of policy-makers, encouraging innovation in a form that increases the employability of workers and emphasizes the human dimension of service provision[137].

However, attention to the promotion of the real economy goes beyond the development of technology. Proposal 7 suggests that:

A public Investment Authority should be created, operating a sovereign wealth fund with the aim of building up the net worth of the state by holding investments in company and in property

The Authority would provide a long-term investor in the service of the public interest and, more importantly, potentially influence decisions on the allocation of company's profits, favouring real investment over financial investment. In addition, as James Meade advocated around thirty years ago, "the receipt of income from the state ownership of shares in private enterprises would provide for the government a lasting net revenue which could contribute towards the costs of a social dividend"[138].

Additionally, the State should stimulate the real economy by its tax policy. As Atkinson suggests, it should "shift the balance of taxation towards capital income"[139], allowing lower marginal taxes on middle and lower earnings. This translates into Proposal 9:

The government should introduce into the personal income tax an Earned Income Discount, limited to the first band of earnings[140].

Al last, within the financial domain, the State should attempt to reduce inequality in rates of return in financial investment, as to prevent the concentration of capital in fewer and fewer hands. Again, as James Meade noted, "the rate of return on property is much lower for small properties than for large properties"[141]; hence, in the interest of small savers, Atkinson puts forward policy Proposal 5:

---

[136] Mariana Mazzucato, *Lo Stato Innovatore: Sfatare il mito del pubblico contro il privato*, (Bari: Laterza, 2013).
[137] Ibid.132:118.
[138] Ibid.132:178.
[139] Ibid.132:191.
[140] Ibid.132:192.
[141] Ibid.132:167

The government should offer via national savings bonds a guaranteed positive real rate of interest on savings, with a maximum holding per person[142].

Obviously, these proposals do not peremptorily solve the problems which this dissertation had the objective of analyzing, but are rather employed to show the direction that public policy should follow. Discussing how to reform the entire capitalist system in order to prevent its adverse consequences on the distribution of income goes beyond the purpose of this dissertation; rather, in line with Amartya Sen's *The Idea of Justice*, I am content with briefly presenting a few proposal which can effectively lead society to better distributional outcomes, and limit my role to informing on the worrying tendencies which are in motion in our economic system. I hope that solutions to the more fundamental questions will be the object of further research.

[142] Ibid.132:168.

Conclusion

This Bachelor's Thesis aimed at treating the subject of economic inequality and long-term trends, attempting to make use of insights in International Relations, Distributional Economics, Philosophy, and Public Policy.

In the first section, World System Theory was then employed to lay down the axioms of the interpretative scheme: the capitalist world-economy is sustained by the nation-state system, world hegemonies lead this system and historical analysis can uncover the dynamics of the hegemonic structures. Following Giovanni Arrighi, capitalist history is then understood as the succession of four cycles of accumulation, each orchestrated by a different hegemon, whose rise and fall regularly triggered recurrent changes in the architecture of the capitalist system. Hegemonies on the rise lead material expansion, bringing benefits to labour and the real economy; then, when world-powers are on the decline, financial capitalism erupts and entrepreneurs turn into rentiers, with adverse distributional consequences. We presently witness the fall of the American hegemony: the real economy and labour suffer, the centrality of finance intensifies, and income inequality is the observable consequence of the whole process.

In the second section, an analysis of the problem of labour in the United States was performed, as this variable was deemed to be representative of the decline of the real economy in the world-system. Although the results were encouraging, they could not be extended to the whole capitalist world-economy; thus, Thomas Piketty's *Capital in the Twenty-First Century* was integrated with Arrighi's view to provide solid bases for the proposed understanding. The three mechanism identified above are actually occurring, as Piketty demonstrates, because of the Fundamental Force of Divergence $r>g$; capital gains over labour, and the extend of inequality in capitalist economies resulting therefrom is worrying, to say the least. In addition, a series of processes, such as lowering labour compensation, loss of bargaining power on the part of workers and the demise of the Welfare State, work to amplify the effects of the fundamental causes of income redistribution.

The third section finally centred on the study of rampant income inequality from the perspective of Normative Ethics and Public Policy. Doing without relativism, the dissertation used four philosophical theories to assess whether an apparatus of justification could work better than others in dealing with the present situation. Due to impossibility of judging one theoretical framework superior to the others, the approach switched from contractarian to comparative: the philosophical reflection shall not be about what a perfect society and its institutions should look like, but rather focus on how to best advance justice in those areas where intersections among diverse conceptions of the fair distribution can be found. The situation of income inequality is then assessed to be intolerable from the many perspectives, although it is ultimately deliberation which is to determine agreement on this topic. This should hence trigger policy proposals of the sort proposed by Anthony Atkinson; these comprise instructions on what the role of the state should be in leading technological change as well as suggestions for change in institutional design.

Bibliography

Arrighi, Giovanni *The Long Twentieth Century: Money, Power and the Origins of our Times* (London and New York: Verso, 2010).

Atkinson, Anthony B.:

-"What is Happening to the Distribution of Income in the UK?", *Proceedings of the British Academy* (1992):317-351.

- *Inequality: What Can Be Done?* (London: Harvard University Press, 2015).

Bivens, Josh and Lawrence Mishel, "Understanding the Historic Divergence Between Productivity and a Typical Worker's Pay: Why It Matters and Why It's Real", *Economic Policy Institute*, (September 2015).

Bowley, Arthur, *The Change in the Distribution of National Income 1880-1913* (Oxford, Clarendon Press, 1920).

Boxer, Charles R., *The Dutch Seaborne Empire 1600-1800* (New York: Knopf, 1965).

Brandt, R.B., *Ethical Theory* (Englewood Cliffs: Prentice-Hall, 1959).

Braudel, Fernand:

- *The Structure of Everyday Life* (New York, Harper & Row, 1981):24

-"The perspective on the World" in *Civilization and Capitalism, 15th-18th Century, vol.III* (New York: Harper and Row, 1984):168.

Buchanan, Allen, *Marx and Justice: The Radical Critique of Liberalism* (London, Metheun, 1982).

Checchi, Daniele and Cecilia Garcia Peñalosa, "Labour Market Institutions and the Personal Distribution of Income in the OECD", *Bonn Institute for the Study of Labour* (July 2005).

Cobb, Charles and Paul Douglas, "A Theory of Production", *American Economic Review 18*, no.1, (March 1928): 65-139.

Cox, Oliver, *Foundations of Capitalism* (New York: Philosophical Library, 1959).

Dünhaupt, Petra, "The effect of financialization on labor's share of income", *Berlin School of Economics and Law Working Paper* (2013).

Dworkin, Ronald, "In Defence of Equality", *Social Philosophy and Policy* (1983).

Erickson, Christopher L. and Andrea Ichino, "Wage differentials in Italy: Market Forces, Institutions and Inflation" in Richard B. Freeman and Lawrence F. Katz, *Differences and Changes in Wage Structure* (Chicago, University of Chicago Press, 1995).

Eriksson, Tor and Marcus Jäntti, "The Distribution of Earnings in Finland 1971-1990", *European Economic Review* (1997):1736-1779.

Fleck, Susan, John Glaser, and Shawn Sprague, "The compensation-productivity gap: a visual essay", *Monthly Labour Review* (January 2011).

Fried, Charles, "Distributive Justice", *Social Philosophy and Policy* (1983).

Gilpin, Robert, *The Political Economy of International Relations (*Princeton, NJ: Princeton University Press, 1987).

Gordon, Robert J., "Is the US Economy Growth Over? Faltering Innovation Confronts the Six Headwinds", *NBER Working Paper 18315* (August 2012).

Gramsci, Antonio:

- *Selections from the Prison Notebooks* (New York: International Publishers, 1971).

-*Letters from Prison* (London: Jonathan Cape, 1975).

Guscina, Anastasia, "Effects of Globalization on Labour's Share in National Income", *IMF Working Paper*. URL:https://www.imf.org/external/pubs/ft/wp/2006/wp06294.pdf

Hare, R.M., "Justice and Equality", in J. Arthur and W. Shaw, *Justice and Economic Distribution* (Englewood Cliffs: Prentice Hall,1978).

Harrison, Peter, "Median Wages and Productivity Growth in Canada and the United States*",* *CSLS Research Report*, 2009.

Heers, Jacques, *Gênes au XVe Siècle* (Paris: SEVPEN, 1961).

Hendry, John, *Ethics and Finance: An Introduction* (Cambridge: Cambridge University Press, 2013).

Hicks, John, *A Theory of Economic History* (Oxford: Clarendon Press, 1969).

Hilferding, Rudolf, *A Study on the Latest Phase of Capitalist Development* (London: Routledge & Kegan Paul, 1981).

International Labour Organization, "The Labour Share in G20 Economies" (February 2015).

Israel, Johnathan, *Dutchy Primacy in World Trade, 1585-1740* (Oxford: Clarendon Press, 1989).

Keynes, John Maynard, “Relative Movement of Wages and Output”, Economic Journal 49 (1939).

Korpi, Walter and Joakim Palme, "The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries", *American Sociological Review*, Vol. 63 (October, 1998).

Kriedte, Peter, *Peasants, Landlords, and Merchant Capitalists: Europe and the World Economy, 1500-1800* (Cambridge: Cambridge University Press, 1983).

Kymlicka, Will, *Contemporary Political Philosophy: An Introduction* (Oxford: Oxford University Press, 2002).

Lane, Frederic, *Profits from Power: Readings in Protection Rent and Violence-Controlling Enterprises* (Albany, NY: State University of New York Press, 1979).

Mann, Micheal, *The Sources of Social Power.* Vol. I *A History of Power from the beginning to A.D. 1760* (Cambridge: Cambridge University Press, 1986).

Martines, Lauro, *Power and Imagination, City-States in Renaissance Italy* (Baltimore, MD: The Johns Hopkins University Press, 1988).

Marx, Karl:

- *Critique of the Gotha Programme,* 1875. URL:https://www.marxists.org/archive/marx/works/download/Marx_Critque_of_the_Gotha_Programme.pdf

-*Capital Vol. III* (Moscow: Foreign Languages Publishing House, 1962).

Mattingly, Garrett ,*The Armada* (Boston, MA: Houghton Mifflin, 1959).

Mazzucato, Mariana, *Lo Stato Innovatore: sfatare il mito del pubblico contro il privato*, (Bari: Laterza, 2013).

Meager, Nigel and Stefan Speckesser, ”Wages, productivity and employment: A review of theory and international data”, *Institute for Employment Studies*, (May 2011).

Mensch, Gerhard, *Stalemate in Technology* (Cambridge, MA: Ballinger, 1979).

Mill, John Stuart, “Chapters on Socialism”, *Collected Works* (Toronto: University of Toronto Press,1967).

Mishel, Lawrence and Jared Bernstein, *The State of Working America 1994-1995* (Washington D.C.: Routledge, 1995).

Nisbet, Robert A., *Social Change and History* (New York: Oxford University Press, 1969).

Nozick, Robert, *Anarchy, State and Utopia* (New York: Basic Books,1974).

Organization for Economic Cooperation and Development, "Divided We Stand: Why Inequality Keeps Rising"(2015).

Phillips, Kevin, *Boiling Point: Republicans, Democrats, and the Decline of Middle-Class Prosperity* (New York: Random House, 1993).

Piketty, Thomas, *Capital in the Twenty-First Century* (London: Harvard University Press, 2014).

Pirenne, Henri, “Stages in the Social History of Capitalism”, in R. Bendix and S. Lipset, eds., *Class, Status and Power: a Reader in Social Stratification,* (Glencoe, IL: The Free Press, 1953).

Porter, Michael E. and Jan W. Rivkin, “An Economy Doing Half its Job”, *Harvard Business School* (September 2014).

Rawls, John, *A Theory of Justice* (London: Oxford University Press,1971).
Salverda, Wiemer, Brian Nolan & Timothy M. Smeeding, *The Oxford Handbook of Economic Inequality* (Oxford Handbooks Online, 2012).

Schmitt, John and Janelle Jones, “Where Have All the Good Jobs Gone?”, *Center for Economic and Policy Research*, (July 2012).

Schumpeter, Joseph, *Capitalism, Socialism, and Democracy* (London: George Allen & Unwin, 1954).

Senato della Repubblica- sito istituzionale. URL:https://www.senato.it/documenti/repository/istituzione/costituzione_inglese.pdf

Sen, Amartya, *The Idea of Justice* (London: Penguin Group, 2009).

Sidgwick, Henry, *The Methods of Ethics* (New York: Dover, 1966).

Smith, Adam, *An inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen, 1961).

Steensgard, Niels, *The Asian Trade Revolution of the Seventeenth Century, The East Indian Companies and the Decline of Caravan Trade, in* Giovanni Arrighi, *The Long Twentieth Century: Money, Power and the Origins of our Times* (London and New York: Verso, 2010).

Sylos-Labini, Paolo, "Competition: The Products Markets", in T. Wilson and A.S. Skinner, *The Market and the State: Essays in Honour of Adam Smith* (Oxford: Clarendon Press, 1976).

United Nations Department of Economic and Social Affairs: Population Division, "World Population to 2030" (New York, 2004). URL: www.un.org/esa/population/publications/.../WorldPop2300final.pdf.

Uusitalo , Hannu, Changes in Income Distribution During a Deep Recession and After (Helsinki: National Institute for Health and Welfare, 1999).

Visco, Ignazio, "The Indexation of Earnings in Italy: Sectoral Analysis and Estimates for 1978-79" *Rivista di Politica Economica* (1999).

Wallerstein, Immanuel, *The capitalist world-economy* (Cambridge: Cambridge University Press, 1997).

Walter, Andrew, *World Power and World Money: The Role of Hegemony and International Monetary Order* (New York: St Martin's Press, 1991).

Weber, Max, *Economy and Society* (Berkeley, CA: California University Press, 1978).

Tables and Figures are obtained from Capital in The Twenty-First Century technical appendix. URL:http://piketty.pse.ens.fr/en/capital21c2

Riassunto

Dietro la stesura dell'elaborato "Long-Term Cycles and Income Distribution: The profound influence of systemic dynamics on economic inequality" c'è l'intenzione di effettuare un'analisi multidisciplinare del tema della distribuzione delle risorse. Nello spirito del corso di laurea in Politics, Philosophy, and Economics (PPE), si è quindi cercato di attingere alle conoscenze accumulate nelle Scienze Sociali per integrare le discipline delle Relazioni Internazionali, Macroeconomia e Filosofia in uno studio a più livelli. Data la vastità delle tematiche affrontabili in uno studio di questo tipo, la dissertazione si concentra sulla relazione tra tendenze di lungo periodo e diseguaglianza economica, cercando di tracciare un quadro comprensivo che ha come obiettivo principale quello di offrire una prospettiva interessante sui cambiamenti che lentamente influenzano l'evoluzione del nostro sistema economico.

Con questa intenzione, la prima sezione introduce la World System Theory" elaborata da Immanuel Wallerstein ed ispirata dal pensiero di Karl Marx, Antonio Gramsci e Max Weber. Inizialmente, tre pilastri della teoria vengono identificati per fornire una prima base interpretativa: primo, il sistema globale è composto da stati-nazione in competizione l'uno contro l'altro; secondo, questo sistema è fortemente influenzato, o perfino diretto, da un egemone; terzo, l'attenzione all'analisi storica può contribuire a distinguere tratti di continuità e cambiamento tra il passato ed il presente, informando sui fenomeni ricorrenti che avvengono nel lungo periodo.

In secondo luogo, lo studio di Giovanni Arrighi *Il Lungo Ventesimo Secolo* viene adottato come chiave interpretativa della storia del capitalismo. L'idea centrale del libro è il ciclo di accumulazione, che consiste nell'ascesa al potere di un egemone durante una fase di espansione dell'economia reale, che è seguita da una fase di declino politico ed economico, in cui l'economia finanziaria prende il sopravvento. La storia del nostro sistema economico è quindi composta da ascese e declini di egemoni; espansione dell'economia reale prima e, in un secondo momento, finanziarizzazione dell'economia, a causa della diminuzione di opportunità di profitto nel lavoro e nel commercio.

Il punto zero nella storia del capitalismo è la genesi dell'alta finanza a Firenze, nel quattordicesimo secolo. In un momento di turbolenza sistemica segnato da tensioni tra le città-stato italiane e guerre tra grandi attori sistemici, come la Guerra dei Cent'anni (1337-1453), i mercanti fiorenti, che accumulano ingenti risorse con il commercio della lana, diventano banchieri e finanziano fazioni politiche che necessitano di supporto economico. La competizione per le risorse assicura che i saggi di profitto rimangano alti per i banchieri ma il gioco si dimostra subito rischioso; Firenze non dispone di un apparato statale capace di gestire la relazione tra potere economico e potere politico e quindi non assumerà mai un ruolo egemonico.

Il primo ciclo di accumulazione è invece orchestrato da Genova, che entrando in simbiosi con il potere territoriale e statale dei sovrani iberici riesce ad acquisire egemonia politica ed economica. Attraverso il fenomeno che Schumpeter definisce "scambio politico", la borghesia genovese può quindi promuovere l'espansione del commercio e dirigere lo sviluppo dell'economia reale a proprio favore. In linea con l'interpretazione di Arrighi, però, questa prima fase di espansione si interrompe e comporta poi la progressione di un'economia sempre più finanziaria, attraverso il sistema delle fiere di Piacenza. In un primo momento la finanziarizzazione porta benefici alla città; tuttavia, l'espansione della finanza è il preludio al crollo dell'egemonia, e soprattutto ha conseguenze avverse sulla distribuzione delle risorse. Più volte nella storia, durante questa fase, il saggio di profitto rimane ampio per gli investimenti finanziari, ma il declino dell'economia reale non permette il progresso delle classi sociali che dipendono dal lavoro e dalla crescita economica; il declino dell'egemonia si trasforma in un momento meraviglioso per i rentier, ma è una grande minaccia per chi non possiede capitale da investire. Le egemonie seguenti, seppur innovando il sistema in maniera radicale, attraverso per esempio la Rivoluzione Industriale, non sfuggono alla logica di ascesa e declino; cosi, le egemonie di Genova, Olanda, Gran Bretagna e Stati Uniti si sono successe attraverso cicli sistemici che hanno presentato elementi ricorrenti, nonostante l'organizzazione del sistema economico variasse con il loro susseguirsi.

Questa narrativa storica mette in evidenza tre fenomeni che necessitano particolare attenzione: il declino dell'economia reale che avviene all'apice del potere di un'egemonia, la conseguente espansione finanziaria e le implicazioni di questi due meccanismi sulla distribuzione delle risorse. Con l'intenzione di condurre un'analisi completa, la dissertazione procede nello studio del primo dei tre fattori concentrandosi sull'aspetto empirico del problema: considerando la condizione del lavoro negli Stati Uniti una variabile rappresentativa della situazione dell'economia reale a livello sistemico, è possibile corroborare la tesi di Giovanni Arrighi? Sebbene i dati che concernono questa variabile rispettino le previsioni di Arrighi per gli Stati

Uniti, cioè il lavoro e quindi l'economia reale sono in sofferenza, lo stesso non può essere detto delle altre economie che compongono il sistema capitalistico globale, e l'evidenza presentata viene quindi considerata parziale. Alla luce di questa difficoltà, un'analisi comprensiva a livello sistemico, lo stesso livello de *Il Lungo Ventesimo Secolo*, è preferita allo studio particolaristico dell'egemonia, e la discussione si concentra quindi su tendenze generali e relative a meccanismi inerenti al capitalismo.

In merito a questo tipo di studio, *Il Capitale nel Ventunesimo Secolo* di Thomas Piketty è un passo avanti di portata storica, in quando conduce un'analisi concentrata sul lungo periodo, dalla Rivoluzione Industriale ad oggi, delle dinamiche del 'capital/income ratio' e del 'capital-labour split', considerando il loro effetto sulla distribuzione delle risorse. I tre meccanismi chiamati in gioco da Arrighi vengono quindi studiati in un'analisi integrativa, che comincia con la definizione delle due regole fondamentali del capitalismo: la prima riguarda il reddito prodotto dal capitale all'interno dell'economia, determinato da saggio di profitto e dalla quantità accumulata di capitale, mentre la seconda spiega come l'accumulo di capitale in un'economia sia il risultato del rapporto tra risparmio e crescita. Nei prossimi decenni, a causa di una crescita che è destinata a rallentare a livello sistemico, il capitale accumulato assumerà più importanza rispetto al lavoro; infatti, il reddito del capitale aumenterà nel prodotto interno lordo e non sarà controbilanciato da una diminuzione del saggio di profitto, che è invece stabile nel lungo periodo, intorno al quattro o cinque percento. Nonostante alcune divergenze, la teoria di Arrighi e l'analisi empirica di Piketty sono facilmente accostabili: i dati di Piketty corroborano la tesi di una diminuzione della crescita nei momenti di massima estensione dell'economia egemonica, di una differenza tra saggio di profitto e crescita che causa l'ascesa del capitale a dispetto del lavoro e infine concordano con l'effetto ultimo di generare polarizzazione sociale, a causa delle prime due tendenze. *Il Capitale* conduce quindi un'analisi sistemica dal punto di vista dell'Economia, e questo rispetta l'obiettivo della tesi.

Inoltre, la seconda sezione dell'elaborato identifica una serie di meccanismi che rafforzano le tendenze generatrici di diseguaglianza di base. Fenomeni come il tramonto del Welfare State limitano la capacità redistributiva dell'apparato statale, mentre la globalizzazione finanziaria offre opportunità a chi detiene il capitale di trovare investimenti profittevoli oltre i confini geografici dei mercati, assicurando alti saggi di profitto su investimenti finanziari. Per di più, il declino nel potere contrattuale dei lavoratori ha comportato un aumento della diseguaglianza nei salari, mentre la finanziarizzazione dell'economia ha aiutato il declino del lavoro, dirigendo i profitti sempre più verso l'acquisto di dividendi o strumenti finanziari e sempre meno in investimenti nell'economia reale. Complessivamente, l'analisi a livello sistemico dalla prospettiva delle Relazioni Internazionali e della Macroeconomia (o Economia della distribuzione) dipinge una situazione preoccupante, in cui il lavoro è sistematicamente calpestato, il capitale ed i suoi detentori fanno da padrone mentre i ricchi diventano sempre più ricchi, ed i poveri più poveri.

Quali sono, a questo punto, le conseguenze di quest'analisi? Il problema della diseguaglianza non è un problema in sé; se essa viene giustificata sulla base del fatto che tassare gli aventi potrebbe avere effetti avversi sull'intera economia, o che il merito è il fattore determinante del reddito, per esempio, la società può arrivare tranquillamente ad una polarizzazione simile a quella della *belle epoque* di fine Ottocento, senza che nessuno batta ciglio. Questo per dimostrare che lo squilibrio tra ricchi e poveri è un problema solamente se non rispetta il nostro codice etico; solamente se 'è sbagliato'. Tuttavia, chi studia le Scienze Sociali conosce fin troppo bene le difficoltà che il relativismo ed il costruttivismo pongono ad uno studio di ciò che è giusto o morale, data la pluralità di norme, valori e concezioni di giusta distribuzione che esistono nella miriade di culture del nostro sistema. Ciò nonostante, lo studioso non deve accontentarsi di terminare con 'tu hai ragione nella tua cultura, io nella mia', ma piuttosto cercare di sviluppare un codice etico con radici razionali condivisibili. A questo fine, la divisione tra etica e moralità concepita da John Hendy diventa rilevante: mentre la prima riguarda le regole ed i principi secondo i quali sarebbe giusto vivere, la seconda ha a che fare con il sistema di norme osservabile e prevalente in una data società. Questa distinzione illustra come, lasciando da parte il relativismo ed il costruttivismo, la filosofia può essere impiegata per lo sviluppo di un codice etico sulle basi di fondamenta razionali.

A questo punto, la tesi si rivolge alle teorie etiche di giustizia distributiva finora sviluppate, concentrandosi sull'utilitarismo, la "liberal equality", il libertarianismo ed il marxismo. Ognuna di queste teorie offre prospettive interessanti ed ha proprie logiche interne che difficilmente possono essere bollate come insensate. L'utilitarismo ha il vantaggio di concentrarsi sugli effetti materiali di politiche per la redistribuzione, Rawls riconosce che ogni individuo possiede il diritto ad una certa quantità di risorse, il libertarianismo protegge le libertà individuali ed il marxismo riconosce che la proprietà privata dei mezzi di produzione (di capitale) è un fattore chiave che spiega la diseguale distribuzione di reddito. Ognuna di queste quattro teorie è solida, e questo sembra ricondurre al punto di partenza: anche razionalmente, una teoria non può essere giudicata obbiettivamente superiore alle altre; questo significa che la discussione sul piano etico e' inconcludente?

L'Idea di Giustizia di Amartya Sen illumina la discussione e la conduce verso risultati produttivi. Il filosofo ed economista indiano non ritiene infatti che una teoria di giustizia rivolta a teorizzare le istituzioni di una società perfetta sia di aiuto ad affrontare ingiustizie come quelle della diseguaglianza sistemica; piuttosto, in linea con la teoria della scelta sociale di Kenneth Arrow, l'enfasi deve ricadere su trovare punti di intersezione tra le diverse teorie, che permettano passi avanti in termini di politiche di redistribuzione. Non e' necessario che un marxista ed un utilitarista siano d'accordo su tutti i punti di un programma ma e' sufficiente che entrambi riconoscano lo svantaggio di livelli di diseguaglianza alti come quelli che si registrano nel presente scenario sistemico. Quindi sarà la deliberazione pubblica a delineare quali sono le intersezione tra diverse 'teorie del giusto', e queste offriranno spazi di manovra per muovere verso un equilibrio meno ingiusto, invece che verso una distribuzione ideale ed una società perfettamente identificabile da qualsivoglia teoria.

In conclusione, e per dare uno sbocco pratico all'intera analisi accademica, la tesi propone delle politiche pubbliche per spostarsi verso equilibri più desiderabili. Senza dichiarare fedeltà ad una particolare idea di giustizia, infatti, Anthony Atkinson considera che le politiche presentate in *Diseguaglianza: Che cosa di può fare?* siano largamente condivisibili, persino da idee di giusta distribuzione molto diverse tra loro. Una prima proposta riguarda il ruolo dello Stato nel progresso tecnologico; così come dimostrato da Mariana Mazzucato ne *Lo Stato Innovatore*, l'apparato statale ricopre un ruolo chiave nell'investimento in nuove tecnologie, e deve quindi favorire il tipo di sviluppo che porta maggiori vantaggi in termini sociali; impiego e sanità, ad esempio. In secondo luogo, Atkinson propone la creazione di un'autorità di investimento pubblica che possa influenzare le scelte aziendali attraverso l'ingresso nel consiglio direttivo; i profitti devono essere investiti nell'economia reale, invece che essere utilizzati per l'acquisto di dividendi o strumenti finanziari. Altre proposte riguardano il sistema finanziario e fiscale.