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Why the distribution of wealth matters: Industrial feudalism and social democracy

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Abstract:

This paper explains how growing inequality of wealth and asset inflation inhibits social mobility and the functioning of the labour market, whose efficiency is a key feature of macroeconomic theory and labour economics. However, because the composition of wealth differs between social classes, growing inequality of wealth tends to more rigid social stratification, preventing the social mobility that is held to be the great advantage of free market capitalism. The paper outlines a theory of wealth distribution and credit practices that maintain a more or less rigid system of social stratification, which we call industrial feudalism. The origin of this idea is found in the work of Polish economists and social critics in the first half of the last century. Industrial feudalism also restricts the functioning of the labour market. State welfare provision, which is supposed to overcome barriers to social mobility, is undermined when the propertied classes find that they can meet their welfare needs from cash flows generated by their wealth. In this way, industrial feudalism signals the end of the welfare state and social democracy.

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Despite considerable recent interest in the subject, there has been little analysis of the economic consequences of the distribution of wealth. This paper argues that growing inequality of wealth inhibits social mobility and the functioning of the labour market, whose efficiency is a key feature of macroeconomic theory and labour economics. Growing inequality of wealth tends to more rigid social stratification, or industrial feudalism, preventing the social mobility that is held to be the great advantage of free market capitalism.

The first two sections of this paper outline a theory of wealth distribution and credit practices that maintain a more or less rigid system of social stratification, which we call

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industrial feudalism. A third section discusses the origin of this idea in the work of Polish economists and social critics in the first half of the last century. A fourth section discusses how industrial feudalism restricts the functioning of the labour market. A final section concludes with the implications of industrial feudalism for the welfare state and social democracy.

1. Wealth and social mobility

Consider a system of social stratification in which social classes are defined (in the sense explained below) by their ownership of wealth. At the bottom of the social hierarchy is the class of households without significant wealth (the 'proletariat'?). Next is a class of households which own their residential accommodation and perhaps some negligible amount of savings in bank deposits and financial assets (the 'middle class'?). Next may be a group of households owning residential accommodation and a significant amount of bank and financial assets. Further up may be an even wealthier stratum owning more than one residence, other real estate, and a diverse portfolio of financial assets. And so on.

This paper now defines the social classes by wealth in two ways. First of all, in each class there is a standard wealth portfolio that a household needs to possess in order to maintain its position in that class. So, for the middle class, this would be home ownership. In the next class up, there might be a second home, a pension fund and insurance policies. Higher up there might be ownership of more real estate and a more directly owned portfolio of financial assets. With that standard wealth portfolio will come credit practices by which households may maintain their liquidity: among the lowest class, the pawning of personal jewellery and possessions, or unsecured borrowing (e.g., credit card debt); among the middle class, borrowing secured against the value of residential accommodation; among an upper class, a certain turnover of financial assets, by maturity or sale in a secondary market, or borrowing against real estate.

The standard wealth portfolio of each class defines the credit practices used to maintain the liquidity of the balance sheets of each household in that class. For example, households without savings, and even most residential property-owners, do not own long-term securities directly, allowing them to use those securities as collateral for bank loans. But it does not mean that there necessarily exists a standard value of the standard wealth portfolio, since that value would depend on the values in the asset markets in which that portfolio is invested.[1] Of greater significance for those credit practices, household welfare and social differentiation, is the second way in which social classes are defined by wealth, namely through the barriers that wealth creates to social mobility, or the movement between social classes. From this comes the preoccupation with wealth that is common to households in any given class.

For each class there is a floor that prevents a household in a given class from becoming déclassé due to a failure of income.[2] This floor is made up of the credit practices that households use to prevent their falling into the wealth class below their class. In the case of the 'proletariat' without significant assets, these credit practices are formal and informal borrowing, largely unsecured, to prevent falling into destitution. For the other classes, with

[1] In the case of residential real estate, we can define the process of 'gentrification' as a process of households moving into a higher wealth class by relocating into areas of lower asset market prices.

[2] For instance, Atkinson and Brandolini (2011) include a wealth criterion in their definition of the middle class, necessitating that a household hold enough assets to avoid falling into poverty for a certain period of time in case of sudden income shortfalls.

property or financial assets, the credit practices are usually various forms of borrowing secured against property, which benefit from substantially lower repayment costs compared to the borrowing of the lower classes that do not have collateral.

Asset liquidity may now be defined as the ability of the owner of an asset to raise money against the value of that asset without actually selling that asset. This is in contradistinction to the traditional definition of liquidity, namely the ease of selling the asset for money. Traditional liquidity generates liquidity through asset management. Asset liquidity, in the definition here, allows liquidity to be obtained through liability management, keeping a stable portfolio of assets. This highlights an important difference between middle class households, and wealthier households: If a household owns its home, borrowing against the value of that home usually passes over to the lender powers of veto over further borrowing, leaving only a final option of a home sale to raise further liquidity. Wealthier households have different assets that they can use as collateral without losing control of those assets. In other words, wealthier households have asset liquidity; middle class households can obtain it only at the risk of losing control of their assets.

For each class, there exists a ceiling which is made up of the difference in value between the standard wealth portfolio of that class, and the value of the standard wealth portfolio of the next class up in the wealth hierarchy. Thus, for a 'proletarian' household to become middle class, it is necessary to obtain secure ownership of residential accommodation. For a middle class household to ascend to upper middle class status, it becomes necessary to acquire further real estate and financial assets.

The floors and ceilings that keep households in their social classes are affected by the social policies of governments. The avoidance of downward social mobility, in particular the removal of the threat of destitution that awaits those without significant wealth, has been the goal of welfare state provision and government policies to secure full employment. Such arrangements strengthen the floors preventing declines in social class status. Other public services, such as good quality education and health services, facilitate upward social mobility by reducing the outlays needed to move into higher social classes. In this way, the welfare state reforms of the first half of the twentieth century bought in the support of the ambitious middle classes.

In the United Kingdom and the United States, the rise of mass unemployment in the 1970s and the 1980s changed this. Mass unemployment greatly increased the cost of state income safety nets. The paring down of welfare provision coincided with asset price inflation. It was only natural for the ambitious middle classes to repudiate their support for the growing expense of state provision and embrace the growing availability of credit as asset prices rose. In particular, such reliance on credit operations gave property-owners greater control over the liquidity obtained in this way. In the United States, Great Britain, and numerous other countries where residential real estate markets emerged, 'the housing market became the welfare state of the middle classes', as the housing market came to be relied upon for emergency credit, cash flow to pay school fees, and private medical care (Toporowski, 2010).

The connection between dependence on asset markets and the growing insecurity of those without a convenient range of property with which to operate in credit markets has been recognised in some of the critical literature on financialisation (see Hillig, 2019; Agunsoye, 2021; and Montgomerie and Bűdenbender, 2015). However, our argument here places asset dependence in the context of social stratification to point out that:

(i) asset dependence is specific to particular classes, because they have different kinds of assets;

(ii) different kinds of assets have different credit implications and practices associated with them;
(iii) these different credit implications and practices may ease cash flows in particular classes to prevent downward social mobility; but
(iv) increasing asset inequality makes upward social mobility, from one wealth class into the next highest wealth class, more difficult.

In this way a growing inequality of wealth distribution restricts social mobility and gives rise to industrial feudalism, defined as an absence of mobility between social strata.

However, a corollary of rising asset prices is an increasing unequal distribution of wealth. In turn this increases differences between the value of the standard wealth portfolio in a given class and the value of the standard wealth portfolio in the wealth class immediately above. It is these differences that determine the cost of upward social mobility: they are the property that must be acquired to secure a position in the next wealth class. At the same time as they reinforce the ceiling preventing ascent into a higher social class, the growing credit possibilities of rising asset values reinforce the floor preventing demotion into a lower social class. Diversity and stability of the wealth portfolio in the light of asset price fluctuations have thus a defining role in both upward and downward movements across classes. Differences in the composition of standard wealth portfolios of different social strata, and the credit practices associated with such portfolios, reinforce barriers to mobility between social classes. In this way, asset inflation and the increasingly unequal distribution of wealth bring about the industrial feudalism and social stagnation of late capitalism.

2. Household credit practices in industrial feudalism[3]

The considerations in the previous section provide a conceptualisation of households based on differences in their balance sheet composition. This is in contrast to the existing macroeconomic literature, which defines households based on their income (wage/profit shares), with differences in the ownership of assets and income from them being due to differences in saving preferences. For simplicity, as suggested above, at least four classes of households may be distinguished: the working poor (the working class) without marketable property; the homeowners (the middle class), whose only asset is their home which allows them only limited credit facilities because indebtedness makes it difficult to use their home as a source of liquidity; the upper middle class, who own real estate and financial assets; and the wealthy, who can live from their property income. This approach links the insights of Piketty (2014) with the functional distribution approach, highlighting the role of wealth ownership and composition in defining the opportunities for social mobility. Such a four-class distinction can identify various motives for wealth accumulation across households and presents a more intricate analysis of the determinants of macroeconomic fragility and inequality compared to the existing literature (Szymborska, 2021).

The working poor are households whose balance sheets are defined by ownership of low-yielding assets that they do not control (for example, shares in a pension fund) and high leverage levels. These households have low saving rates and do not have sufficient wealth or income that would allow them to take out mortgages. Hence, they rent houses from owners of residential

[3] The argument in this section follows Section 4 of Szymborska (2021).

property. They thus have access only to unsecured short-term debt. The real disposable income of the working class comprises wage income, which depends on the demand for labour performed by the working class and the middle class, adjusted by an exogenously set share of the wage bill, and interest on deposits, less interest payments on loans and house rental payments. Housing rents depend on the value of houses owned by rentiers and the leverage of rentiers, since we may assume that rentiers would attempt to compensate for higher leverage by raising the amount charged on rent to the working poor. By implication, rents increase if the residential property market is inflated by excess demand for such assets. We may assume that the working poor prioritise rent payments over other consumption decisions in order to satisfy a basic need for shelter. Consumption is undertaken out of both income and wealth, and debt is also taken on to finance a part of consumption. For the working poor, as for other classes, saving is a residual, but a negligible one among the poor. Nevertheless, leverage in this class, measured as the ratio of debt to liquid assets, is perhaps the highest among all household groups due to relatively greater credit restrictions, lower overall value of asset holdings, and a natural fear of debt which may squeeze future disposable income.

The middle class, defined by its wealth ownership, corresponds to a group of leveraged homeowners.[4] The balance sheets of this group depend on housing purchased through mortgage financing, and housing constitutes the only major asset this group owns. We assume that all households belonging to the middle class are owner-occupiers and do not rent property to other households. Overall, the net wealth of the middle class comprises the value of bank deposits, housing, and capital gains on houses, less loans. The wealth of the middle class is thus highly dependent on housing price movements, which, if rising, allow middle class households to monetise capital gains. Such gains then serve to stabilise the economic and social position of those households. However, the middle class is also distinct from the rentier class because the former's asset portfolio is characterised by the dominance of few assets (primarily housing), and a less diverse property portfolio which needs higher levels of debt to generate cash flows.

The real disposable income of the middle class comprises wages, interest on deposits, and the imputed rent on housing (the return on the real value of housing, dependent on the value of capital gains relative to housing), less interest payments on loans. The wage income of the middle class depends on an exogenously determined portion of the wage bill paid by firms to the working and middle class. Consumption is a fraction of income and wealth, with marginal consumption propensities relatively lower than for the working poor, while saving too is a residual. To finance home purchases and a part of consumption, the middle class accumulates mortgage debt, which is determined by the demand for housing and relative consumption concerns (with the middle class assumed to emulate the level of consumption of the group directly above it, in this case rentiers).

An upper middle class owns a more diverse range of real estate and financial assets, and can use it to generate credit more or less on demand. It is distinguished from a wealthy (or 'rentier') class in that the upper middle class still relies on income from employment, whereas

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[4] The definition of the middle class in the literature is varied and has been considered along a variety of dimensions. In empirical studies, the middle class is often determined in relative terms as the middle 60% of income earners (earning between 75% to 125% of the median income). A social dimension can also be considered, whereby the middle class is defined by class consciousness, social status, lifestyle, or occupational status. In the theoretical literature, the middle class tends to be identified with middle managers, who are in conflict over their share of income with both the capitalist and the working class (Palley, 2015). However, this approach neglects wealth ownership as a feature defining middle class status and the role of wealth composition and stability for upward mobility.

rentiers can support their life-style from their income from property that also assures their access to credit. The rentier class comprises owners of diversified asset portfolios, including high-yielding financial assets, business equity and various types of real estate, and is characterised by low net indebtedness (Szymborska, 2021).

Unlike households in lower classes, rentiers may engage in work not because of a necessity to maintain their living standards (as they could feasibly live off their accumulated wealth) but as a *de facto* investment strategy that boosts their capacities to accumulate wealth through high earnings. Similarly, debt accumulation by rentiers can be conceptualized as a deliberate action on their behalf to expand their wealth accumulation capacities, service their financial obligations and protect their class position by maintaining the liquidity of their wealth portfolios. The availability of credit for this class is comparatively greater than for the lower social classes due to the higher value of assets owned by rentiers that can serve as collateral and their higher earnings, which translates into lower overall costs of borrowing for the rentier class. The borrowing of rentiers is motivated by the need to maintain the liquidity of their asset portfolio, rather than by current or future consumption needs. The consumption of rentiers is a fraction of their income and wealth, even if it includes a Veblenian element of conspicuous consumption or emulation of the consumption of even wealthier households (Veblen, 1899, chapters II and IV). Marginal consumption propensities may therefore be assumed to be the lowest for this group compared to the lower social classes, because incomes are highest in this social group and patterns of consumption are largely conventional rather than related to income.

The net wealth of rentiers consists of bank deposits, housing, firm equity, and high-yielding financial assets as well as capital gains on these assets, less loans. Rentiers may allocate their wealth between houses, equities, and high-yielding financial assets according to the Tobinesque portfolio principle, i.e., the relative rates of return on these assets, with bank deposits allocated as a residual. But they will also apply a Keynesian principle of liquidity preference in order to assure living standards against sudden reductions in their income.

In a related article, one of us argues that this social class differentiation of property makes the standard social class differentiation by income (i.e., workers earning wages and capitalists earning profits) too reductive (Szymborska, 2021). The different asset portfolios of the different social classes, and the distinctive credit practices associated with them mean that motivations to save are not just individual choices, or related to the size of income, but are specific to particular wealth classes (Szymborska, 2021). In the last half-century, the prevailing approach to income and wealth differentials has assumed that those differentials derive from differences in labour productivity, obtained through investment in 'human capital'. In industrial feudalism, in fact, the direction of causation is reversed: it is wealth differentials that determine job opportunities and access to professions with higher status as well as income.

3. Industrial feudalism: The Polish discussion

The idea of industrial feudalism, as a more or less rigid system of social stratification with limited social mobility between classes, was originally developed by the Polish sociologist and political economist Ludwik Krzywicki (1859-1941) and his follower, the rather better known economist Oskar Lange (1904-1965). Only recently did the idea find its way into the English language political economy literature with an almost incidental remark in one of the last papers of Michał Kalecki (1899-1970), a remark that was almost certainly written by his collaborator

Tadeusz Kowalik (1926-2012) and that provides the basic definition of industrial feudalism. Referring to Rudolf Hilferding's suggestion in *Finance Capital* that the formation of cartels may give rise to the emergence of a 'general cartel' that would 'resolve the basic economic contradictions of capitalism', Kowalik wrote:

> We find a certain anticipation of Hilferding's vision of a general cartel much earlier in the works of the Polish sociologist Ludwik Krzywicki, who noticed strong tendencies toward "industrial feudalism". This was a vision of a "nation-estate" – a kind of feudal estate embracing the whole country – with a hierarchical social structure governed by a financial oligarchy. Krzywicki linked this vision with the simultaneous mass conformization of society, including the working class, which would derive certain material benefits from this "estate". This is why he attributed considerable stability to the system of industrial feudalism, apparently even seeing it as a threat to the eventual socialist alternative (Kalecki and Kowalik, 1970, p. 469).

Krzywicki's concept of industrial feudalism appeared first in an article that he wrote at the end of 1889 on the problem of monopoly, criticising economists like the German Lujo Brentano, or the Austrian politician Karl Vogelsang who favoured cartels out of nostalgia for a mythical feudal past of social stability. Such cartels were driving out competition from their markets, Krzywicki argued. But their purpose was not to introduce new techniques and improved products, or lower prices, as happened under competition, but to obtain and keep a higher profit margin. Why, he asked, were Brentano and Vogelsang so favourable towards cartels? The two advocates were not concerned with technical significance of monopolies, but with counteracting the 'anarchy of the market and the associated rise of social democracy'.

> They dream of a specific society. Private property exists, but the entrepreneurs of each profession constitute a single cartel whose executive collects statistics on demand in the industry, sets down production quotas divided up among the individual producers, and delivers the final product to the consumers. Workers have complete certainty about their prospects, and secure earnings and pension rights. In this way the anarchy of the market is removed together with the main source of workers' grievances, but rents from property are retained. In the final analysis, this is "capitalist socialism" or rather, on closer inspection, industrial feudalism. Political representation is organised on the basis of profession, with its principal heading the factory like a baron his subjects… This is the social order for which yearn Vogelsang and, less obviously, Brentano and the followers of Rodbertus. (Krzywicki 1890).

Krzywicki's article is striking not only for its anticipation of Hilferding's idea of *finance capital* linked to monopolies, which Krzywicki was able to show in its American capital markets setting, that was to become predominant at the end of the twentieth century. Krzywicki also raised two aspects of this finance capital that would be taken up a quarter of a century later by Lenin in his booklet on imperialism. One of these was the elimination of the 'anarchy of the market' by the planning associated with the calculations of finance capital. The other theme was the emergence of an 'aristocracy of labour' given improved wages and pensions to remove the labour movement from socialism. This differs from the later view of Vladimir Lenin, who followed Hilferding in regarding the better working conditions of workers as being paid for from the profits accruing out of imperialist exploitation (Lenin, 1917). Krzywicki did not advance any theory of imperialism: At the time when he was writing Poland was not an independent state, still less an imperial one. The 'Congress Kingdom of Poland' where he was active, was a part of the Russian Empire, but an empire whose social and economic backwardness evoked considerations of economic development, rather than imperialism.

In 1893, Krzywicki visited America, and stayed there for six months. He attended the Chicago World's Fair, where he was impressed by the technological achievements of the monopolies that he was criticising. However, he did not change his views on the social and political consequences of the monopolies. His last articles on the subject, in 1905, were collectively called 'Morganizacja przemysłu' (the morganization of industry), referring to the process of creating the holding company structures that allowed a trust to control its member companies: 'Morganization' was the term then used in the US in honour of the leading exponent of this art of corporate restructuring. J.P. Morgan was by then locked in a political struggle with the US President Theodore Roosevelt over the president's anti-trust campaign. Recognising the technical achievements of the 'morganized' industries that he had seen in Chicago, Krzywicki now argued that the improvements in employment conditions were due to the superior organisation of work, the management of the markets in which the monopolies operated, and the looting of small shareholders and savers (Kowalik, 1959, pp. 242-244).

Among Krzywicki's most enthusiastic admirers, at least in Krzywicki's lifetime, was Oskar Lange. Krzywicki died in 1941 and in that year, on the eve of America's entry into the Second World War, Lange circulated among his socialist friends and sympathisers 'A Democratic Program for Full Employment'. The programme is an assessment of the New Deal and the measures needed to take America towards greater prosperity and socialism. It shows the clear influence of Krzywicki's ideas on industrial organisation.[5]

Lange's programme started off with a summary of what he regarded as the obstacles to the economic expansion that was necessary to overcome the mass unemployment that did not disappear in America until war-time mobilization. The Great Depression, he argued, was rooted in the monopolistic practices that dominated the US economy. Lange commended Franklin Roosevelt's New Deal for its boldness in attempting to deal with the economic depression. But he criticised Roosevelt's suspension of his earlier anti-trust legislation. This now gave rise to an unprecedented degree of industrial concentration and centralisation that in his view lay at the foundation of America's economic depression:

> […] A major part of our industrial and financial system is subject to monopoly control. In 1935, 100 companies employed 21 per cent of all the manpower engaged in manufacturing and accounted for 32 per cent of the value of products of all manufacturing plants. In 1933 the 200 largest non-financial corporations owned between 46 and 51 per cent of the nation's industrial wealth […]

But the share of industrial output produced by individual large corporations underestimates the degree of monopoly in particular industries. Local monopolies could arise where transport costs are high and industrial monopoly was reinforced by the appearance on boards of directors of corporations of a much smaller number of investment bankers:

> 'The actual concentration of economic power is much greater than indicated in these figures, because various corporations are known to be subject to common control through interlocking directorates and shareholdings. Thus out of the 250 largest corporations (50 financial and 200 non-financial corporations), 41 were interlocked into one interest group (Morgan-First National), 13 into another group (Kuhn-Loeb). Other interlocked interest groups comprise 7 (Rockefeller), 14 (Mellon), 4 (du Pont) corporations (Lange, 1941-1944).[6]

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[5] Lange appears to have worked on his 'Democratic Program' in subsequent years, up to 1944. The version cited here is an early one that was translated into Polish for publication in the edition of Lange's *Collected Works* as Lange 1941-1944, listed in the bibliography of this paper. We are grateful to Roberto Lampa for sharing with us a later draft in English from the archives of the University of Chicago.

[6] A different view was presented by Paul Sweezy, son of a director of First National Bank, writing at the same time: 'The picture of the investment banker firmly seated on the throne of economic empire has become so deeply implanted in all our minds that it is difficult to realize that in the short space of a single decade he has suffered a dramatic eclipse, and that such power as he still retains is largely rooted in a past that is gone forever… The federal government, particularly through the Reconstruction Finance Corporation but also through other agencies set up

In Lange's view the economic stimulus given by the fiscal provisions of the New Deal could compensate for the deflationary effects of these monopolies. But the economy could not break out of the depression with a return to industrial competition through effective antitrust measures.

Like Krzywicki, Lange went on to argue that, in this situation, the profit of the entrepreneur ceases to be the reward for a willingness to undertake risk and the efficient minimization of costs. It becomes simply a privilege arising out of economic concentration and government guarantee. Financial and industrial feudalism, he thought, was now a system of precisely defined group privileges, divided among social strata as rigid as any in medieval times. In such a society, any incentives to progress disappear. More than this, such a society would revive the cultural and political superstructure of feudalism with every kind of discrimination, intolerance, fanaticism, and narrowness of outlook, with the state bureaucracy integrated with the oligarchy of *haute finance* and big business.

Lange concluded that this system is politically weak and would be unable to resist pressure from the 'totalitarian powers', because such a hierarchical system would not be able to organise effectively the defence of the nation. As evidence of this he pointed across the Atlantic at Great Britain, where, he wrote, monopoly restrictions and fear of democratic forces in the country had brought the country to 'its present difficulties', a reference to the ineffectiveness of Britain's war effort, before America and then the Soviet Union joined the war effort. Much the same prospect awaited the United States, where society could either use its democratic rights to challenge monopoly control, or abandon itself to totalitarian dictatorship (Lange, 1941-1944). In later versions of his paper, Lange recommended monetary financing of the fiscal deficit and a guaranteed minimum income for all citizens (see note 5 above).

Already in an earlier paper, written while he was still in Poland, Lange had argued that monopoly capitalism changed the nature of the state in capitalist society. Whereas, under competitive capitalism, the State is a 'liberal' one 'confined […] to forming and supporting the general conditions of the capitalist economy, such as private ownership, maintenance of law and order, communications, the monetary system, legal security, and so on', under monopoly capitalism 'the capitalist State assumes a new function, namely, of creating monopoly positions for certain capitalist groups by its direct intervention in economic life. In this new role, the State becomes for these groups the creator of monopoly profits, which accrue from its intervention in economic life.' State intervention includes protectionism, stabilizes markets and brings the government, and the oligarchic interests that it now upholds, into conflict with smaller competitive businesses, the working class and the peasants. In this way, monopoly privilege comes to be incompatible with democracy and the welfare of the masses (Lange, 1931).

In 1929 Lange wrote a polemic against revisionist Marxists such as Karl Renner and Rudolf Hilferding, and in Poland Jędrzej Moraczewski, who considered state intervention to be a part of the socialisation of capital. Here Lange argued that:

> […] the contemporary state is less and less an expression of all capitalist classes and increasingly becomes the expression of only one class of capitalists: the magnates of organised large capitalist monopolies and the potentates of finance capital […] even the democratic state is today in the hands of the big capitalist oligarchy, the proof of which is its imperialist character. This imperialist character of the contemporary capitalist state is again one of the most important factors fusing the state into economic life and transforming organised capitalism into state capitalism […]. At the

under the New Deal, is performing more and more of the financial functions which once required the services of the investment banker (Sweezy, 1941).

> height of its development capitalism reaches the point from which it started gathering in the same hand economic and political power. If we call the union of political and economic power in one hand feudalism, then we can say that capitalism leads at the peak of its development to a certain kind of feudalism. The new feudalism brings to an end the development of organised capitalism and state capitalism. To the direct rule over economic life of the big capitalist oligarchy is added a second indirect rule, through the state, which becomes increasingly a tool in the hands of that oligarchy […]. The working class succumbs to a double domination by capital: economic and political. These are the consequences of the transition to socialism by étatism. Indeed, a fine perspective: instead of socialism a new feudalism, instead of the liberation of the proletariat the worst servitude to the state and an imperialist state at that, instead of the end of capitalism the greatest economic and political power combined with the state apparatus of big capital […]. If the establishment of this capitalist feudalism is presented as the transition to socialism, the working class has no alternative but joyfully to accept these changes thus forging the shackles of its future misery (Lange, 1929, pp. 45-48).

In places, Lange seemed to anticipate Hayek's later polemic against state intervention, *The Road to Serfdom*, written during the Second World War and dedicated 'To the Socialists of All Parties' (Hayek, 1944). Hayek and Lange seem to be at one in regarding state intervention as the road to serfdom. However, whereas Hayek argued that diminished political ambitions and expectations would realise the nineteenth-century liberal ideal of competitive capitalism, Lange had no illusions about the disappearance of monopoly in the face of *laissez-faire*. Free markets, rather than the state, had created big business, which had then suborned the state. The only way forward was a defence of democracy and the embrace of socialism (Breit and Lange, 1934).

Kalecki, it may be noted, did not share the view of Lange and Krzywicki that monopoly had superseded an earlier, competitive and dynamic, capitalism. In a separate paper on the distribution of income, written at the same time as he was collaborating with Kowalik on their 'Crucial Reform' article, Kalecki dismissed the notion of a prelapsarian state of competition in early capitalism:

> perfect competition […] is a most unrealistic assumption, not only for the present phase of capitalism, but even for the so-called competitive capitalist economy of past centuries: surely this competition was always in general very imperfect. Perfect competition, when its actual status of a handy model is forgotten, becomes a dangerous myth (Kalecki, 1971).

The industrial feudalism of Krzywicki and Lange followed Marx in regarding entrepreneurship as the source of social mobility. While the scope for entrepreneurship and access to finance clearly affects the rigidity of *industrial* hierarchies, and mobility among entrepreneurs or capitalists, social hierarchies are also distinguished by the mobility of labour between different occupations and professions. Ownership of wealth may include industrial capital but may also consist of financial, residential and land assets, among which may be inherited wealth that has not been accumulated by its current owner. Concentrated ownership of both industrial and non-industrial property makes the distribution of wealth a factor in the current tendencies towards an industrial feudalism in which differences between social strata are reinforced by an absence of social mobility.

4. Industrial feudalism and the labour market

With certain recent exceptions (Hillig, 2019; Agunsoye, 2021; Montgomerie and Bűdenbender, 2015; Addo and Darity, 2021), the recent literature on the distribution of wealth is overwhelmingly empirical and moralising, in the sense that increasing wealth inequality is treated as a bad outcome without explaining why it is bad. In other words, by concentrating on the data on the distribution of wealth and infusing changes in the wealth inequality revealed by that data with moral value (increased inequality is bad, decreased inequality is good), the literature reduces or even eliminates the social welfare analysis that is needed to make sense of any such distribution.

However, an older literature recognised that inequality in the distribution of wealth restricts mobility across the social hierarchy. The conservative historian (and part-time political economist) Thomas Carlyle recognised the dependence of upward social mobility under feudalism on charity and *noblesse oblige*. His defence of medieval feudalism and slavery was based upon the personal obligation of the wealthy to look after those less fortunate than themselves. He was wrong in believing that feudalism (or slavery for that matter) was in any way philanthropic. But, as Michael Schneider has pointed out, he correctly saw how disparities of wealth created the barriers to social mobility inherent in what we here define as 'industrial feudalism'. Carlyle recognised that capital accumulation may increase living standards. But such improvement may not eliminate differences between social strata. This, Carlyle thought, 'will be a question for Political Economists, and a much more important one than they have yet engaged with' to explain how '[…] wealth has more and more increased, and at the same time gathered itself more and more into masses, strangely altering the old relations, and increasing the distance between the rich and the poor' (Carlyle, 1829, quoted in Schneider, 2018).

Later neo-classical political economy saw inheritance as the bar to social mobility because it concentrated wealth and increased barriers to social mobility. This was vividly expressed, with biblical flourish, by Irving Fisher:

> […] equality of wealth is an unstable condition and, even if once established, would not endure, because of unequal forces of thrift, ability, industry, luck, and fraud. But inequality once established tends, by inheritance, to perpetuate itself in future generations… The well-known woman millionaire, Mrs. Hetty Green, is an example of a person who inherited a large fortune and then accumulated more, by virtue of her low "degree of impatience," i.e., her preference to accumulate for the future rather than to spend in the present. A fortune of $6,000,000 was bequeathed her, and now her fortune is reputed to be worth $100,000,000 […].
>
> […] Likewise poverty may be passed down from generation to generation. A special cause for handing down inequality of fortunes lies in the reduction of the birth rate among the rich. As we have explained, the tendency to-day is for the poor to have a high birth rate, and for the rich to have a low birth rate. There results a tendency toward an increase in the numbers of the poor and a decrease in the numbers of the rich. This result tends to exaggerate the differences in the per capita wealth between the two classes; for in the upper classes there will be a relatively larger share for the few who inherit fortunes, and in the lower classes there will be an increasingly smaller share for the many. We see, then, that there is at least a tendency for the rich to grow richer and the poor to grow poorer. We may even go so far as to say that the richer a man or family becomes, the easier it is to grow richer, and that the poorer a family becomes, the more difficult it is to keep from growing poorer. Large fortunes often grow without effort. All that is necessary is for their owners to refrain from squandering. On the other hand, a family once caught in poverty is apt to be drawn deeper into the mire. Overwork, anxiety, and unsanitary surroundings bring on disease or disability, which robs the family of what little it once had. The opportunity of the wealthy is their wealth, and the curse of the poor is their poverty. "To him that hath shall be given, and from him that hath not shall be taken away even that which he hath" (Fisher, 1913, pp. 482-483).

Fisher's argument did not survive the Chicago counter-revolution of the 1980s. In an influential pair of articles, Gary Becker and Nigel Tomes added a modern note to the discussion by including 'human capital' as wealth, and then arguing (contrary to Fisher) that the division of inheritance among children would tend to diminish the dispersion of wealth around the mean (Becker and Tomes, 1979, 1986).

However, at this point the discussion shifted towards verifying this predicted trend in income distribution, becoming, as mentioned at the head of this section, severely empirical and moralising about the data, rather than examining the economic and social implications of such trends. In particular, the effect of wealth inequalities on the labour market have been overlooked. Yet this is critical because so much of political economy and economic theory depends on the efficiency of the labour market, in the sense of responses of labour supply and demand to differences in wages. In the 1860s, this was noted by the journalist and political economist Walter Bagehot. In his essay on ‘The Postulates of Political Economy’ Bagehot observed that political economy assumes:

> […] that labour (masculine labour, I mean (sic!)) and capital circulate readily within the limits of a nation from employment to employment, leaving that in which the remuneration is smaller and going to that in which it is greater[…]. Before labour can move more easily and as it pleases from employment to employment there must be such employments for it to move between; there must be an effectual government capable of maintaining peace and order during the transition and not requiring itself to be supported by fixity of station in society as so many governments have been; the nation must be capable of maintaining its independent existence against other nations without a military system dependent on localised and immovable persons; and there must be no competing system of involuntary labour limiting the number of employments or moving between them more perfectly than contemporary free labour (Bagehot, 1898, pp. 28 and 53).

It was the caste system that, according to Bagehot, stood in the way of the application of ‘English’ political economy to India.

Bagehot was writing of classical political economy. The search for ‘rigidities’ to explain inefficiencies in the labour market has been a feature of more recent New Keynesian labour economics (e.g., Blanchard and Gali, 2008). However, although the connection between wealth and profession seems rather obvious, the distribution of wealth is not considered a factor in those ‘rigidities’. Social classes are differentiated not only by wealth, but also by their professional composition, with the lowest ‘proletariat’ made up of unskilled labourers, the middle class made up of skilled manual and white-collar workers, the upper middle class made up of highly skilled professionals (e.g., doctors, lawyers and university professors), and the higher classes made up of the financial and landed elite. New Keynesians argue that it is nominal and real rigidities of the labour market that cause unemployment and prevent wages from bringing those markets into equilibrium. It is not market rigidities which prevent the labour market from matching up talent, capabilities and attitude to work to particular occupations, but the wealth that is required to move into a superior social class: industrial feudalism which condemns individuals to remain in the social class into which they were born and restricts their employment to the occupations in that class. Furthermore, the mainstream approach to income and wealth differentials for the last half-century has assumed that those differentials derive from differences in labour productivity, obtained through investment in ‘human capital’. In industrial feudalism, in fact, the direction of causation is reversed: it is wealth differentials that determine job opportunities.

The analysis here suggests an alternative fairness criterion of wealth distribution to that of moralising the data, namely that, in combination with the welfare state provision, individuals should not be prevented from achieving their potential in work or human development by the unequal distribution of wealth.

5. Conclusion: Industrial feudalism and the end of Social Democracy

Since the middle of the last century, increased welfare and public service provision have been the central policy goals of social democracy. The welfare state, in the sense of assured income and social provision of education and training, is the condition for overcoming the tendency of the distribution of wealth to reproduce society with unyielding social distinctions, tending towards a hereditary caste system that we have called here industrial feudalism. A comprehensive welfare state allows society to approach the modern ideal of social democracy in which individuals may, through their own efforts, improve their economic and professional conditions, and the economic ideal of labour markets that match up labour demand with the skills and ambitions of workers. However, this is undermined by asset inflation and rising wealth inequalities in at least three ways. First of all, growing concentrations of wealth allow those with wealth to satisfy their income and educational needs through private markets. Secondly, with such wealth differentials, any progressive system of taxation leaves the wealthy as taxpayers liable to pay the cost of state welfare services that they do not use.

Thirdly, in its tendency to create hereditary, caste-like divisions between types of employment and professions, industrial feudalism makes the labour market less efficient. Securing education and training in private markets then fosters the delusion that higher wages and salaries are due to previous investment in 'human capital', whereas in fact they are increasingly the perquisites of the wealth that allows the propertied classes to monopolise the educational portals to elite employment and leaves the improvement in the condition of the less wealthy at the unreliable mercy of organised charity and the philanthropic inclinations of the wealthy.

Since the middle of the last century, the answer of social democracy to this undermining of labour market efficiency is a policy of high or even full employment using Keynesian economic instruments of fiscal stimulus and loose monetary policy. The neo-classical view was, and remains, that labour market efficiency gives full employment. Social democracy *per contra* follows Keynes and his disciples in reversing this causality so that full employment is the condition for labour market efficiency. High employment did not survive the takeover of the policy discourse by preoccupation with inflation and the management of public debt. Since then, Keynesian economic policies have been used as instruments of last resort in recent economic crises to show that the state can effectively stabilise economic and financial markets by spending freely and flooding banking and capital markets with money. But the resulting asset inflation has increased wealth differentials, enlarging barriers to personal and household improvement, while unemployment and weaker labour regulation have reduced real incomes among those without marketable property. Even with relative economic stability, concentrations of wealth serve to reinforce industrial feudalism and mark the end of social democracy.

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