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Piketty and the Political Origins of Inequality

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Thomas Piketty has made enormous contributions to our understanding of the extent and variation of inequality in income and especially in wealth. *Capital in the Twenty-First Century* (hereafter C21), first published in 2013 with an English translation in 2014, addressed and provided ammunition for the growing agitation, expressed through Occupy Wall Street and related movements, against the depredations of the rich. Piketty's goal in his new book, *Capital and Ideology* (2019, with 2020 English translation, hereafter C&I), is to identify the "legal, fiscal, educational, and political systems that people choose to adopt and the conceptual definitions they choose to work with" (C&I: 7), which serve to justify the systems of inequality those institutional and ideological creations give rise to.

Piketty attempts four tasks in his two books. First, he presents in C21 and repeats in C&I an abstract economic theory that posits a tendency for inequality to rise, based on two laws expressed in the Greek letters so beloved by mathematical social scientists and American fraternities, that "can be applied to all societies in all periods of history, by definition" (C&I: 52). These laws contend, "When the rate of return on capital significantly exceeds the growth rate of the economy (as it did through much of history until the nineteenth century and is likely to again in this century), then it logically follows that inherited wealth grows faster than output and income" (C21: 26). Thus,

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when and where the growth rate declines, either due to low or no population growth or to a loss of technological innovation, then the ratio of capital to income will rise. As that ratio rises, holders of capital will gain a larger share of the country's income.

Second, C21 shows how the operation of those economic laws affected the distribution of income and wealth in Western Europe, the United States, Canada, Australia, and Japan (with less comprehensive data for a set of "emerging countries") from 1900 to 2010. Piketty provides a broader historical perspective with data on the ratio of capital to national income for Britain and France going back to 1700, to 1770 for the United States, and to 1870 for Germany. He recaps much of that evidence in C&I, where he expands his data sources to include slave and colonial societies and to a larger set of countries in the Global South. His data sets are more comprehensive than those assembled by any other scholar and are the basis for the attention and acclaim his books have received.

Third, Piketty identifies and offers a multifaceted explanation for the unprecedented "reduction of inequality that took place in most developed countries between 1910 and 1950" (C21: 20). In so doing, he goes beyond his assertion that rising inequality is inevitable and universal because it is an outcome of general economic laws. In C21 and even more in C&I, he identifies various political factors that in the twentieth century reduced inequality before reversing direction in the 1970s.

Fourth, C&I creates a typology of ideologies used to justify inequality and seeks to explain why those ideologies vary over time and space.

C21 drew readers beyond academic economists. (It is too soon to know how C&I will be received.) C21 became a bestseller because its data provide convincing support for Piketty's finding that inequality of both wealth and income remained at a high level throughout Europe, and indeed all industrialized countries, from the eighteenth century until World War I, declined during the decades of the two world wars and the Great Depression, remained at low levels until inequality began to climb again in the 1970s, and reached Gilded Age levels by the beginning of the twenty-first century.

ECONOMISTS' CRITIQUES OF *CAPITAL IN THE TWENTY-FIRST CENTURY*

Economists have little to say about Piketty's explanation for the decline and revival of inequality in the twentieth century. That is not a surprise since few economists concern themselves with historical change. However, temporal change in inequality is an area that historians, historical sociologists, and political scientists have studied in depth. Our goal in this essay is to identify the weaknesses in the explanations Piketty offers for the rise and fall of inequality and to show what historical studies can contribute to the construction of a more convincing account. But first, we need to identify economists' largely ahistorical concerns.

Mainstream economists express almost universal admiration for Piketty's accomplishment of the second task, the compilation of data, offering only minor quibbles about the numbers themselves. (Boushey et al. 2017 present prominent economists' evaluations of C21, and King 2017 and Potter 2014 review economists' theoretical and empirical challenges to it.) Some rightwing economists claim Piketty's data are riddled with errors and misrepresentations (see Delsol, Lecaussin, and Martin 2017 for a collection of such critiques), but those claims are asserted rather than demonstrated (Walby 2018) and have gained no traction beyond conservative think tanks and business journalists. Criticism has been focused mainly on Piketty's economic theory and how that informs his classification and presentation of data.

Economists' strongest and most consistent criticism of Piketty is that he conflates capital and wealth, using the terms interchangeably (Nielsen 2017; Lepage 2017). He lumps together income-producing forms of wealth (corporate stock, bonds, and privately held businesses) with homes and land. Changes in the latter account for close to a majority of the increase in wealth over the past half-century, and reflect the rising value of existing property and not the diversion of workers' income into capitalists' profits (Nielsen 2017; Lepage 2017; Potter 2014: 98–99). "Removing the effects of the rapid rise in housing prices in recent decades (down at least to the Global Financial Crisis of 2008) casts real doubt on the supposed increase in the capital-output ratio that Piketty proclaims" (King 2017: 5). However, homes are the main source of middle-class wealth, and if we were to exclude that category from Piketty's calculations it would have the effect of increasing the share of total wealth held by the top 1 percent even as it would reduce the divide between the middle classes in 60th to 90th percentiles and the bottom 60 percent (Lachmann 2013: 28–31).

Rightwing economists, most notably Gregory Mankiw, the former Chairman of the President's Council of Economic Advisers in the George W. Bush administration (2015), argue that even if Piketty is correct about rising inequality, it does not really matter since most people are becoming better off as GDP rises throughout most of the world.[1] They assert that the rich are better than the less wealthy at allocating capital (which is why they are rich) and so their control over capital through private ownership will create greater economic growth benefitting everyone than if capital were more widely held and therefore invested or spent by the less-wise general population. As Piketty shows in C&I, claims like Mankiw's have real

[1] Mankiw's argument was countered, decades before he made it, by Peter Weiss giving voice to Jean Paul Marat: "Even if it seems to you that you never had so much, that is only the slogan of those who still have much more than you" (1998[1963]: 81).

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influence on policy, providing ideological support for neoliberal policies like supply-side economics and regressive tax cuts.

Most of the world's decline in poverty and the decline in global inequality since 1990 has occurred due to rising incomes in China (Hung 2017). In the rest of the world, poverty has endured. The claims for a decline in global poverty, much touted by the United Nations in its 2015 final report on the Millennium Development Goals and by Steven Pinker (2018), among others, are valid only because they set the poverty level at $1.25 per day, which is hardly enough to survive on anywhere in the world. Such a low cutoff leads to the absurdity of the World Bank's finding that 25 percent of Indians live in poverty but 75 percent of them subsist on less than 2,100 calories a day (Hickel 2016).

Finally, economists argue that C21 downplays technological changes and (for much of Europe and Asia) the still ongoing shift from agriculture to industry and services, developments that devalue labor and increase returns to capital regardless of the total supply of capital or classes' relative power (Tribe 2015). Only this last criticism speaks to Piketty's analysis of how and why inequality declined and then revived in the twentieth century. Fittingly, Tribe is a historian of economic thought rather than an economist, and his critique was published in *Past and Present*. Economists almost entirely ignore Piketty's political explanation for the decline and revival of inequality, the terrain that is addressed by scholars from other disciplines.

WHY INEQUALITY REMAINED HIGH BEFORE 1914

Let us examine Piketty's explanations for steady and rising inequality in the nineteenth and early twentieth centuries, the decline of inequality in the half-century after World War I, and the return of high levels of inequality since the 1970s. As we do so, we will identify empirical and conceptual problems with his analysis. To anticipate, Piketty deftly describes shifts in the distribution of wealth and income and identifies a mix of implacable economic forces, changes in technological innovation and population growth, ideology, and governmental policies that affect those outcomes. However, he often confuses rather than clarifies the causal relations among those factors and the outcomes he seeks to explain. He falls short in explaining why government policies change. Piketty's problems of analysis stem from his presentation of causality at a highly general and vague level: "In France and elsewhere, the history of inequality has always been chaotic and political, influenced by convulsive social changes and driven not only by economic factors but by countless social, political, military, and cultural phenomena as well. Socioeconomic inequalities—disparities of income and wealth between social groups—are always both causes and effects of other developments in other spheres" (C21: 274).

Piketty asserts "that the greater inequality of wealth that we see in Europe and Japan [for all the years before 1914 for which he could find data and, he

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suggests, in all previous times for which there are no records] is fairly naturally explained by the low demographic growth rate we find in the Old World, which resulted almost automatically in a greater accumulation and concentration of capital" (C21: 322) and by a lack of technological innovation. In reality, population growth in Europe accelerated dramatically in the nineteenth century (Maddison 2006: 30), thanks to public health improvements and the diminution of famines resulting from advances in agricultural productivity, and there was a rapid increase in technological innovation in the second half of the nineteenth century (Gordon 2016). Both should have led to a decline in inequality if Piketty's model was correct. He never addresses or even acknowledges the contradiction between his theory and reality, and therefore is unable to analyze how different rates of population increase or the unequal adoption of technological advances affected inequality across countries or regions.

C21's focus on land as the essential source of inequality in "patrimonial" societies provides the basis for the only sustained cross-national comparison Piketty offers for the pre-1914 period: between "pioneer societies" (above all, the United States) and everywhere else. The United States, he argues, differed from Europe in that land was cheap and plentiful and therefore did not provide a large store of capital. The South, he rightly notes, was like Europe, with slaves providing the equivalent of land. Remarkably, Piketty never mentions the abolition of slavery and so does not explain why that dramatic loss of capital led to an increase in U.S. equality in the following half-century.

Piketty identifies two ways that political forces deepened inequality in the pre-1914 era: empires and state debts. He shows that income from colonies and investments abroad became ever more significant in nineteenth-century Britain and France. Both those countries financed wars through debt, and then paid the interest and principal through regressive taxes. The lack of inflation in the eighteenth and nineteenth centuries preserved the value of state bonds, fortifying wealth holders. Neither of those mechanisms operated in the United States, yet inequality rose there too. Piketty could have looked at the U.S. Government's vast land giveaways to railroads and its toleration of monopolies in oil, sugar, tobacco, and some manufacturing industries until the end of the nineteenth century.

WHY INEQUALITY DECLINED FROM 1914 TO THE 1970S

Piketty's ad hoc and inconsistent attention to politics affect, his analysis of the dramatic moves toward and then away from greater equality in the twentieth century. Jacobs rightly concludes, "Where are politics in the story laid out by *Capital in the Twenty-First Century*? Everywhere, and nowhere" (2017: 515). Jacobs suggests that Piketty should have analyzed how the differing complexes of state, union, and corporate institutions that developed in each country deepened or moderated inequality. Instead, Piketty in C21 narrowly focuses on the *deus ex machina* of war and then, as we discuss below, points to broad though poorly specified ideological forces in C&I.

Piketty attributes the decline of inequality in Western Europe between 1914 and 1945, and in the United States from 1930 into the 1950s to external "shocks," mainly the two world wars and also the Great Depression, which bankrupted many capitalists. The wars mattered in three ways. First, savings decline during wartime so there is less capital accumulation. Second, both Britain and France lost assets which they sold to pay the costs of war and then lost more wealth when after 1945 colonies won independence from their economically and ideologically weakened masters. Third, but less significant than the other factors, was the physical destruction of assets in France and, to a much smaller degree, in Britain.

The Great Depression and two world wars made possible, in ways Piketty never specifies in either C21 or C&I, unprecedentedly high taxes on income and estates in Britain and the United States and a "tax levied on capital in France in 1945 at rates as high as 25 percent, indeed 100 percent for additions to capital during the Occupation" (C21: 527), and also "negotiations over wage scales in both the public and private sectors" in those countries (C21: 308). Piketty is similarly silent on what created "the new postwar political context of mixed ownership and regulation" (C21: 148), which ensured inequality remained at low levels after 1945. In C&I he highlights fears, on the part of capitalists and parliamentarians, that Bolshevism would spread west in Europe and the writings of various economists and other intellectuals who advocated high taxes on the rich and generous social benefits. However, Piketty never does the work, nor cites the writing of scholars who have done the work, of tracing the paths by which egalitarian ideas gained presence and force in social movements or party platforms, or through governmental policies beyond taxation. Nor does he account for why fear of communism led in a very different direction, to fascism, in Germany and Italy.

Fortunately, we can turn to other authors to illuminate the causal connections between war and depression on the one hand, and more egalitarian governmental policies and less inequality on the other. Somers and Block (2020) draw on Polanyi (1944), who identified the rise of unions and socialist parties, more than the threat/example of the USSR, as the cornerstones of a successful countermovement to the power of capital. Challenges to capital's power gained strength when and where, and for as long as, they produced economic growth that benefitted most people. "The reforms of the 1930s and 1940s were implemented precisely because they simultaneously addressed the injustice of entrenched economic inequality *and* the need to restore economic growth. This combination made it possible to construct an unstoppable pro-growth coalition that stretched from the poor to some parts of the business class" (Somers and Block 2020: 228). C&I devotes two pages (469–70) to Polanyi, not as an analyst of politics but instead to identify him as a critic of "the self-regulated market."

Leftist coalitions emerged only in some places and achieved varied political and policy successes. Michael Mann (2012: ch. 8) shows that the Great Depression punished whichever party was in power. In the United States, Canada, Sweden, Denmark, and New Zealand rightwing governments lost elections and were replaced by liberal, labor, or social democratic parties. In Britain and Australia, labor governments were punished and replaced by rightwing parties. In countries with weak democracies, most notably Japan and Germany, all parties were discredited, leading to military dictatorship or fascist rule. Worker-farmer alliances or conservative coalitions, once in office, locked countries into different "social welfare-state regimes" (Esping-Andersen 1990). Once created, those regimes endure, so wars and depression have very different effects on states' capacities to reduce inequality.

Scheve and Stasavage (2016), whom Piketty footnotes but rejects "as overly rigid and deterministic" (C&I: 464), identify an additional factor that propelled progressive taxation. They find that income tax rates were not related to suffrage or to whether left parties were in power. Instead, variance in tax progressivity is explained entirely by whether countries drafted their citizens for the world wars *and* were electoral democracies (i.e., Germany, Austria, and Italy all conscripted but were not democracies during World War I and thus did not impose high taxes on their rich). Scheve and Stasavage document that legislators in Britain, France, and the United States who advocated high taxes on the rich during the world wars framed those impositions as compensatory conscription of wealth to match the conscription of men.

THE RETURN OF INEQUALITY

Inequality began to rise in the 1970s, returning to Belle Epoque levels by the early twenty-first century. Piketty's analysis focuses mainly on rich nations and he is most concerned with explaining why the United States, which already was less equal than France in the postwar years, became far more unequal starting in the 1970s. Piketty attributes that to the two structural factors he asserts always increase inequality—slower population growth and a decline in technological innovation—and secondarily to "the gradual privatization and transfer of public wealth into private hands in the 1970s and 1980s, and … a long-term catch-up phenomenon affecting real estate and stock market prices, which also accelerated in the 1980s and 1990s in a political context that was on the whole more favorable to private wealth than that of the immediate postwar decades" (C21: 173).

Privatization, in fact, has been concentrated much more in the Global South than in rich countries (Crouch 2011), although the looting of state assets in poorer countries has created a flow of wealth to the United States, Britain, and a few other countries that recreates the earlier circuits of colonial exploitation. There has been little privatization in the United States (in part because so few industries were ever under government ownership), in contrast to Britain under Thatcher or France under Chirac (Prasad 2006). Piketty's "catch-up" is merely another way of saying that when asset prices go up the holders of those assets become relatively richer, so inequality rises. It is not an explanation of why asset values were unusually low in the post-1945 decades and then rose. We see that reflected in the price/earnings ratio of U.S. stocks, which now exceeds the peak reached in 1929.

Piketty focuses his analysis in C21 on a single factor to explain the divergence between U.S. and French levels of inequality: America's "'hypermeritocratic society' (or at any rate a society that the people at the top like to describe as hypermeritocratic). One might also call this a "society of superstars" (or perhaps "supermanagers," a somewhat different characterization). In other words, this is a very inegalitarian society, but one in which the peak of the income hierarchy is dominated by very high incomes from labor rather than by inherited wealth" (C21: 265). Piketty rightly challenges the claim that top salaries are returns to education by noting that "the explosion of very high salaries occurred in some developed countries but not others. This suggests that institutional differences between countries rather than general and a priori universal causes such as technological change played a central role" (C21: 315).

What then are those institutional differences? Piketty never explains. Fortunately, we have a rich literature on the decline of unions (e.g., Eidlin 2018); the growing organizational power of top corporate managers (Davis 2009; Fligstein 2005; Dobbin and Zorn 2005), which allows them to claim an ever-larger share of their firms' profits (more through stock options than salaries); and financialization, which creates opportunities for managers and speculators to gain windfall profits (Panitch and Gindin 2012; Krippner 2011). Wealth accumulation in recent decades, as Piketty acknowledges, increasingly accrues to managers at the expense of shareholders as well as of workers.

And how did these "supermanagers" gain the power to break unions and profit at the expense of shareholders? Piketty does not attempt to look at variations in corporate structure or in degrees or types of deregulation among countries, as do the authors in *Varieties of Capitalism*, edited by Hall and Soskice (2001), and Prasad (2006). If he had, he would have found that his data show that the share of income received by the top 1 percent in "Anglo-American" countries is diverging ever more from "Catholic" or "Northern European" nations that have institutionalized different varieties of capitalism

(Krier and Amidon 2018). Nor does Piketty examine the role of states and parties in mediating class relations (Mann 2013: ch. 6; Mudge 2018). Instead, he offers a cultural approach. We see the beginnings of that in C21, where he presents a simple dichotomy of Anglo versus European countries. "Simply put, wage inequalities increased rapidly in the United States and Britain because U.S. and British corporations became much more tolerant of extremely generous pay packages after 1970. Social norms evolved in a similar direction in European and Japanese firms, but the change came later … and has thus far not gone as far as in the United States … the 'conservative revolution' that gripped the United States and Great Britain in the 1970s and 1980s … led to, among other things, greater tolerance of very high executive pay" (C21: 332–33).

IDEOLOGY AND INSTITUTIONS: ELABORATIONS IN *CAPITAL AND IDEOLOGY*

C&I presents itself as a significant shift away from the often-mechanistic explanations for inequality presented in C21. While it repeats many of the arguments and data in C21, C&I's principal innovation is to make ideology, which Piketty defines as "a set of a priori plausible ideas and discourses describing how society should be structured" (C&I: 3), the principal explanans for both the overall rise in inequality since the 1970s and for the widening divergence between the United States and Europe. Ideology becomes an independent variable, something "people choose to adopt" that channels and potentially can temper the workings of the economic laws presented in C21 because, unlike a "Marxist, [Piketty] insist[s] that the realm of ideas, the political-ideological sphere, is truly autonomous" (C&I: 7).

Piketty argues that before 1945 new ideas arose that "discredit[ed] … the system of private property and free markets" (C&I: 36). As a matter of chronology, Piketty is correct. However, many ideas, even those with wide popularity or intellectual authority, never become policy. We need to explain why politicians adopted certain ideas at particular moments in some countries but not others. Somers and Block (2005) show how the "perversity thesis," the claim that poverty is caused by poor peoples' behavior (which can be encouraged or intensified by generous welfare provisions), became a justification for gutting welfare benefits in England through the 1834 New Poor Law and in the United States with the 1996 Personal Responsibility and Work Opportunities Reconciliation Act. They carefully explain why this thesis was so compelling in two different places and eras, and how economic and governability crises opened legislators and other actors to consider "market fundamentalist" ideas that once were seen as extreme. Piketty, in contrast, never shows why hypermeritocratic ideas gained resonance when and where they did, or how advocates for those ideas found political openings to change state policies or alter how corporations distributed income among workers, managers, and shareholders.

Piketty takes the connections between war and depression and higher taxes as self-evident. He therefore fails to do the work of explaining why politicians in the United States, Britain, and to a lesser degree France, enacted highly progressive taxes, and in most of Western and Eastern Europe after 1945 instituted varying levels of the social benefits in response to mass deprivation and unrest. Nor does he cite authors who have done that work (e.g., Esping-Andersen 1990; Prasad 2012). Piketty leaves similar conceptual gaps in his explanation of the move toward inequality in the last half-century. As we have noted, he fails to identify the organizational and regulatory changes that made it possible for corporations to offer extreme pay, or more accurately, for "supermanagers" to grab it. Even on the level of ideology, Piketty ignores campaigns waged within his own economics profession, as well as in the political and media arenas (Phillips-Fein 2009), to build legitimacy for or acquiescence to neoliberalism in general, and deregulation and tax cuts in particular.

CONCLUSION: THE MECHANICS VERSUS POLITICS OF REFORM

If ideas were the necessary and sufficient preconditions for reform, then Piketty's convincing documentation of the return of extreme inequality and his proposal for global taxes on income and wealth, which he offers at the end of both of his books, would be enough to spark a political movement that would bring them to enactment. In reality, political platforms, and the policies governments pursue, develop out of dialogues between intellectuals within and outside of parties and professional politicians who make judgments about how to assemble winning coalitions (Mudge 2018; Prasad 2012). Politicians' decisions are tested and revised by the economic results of their policies. Voters' perceptions of those results, which are partial and can be distorted by propaganda and partisan loyalties, in turn affect elections that can expand or limit openings for the enactment of reforms.

Post-1945, the abilities of governments to deliver economic growth and to adopt policies that spread income and wealth more equally became possible when "the replacement of the gold standard with Bretton Woods created a global context in which governments had much greater leeway to enact policies that improved the distribution of income and wealth.… However, with the shift from fixed exchange rates to floating exchange rates in 1973, and huge increases in international capital flows, that benign context disappeared, and egalitarian policies were scrapped, so that income and wealth inequality started to climb again" (Somers and Block 2020: 223).

In all periods, social movements propelled egalitarian reforms, and their absence cleared the terrain for reactionary anti-egalitarian policies that the rich incited for their own narrow benefit. Piketty's research already has made a definite contribution toward informing and motivating social movements. Awareness is a necessary but unfortunately nowhere near sufficient condition for mobilizing mass opposition to inequality. Piketty's work needs to be integrated into the broader study of how policies are made and strategizing about how to build mass political action in the conditions of the twenty-first century. We must combine the study of capital with that of politics. That, in turn, requires a broader conception of ideology than what Piketty offers, one that will allow us to specify how ideology affects parties, states, voters, and activists.

Piketty himself recognizes that "to explain where these social norms come from and how they evolve … is obviously a question for sociology, psychology, cultural and political history, and the study of beliefs and perceptions at least as much as for economics per se" (C21: 333). Rich peoples' ability to further enrich themselves is not just, or even mainly, an expression of new social norms. If we want to understand how we arrived at this new era of extreme inequality and how we can repeat a move to egalitarian policies in the absence (we hope) of another world war (Somers and Block 2020: 223) we need to identify the institutional as well as ideological forces that create durable systems in which power and resources are narrowly held. Our agenda as social scientists and historians should be to find the points and processes that in the past have, and in the future might, disrupt elite power.

Piketty's weak understanding of how politics operates leaves him offering proposals for wealth taxes that would reduce inequality without identifying a plausible path to their enactment beyond the claim that it is the optimal policy prescription. Only if we understand how ideas actually affect politics and how class and other interests are represented in actually existing institutions can we determine if there is a basis to mobilize sufficient support for policies that would reverse the rising tide of inequality.

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Abstract: We examine Thomas Piketty's explanations for steady and rising inequality in the nineteenth and early twentieth centuries, the decline of inequality in the half-century after World War I, and the return of high levels of inequality since the 1970s. We specify empirical and conceptual problems with his analysis, which stem from his presentation of causality at a highly general and vague level. That leads him to confuse rather than clarify the causal relations among implacable economic forces, changes in technological innovation and population growth, ideology, and governmental policies and the outcomes that he seeks to explain. We identify social scientists and historians who are able to account for temporal and geographic variations in the political coalitions that propelled egalitarian reforms, and that in their absence cleared the terrain for reactionary anti-egalitarian policies that the rich incited for their narrow benefit. We explain why Piketty's limited conception of ideology is insufficient for explaining how mass opposition to inequality is mobilized. We show that if we want to combine the study of capital in the twenty-first century with that of politics, we need a broader conception of ideology than what Piketty offers, one that will allow us to specify how ideology affects parties, states, voters, and activists.

Key words: inequality, ideology, politics, Piketty, war, parties, states, voters