*real-world economics review*, issue no. 92
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# Thomas Piketty's changing views on inequality

Steven Pressman [Colorado State University]



## 1. Introduction

Thomas Piketty established his professional reputation by using income tax returns to measure income distribution over long time periods in several nations. Long before *Capital in the Twenty-First Century* (hereafter *C21*) appeared, Piketty (2001; 2003; & Saez, 2003) showed that, in many capitalist countries, income flowed to the top 1% (really the top .1%). *C21* made two new contributions – a theory to explain this phenomenon, r>g, and a policy solution, taxing wealth.

Surprisingly, *C21* became an international best seller. Nonetheless, it was criticized by a broad array of economists. Heterodox economists objected to the economic theory Piketty used to explain rising inequality. Neoclassical economists disliked his policy proposal and understood that neoclassical economics didn't support Piketty's explanation of rising inequality. And many economists criticized Piketty's data and his interpretation of the distributional facts (see Pressman, 2016).

Piketty's follow up, *Capital and Ideology*, was published in France last fall; an English version appeared in March of 2020. There are many similarities between the two books. Both are massive tomes,[1] well-written and packed with economic data. Both use the term "capital" when really talking about wealth. Finally, literary references abound to support key points.

Despite these similarities, there are many changes. Gone are r>g and any analysis of inequality that rests on neoclassical economic theory. *Capital and Ideology* contains a different perspective on the causes of inequality. As its title proclaims, it is our beliefs that are crucial. Piketty undertakes a broad sweep of history to argue that the degree of inequality we get depends on how people see inequality and that this varies from time to time and from place to place. A progressive ideology, leading to greater equality during the 20th century, ran out of steam by the end of the century. It was replaced by the view that markets increase human well-being. There is also a new policy proposal – broader representation on corporate boards.

This paper examines Piketty's changing views on the causes of inequality and the policy solutions needed to remedy the problem. Section 2 provides a brief overview of some general perspectives on understanding income inequality. Section 3 focuses on how *C21* views the causes of inequality. Section 4 then discusses the causes of inequality according to *Capital and Ideology*. Section 5 looks at key policy proposals to reduce inequality in both books. Section 6 concludes.

[1] *Capital and Ideology* is over 1000 pages. The English version of C21 was cut by 200 pages from the original French version. Something similar should have been done for *Capital and Ideology*.

## 2. Understanding inequality

There are three broad viewpoints regarding the determinants of income and the causes of income inequality. The standard economic approach focuses on worker productivity, and how this determines worker wages and income distribution. An institutional or political economy approach sees wages determined by economic power and the willingness of government to counter the power of large firms and reduce inequalities created in the market economy. Finally, a nihilist approach focuses on dumb luck – the luck of being born to rich parents, having a good genetic endowment (Barth, Papageorge and Thom, 2020), and being in the right place at the right time.[2]

According to the standard economic approach, income depends on one's productivity. *Capital and Ideology* calls this the "meritocracy explanation" of inequality; wages depend on individual effort, especially the education or human capital that people accumulate (Becker, 1964; Schultz, 1961). We invest in ourselves through schooling. This yields returns in the form of higher wages, just as investments in machinery yield returns in the form of profits. Other factors, such as globalization (Wood, 1994) and technology (Bound and Johnson, 1992; Brynjolfsson and McAfee, 2014) also come into play; but these economic forces work in tandem with education to determine incomes and income distribution.

Greater inequality follows from unequal investments in education. The work of Kuznets (1955) can help explain this. Kuznets analyzed what happens when labor moves from rural areas paying low wages to urban centers paying high wages. He noted that as people move to cities, inequality will increase, and it will increase until around half the population lives in urban areas. At this time, migration reduces inequality. This analysis can be extended to education. When few people have college degrees, those with degree will make more money due to their educational credentials, pushing up income inequality. Once a large fraction of the population has graduated from college, the premium for a college degree starts to fall. At the same time, as uneducated workers become scarce, their wages will rise.

Adding globalization, or the greater movement of capital and labor around the world, complements the education story. When firms outsource production, domestic workers must compete with (less educated) foreign workers willing to accept lower pay; if they refuse, firms will relocate production to low-wage countries. Similarly, unskilled workers coming from abroad, will exert downward pressure on domestic wages for those lacking adequate education. Technological change also reinforces the economic story. Technology favors workers able to use new technology; wages fall for those unable to do so. Real world examples of this abound. Automated assembly lines have replaced manufacturing workers. Self-driving cars and trucks threaten the jobs and incomes of cabbies and truck drivers.

There are several problems with this story. It doesn't explain why income has been flowing to the top .1%, who are not the educated elite. It is also not clear why inequality in the US was flat between 1959 and 1989 when the fraction of the population over 25 with a college degree doubled from 10% to 20%, but then soared between 1989 and 2019 when the fraction rose to 36%. Furthermore, the 1.7 million Americans who work as long-haul truck drivers earn around $43,600 a year, down sharply (in real terms) since the 1980s (Gabriel, 2017), well before anyone began talking about robot truckers; and Mishel et al. (2007) note that unskilled

[2] US public opinion is moving away from the economic approach and towards the dumb luck approach (Pew Research Center, 2020).

workers did better in the 1990s than in the 1980s, although the percentage of foreign-born workers increased twice as much in the 1990s.

The institutional or political economy approach focuses on the ability of large companies to squeeze workers. It also focuses the ability of governments to reduce inequality through fiscal policy, and by passing laws that aid and protect workers (e.g., high minimum wages and laws facilitating unionization).

Disposable income depends on earnings plus government transfer payments less taxes, so fiscal policy plays a large role in distribution. Generous income supports for low-income and middle-class workers (such as unemployment insurance, child allowances and old-age pensions) raise disposable income for these families. Progressive taxes reduce the disposable income of the rich and also provide the money to fund spending programs. Hungerford (2011: 11) estimates that tax policy, particularly lower taxes on capital gains and dividends, was "the largest contributor to the increase in … income inequality" between 1996 and 2006.

Piketty ignores much of this in *C21* by focusing on taxable income (adjusted gross income in the US) rather than disposable income. His approach was to develop an extensive dataset for countries that began in the early 20th century, when income taxes were first introduced. His figures are for the share of taxable income received by the wealthy. This made data collection easier; but it ignored the impact of fiscal policy on distribution, as well as changes in what counts as taxable income over time (see Pressman, 2016: Ch. 2).

Further, as Joan Robinson (1933) noted, when there are few employers, we have a monopoly-like situation that she called "monopsony". In this case, firms hire fewer workers, pay them less, and have unfilled jobs because they are unwilling to raise wages. Monopsony power also keeps workers from earning more money by changing jobs. Non-compete clauses in hiring contracts prevent workers from looking for jobs with better pay or starting up another firm in a specific geographic area or for a specific time, usually 6-24 months (Gilson, 1999). No-poach agreements prevent firms from stealing workers from another firm that is part of the same franchise chain. Nearly 60% of major US franchises require store owners to sign such agreements, up from 36% in 1996 (Starr, 2019).

A final approach to income distribution focuses on randomness or luck. Luck determines whom one meets and marries, whether one is healthy, our genetic capabilities, and the character and quality of one's family (financial and otherwise). All play a large role in determining future income. Robert Frank (2016) remarks that it was a matter of luck that he went to college, which then made a huge difference in his life. After completing his Ph.D., luck landed him a job offer from Cornell the day before he was going to accept an academic position at a mid-west school that would have given him more teaching and less income. At Cornell he had the time and institutional support to be able to write many highly successful books.

Beyond Frank's personal experiences, luck seems important for individual success. What we call "natural ability" is the luck of one's genetic makeup. Top athletes, such as Michael Jordan, and professional musicians, such as Yo-Yo Ma, were blessed with good genes. A good education is also essential for success. This too depends on luck to a large extent. Someone had to teach Michael to shoot and dribble a basketball, and he had to "practice, practice, practice". Yo-Yo needed a first-rate cello and lessons from outstanding cellists. All this requires money. More generally, wealth enables parents to hire private tutors for their children, have their children attend the best possible schools, graduate from top colleges, and earn more money as adults.

*C21* favored the dumb luck approach. Parents matter most of all.[3] Contrary to the life-cycle theory of consumption (Modigliani and Brumberg, 1954), those with wealth pass it to their children, who then pass it on to their children. For most of human history, wealth in the form of land went to the eldest living son (the luck of the draw and the luck of survival); more recently, financial assets enabled wealth to be split among children (possibly equally and possibly not). *Capital and Ideology* rejects the dumb luck approach of *C21*. Instead, it provides an institutional or political economy explanation for inequality. What matters is the power of ideas and (indirectly) the economic power of those with wealth.

## 3. *Capital in the Twenty-First Century* and its shortcomings

The great strength of *C21* was its presentation of economic data, shedding enormous light on the history of income and wealth distribution during the 20th century. The book cleverly linked income inequality and wealth inequality. Average incomes grew by g, the rate of growth of the economy. Wealth inequality led to income inequality via its high rate of return, r, which then contributed to greater wealth inequality because some of these returns get saved, become part of wealth, and provide even more future income (for a numerical example, see Pressman, 2016: 66).

Piketty still needed a theory to explain his empirical results. Because, *unluckily*, he was taught neoclassical economic theory – that is what he knew and what he relied on in *C21*. Post Keynesian theory, where spending by the rich lead to profits for the rich, would have avoided many problems (see Zorn & Pressman, 2020).

Perhaps the biggest problem is that it is unclear why r>g. Piketty (2014: Fig 10.9) presents data estimating that r has averaged 5% over several centuries, while g has averaged only 2% to 3%. *C21* discusses the determinants of g; however, it says nothing about r. Here lies a big problem. If the supply of wealth or capital increases over time, according to standard economic theory its returns, r, should *fall*. *C21* struggled, *unsuccessfully*, to explain why this didn't happen.

Second, the r>g explanation assumes little income or wealth mobility from one generation to the next. This is not true now nor in the past. Some children of the rich splurge and quickly consume their inheritance, while others make unlucky or bad decisions and become poor (as Thomas Mann depicts in *Buddenbrooks*). On the other hand, each generation has its nouveau riche. People on the Forbes 400 list of the richest people in the world change regularly (McBride, 2014). Jeff Bezos, Warren Buffet, Bill Gates, and Oprah Winfrey didn't inherit great wealth from their parents; they are self-made billionaires.

Third, some empirical facts in *C21* contradict the main argument of the book. Barring unforeseen circumstances like war, revolution, or a natural disaster like the coronavirus pandemic, r>g implies that inequality should increase continuously over time and should be increasing everywhere under capitalism. Piketty himself (2014: 25-7, 242-6) emphasizes this

[3] Frank (2016) tells us that he was an orphan, but good luck came his way later in life.

point. Yet his data shows that inequality was low and remained low in western nations during the relatively peaceful decades following World War II. Further, inequality rose more in the US than other developed nations in the late 20th century. In other countries (e.g., France) it remained stable throughout the latter half of the century. Different cross-national experiences, and different results in one nation over time, suggest institutional factors are at play in determining inequality.

Recognizing this, *Capital and Ideology* moves away from a luck-centered view of inequality and towards the institutional or political economy approach – what is important are our beliefs about inequality, and the power of corporations to increase profits, and reduce wages and the wage share. These changes are possible because Piketty abandons neoclassical economic theory and uses history to understand income inequality.

## 4. Capital and ideology

Piketty has commented that his childhood heroes were left-of-center economic historians Fernand Braudel and Lucien Febrvre (Cassidy, 2014). In *Capital and Ideology* Piketty returns to his main interests when growing up.

He abandons his neoclassical education and the theory he absorbed at the London School of Economics. There is no mention of r>g, and no discussion of how this can be reconciled with neoclassical theory. Instead, as the title of the book indicates, the focus is on ideology. What Piketty means by this, in brief, is that when it comes to inequality, nations get what they believe. The book is also about historical justifications for inequality, and their importance, starting from ancient times and continuing to the present.

More specifically, ideology for Piketty is a set of ideas, or public discourses, that describe how society should be structured and the limits to property rights. Ideology gives answers to questions such as how much should people be taxed (tax regimes), how values and knowledge get transmitted from one generation to another (education regimes), what people can own, and how property can be transferred across generations (property regimes). These ideologies exist in all societies and justify the existing income distribution income (Piketty, 2020: 29). They reduce political opposition to inequality, which may take the form of revolution or the confiscation of private property. By placating people, ideologies reduce the chance of revolution at the ballot box – electing people whose goal is a radical change in the national income and wealth distribution.

The link between ideology and inequality is straightforward. Nations that glorify the competitive spirit and the market are the nations that allow capitalism to run amuck, with little government regulation or oversight. This leads to lower taxes and meager spending programs that might mitigate inequality. Conversely, those nations where people believe that the power of capital needs to be counterbalanced with the power of government (because there is consensus regarding national interests other than profit maximization) do more to reduce inequality through progressive taxation and generous social insurance programs, as well as legal restraints on corporate power.

The Introduction to *Capital and Ideology* notes two shortcomings with *C21* that it seeks to correct – it focuses mainly on developed capitalist nations and it pays insufficient attention to the impact of ideas regarding inequality. I would add two more shortcomings that also get remedied to some extent. *Capital and Ideology* discusses other types of inequality, such as inequality in life expectancy and inequality of education; and it goes beyond economics to examine the political consequences of rising inequality – in particular, how and why low-income and less-educated workers are now supporting right-of-center parties.

Inequality in life expectancy has become a concern of late because life expectancy in the US has fallen, mainly for those with low incomes (Case and Deaton, 2020). As noted above, *C21* ignored the human capital approach that led most economists to focus on education as a cause of inequality in favor of dumb luck as an explanation for the existence of inequality. *Capital and Ideology* accepts a role for education but subsumes this under the more important factor that increases inequality. It notes that a burgeoning conservative ideology resulted in tax cuts for the rich and reduced government expenditures. As a result, substantial spending cutbacks hit the educational sector. Lower quality secondary education led the rich to send their children to private schools, which then opened the door for the children of the rich to attend elite colleges and universities. It also led to sharply rising college costs and enormous college debt, which is crushing many individuals who had to borrow money in order to obtain human capital.

Politics takes up the last part of *Capital and Ideology*. The book presents data on national voting behavior in an attempt to explain Brexit, and the election of leaders like Donald Trump in the US and Viktor Oban in Hungary. This part of the book throws much light on the current political situation throughout the world and its relationship to rising inequality. Many have been left behind in the new competitive global economy, and their political leanings have changed. In the US, over the course of several decades, less-educated and low-income voters moved from supporting the Democratic Party to supporting the Republican Party; at the same time, more educated and higher income voters have moved from supporting Republicans to supporting Democrats. Similar changes have taken place in France, the UK (the other two countries having good data) and elsewhere. According to Piketty this change is due, in part, to changing ideology; it stems from the failure of egalitarians to advance their cause. In addition, low-income voters lacking higher education saw their incomes fall and their lives become more precarious, and felt abandoned by the more liberal national parties. This is why they decided, Piketty contends, to give Trump and Brexit a chance.

The big difference in the two books is that Piketty now recognizes that inequality is *not* the result of broad economic forces (r>g, technology, globalization). No economic or technological imperative drives inequality; and once r>g is dropped, the luck of one's birth is no longer a main factor driving inequality. Rather, as critics of *C21* (e.g., Beker, 2014; Colander, 2014) pointed out, inequality is context dependent. In *Capital and Ideology* inequality varies from time to time and from place to place; it depends on the existing political institutions and ideologies regarding inequality. It depends on the equality of opportunity, especially educational opportunity. Thus, for *Capital and Ideology* history matters.

History matters because it shows us that different nations do different things at different points in time, and that one nation will do different things at different times. Understanding this history shows us that inequality is not inevitable. We can do different things; and doing different things will lead to different distributional outcomes. "The inequalities and institutions that exist today are not the only ones possible, whatever conservatives may say to the contrary" (Piketty, 2020: 7). *Capital and Inequality* sees inequality as stemming from the social institutions within each country – its laws regarding property rights, education and fiscal policy. Property rights concern who can own what and the limits to what property owners can do with their property. Education concerns who has access to education, the quality of education that everyone receives, and its cost. Fiscal policy concerns how taxes and government spending programs reduce inequality and provide different or similar opportunities to all of its citizens.

Piketty starts by taking the reader on a long historical journey. He examines how power arose and how it was justified in ancient times when the population was divided into the three main groups or classes – warriors, priests, and laborers. Land was owned by a small warrior class that became the nobility in Europe. Ideas were the province of the clergy, an equally small group. Everyone else was a worker, with few rights but in great need of protection by the warrior-nobles. As such, power is immediately placed at the heart of wealth or property ownership. So too is ideology. For those without property, salvation was promised by the clergy in an afterlife. This placated workers and helped maintain order in a world of poverty and great inequality. Things changed a bit as a result of the industrial revolution, but it is mainly names that changed; power relations remained the same. The rise of "ownership societies" and a business class reduced the power of the nobility. The business class still needed warriors (now the state) to protect them, priests (now educated intellectuals) to justify their great wealth, and workers to produce it.

According to Piketty (2020: 57), the old order disappeared as the state began to protect average citizens and make the services of the nobility obsolete. Similarly, over time, the state took on responsibility for developing knowledge. As a result, the clergy were no longer needed to perform this function; highly educated individuals naturally assumed this role. These changes took place at different times and with different speeds in different locations. Again, this points to the importance of national policies and ideologies rather than some general economic explanation (such as r>g) that impacts developed nations to the same extent over time.

A focus on colonial and slave societies further broadens Piketty's history of inequality. Colonialism involved the exercise of power by one nation over another; slavery was about some people exercising power over others. The negative economic and social consequences of being conquered explain why inequality in former colonies is among the largest in the world today. The power of property owners was also on full display when slavery ended in the US. Slave owners were compensated for their losses, but not those forced to live as slaves and deprived of property rights over their own body. Former slaves did not even receive the "40 acres and a mule" they were promised. For Piketty, this shows how beliefs in the sanctity of property have long-term distributional consequences, including the ability of accumulated wealth to perpetuate itself over time.

Like *C21*, *Capital and Ideology* does have some limitations. One shortcoming is that it doesn't address the big question of how people come to accept beliefs. If the level of inequality depends on beliefs, then we need to know how people actually view inequality and how these views change. Some research along these lines is beginning (Norton and Ariely, 2011), but this remains a gap in the argument of the book.

*C21* ignored critiques of neoclassical distributional theory (e.g., the Cambridge Controversy). Likewise, *Capital and Ideology* pays insufficient attention to an extensive literature justifying the existence of property and acquisitiveness, or *The Political Theory of Possessive Individualism* to invoke the title of a famous book (Macpherson, 1962). From John Locke (1953[1690]) to Robert Nozick (1974) the philosophical justification of private property ownership has buttressed the case for unlimited private accumulation. Not addressing this literature is a huge oversight in a book that emphasizes the importance of ideology. In addition, the rise of dark money (to invoke the title of Mayer, 2016) and right-wing think tanks that promulgate the idea of free markets, low taxes, little government spending and minimal regulation is not addressed. Greater inequality makes it easier for the rich to contribute to political campaigns. This is why the votes of elected representatives in the US Congress tend to follow the preferences of their wealthy donors rather than the preferences of their constituents (Bartels, 2008). And when running for elective office is increasingly expensive, and elected officials need financial support to keep their jobs, they increasingly favor the ideas of those with lots of money (Hacker and Pierson, 2010).

Granted, Piketty is an economic historian and empiricist, rather than a political philosopher. Still, this literature is too important to be ignored. Instead of dealing with it and pinpointing its flaws (as Pressman 2013 does), Piketty (2020: 123) sets up a straw man. He contends that the current ideology takes property rights as sacrosanct, something that can never be abrogated; doing so, even a little, would open a Pandora's Box and lead to ever greater restrictions on property rights.

## 5. Policy implications

Although viewing luck as a main cause of inequality, *C21* became institutionalist when it came to policy. This is only to be expected as policy proposals are about changing institutional structures. *Capital and Ideology* consistently focuses on institutions – how they generate inequality and possible solutions to the problem of inequality. In the policy arena ideas are key. Yet power, particularly the power of legislators to approve policy changes, is also important.

The key policy idea in *C21* was a wealth tax. Piketty (2014: Ch. 15) promulgated an annual 1% tax on net worth exceeding $1.35 million, rising to 2% tax on wealth greater than $6.75 million. He emphasized that the tax had to be global to prevent wealth from escaping the tax by moving to countries without a wealth tax and with no requirement to report wealth holdings to other nations.

Pressman (2016: Ch. 7) identified a number of practical problems with this policy, including a lack of liquidity, an inability to value assets, and likely tax avoidance. Two colleagues of Piketty, Saez and Zucman (2019), devised some clever solutions to these problems. They suggest using insurance assessments to value assets that are not traded regularly, and they suggest letting people give the government a fraction of their assets when owners are liquidity constrained. While ingenious, these solutions are still problematic. With so much money at stake, insurance fraud to escape the wealth tax is likely, with one asset value stipulated for the Federal government and a different one for insurance purposes. There is also a problem with assets that cannot be divided easily when someone lacks cash. I can give the government 1% of my stock shares, and probably even 2% ownership in my multi-millionaire dollar homes (effectively having a mortgage held by the government). But what about my collection of classic paintings and fine wines? Even after 20 years I will still own a majority share of these paintings, giving me control over them. And, would I need to send the government a small glass of wine whenever I drink an expensive bottle?

There are also political issues surrounding whether a wealth tax is constitutional. This is important because Piketty is clear that a wealth tax could not work without the US participating, as wealth would flow to the US in order to escape taxation. But getting the US on board is highly doubtful. A little historical background provides some insight. The US introduced an income tax in 1894, which the Supreme Court ruled unconstitutional the following year. It took another 18 years until the 16th Amendment to the US Constitution was passed and an income tax was enacted. Cohen (2020) argues that since the 1970s the Supreme Court has become even more conservative, favoring the rich over everyone else. Rulings have upheld strict voter ID laws and voter purges designed to keep the poor from voting, as well as limitations on class action lawsuits. It is highly likely that the Court would declare a wealth tax unconstitutional.

An amendment to the US Constitution requires support from two-thirds of the Senate and the House, followed by approval by three-fourths (38) of US states. It could be stopped by 34 Senators or 13 states that won't pass an amendment because Republicans control either the Governor's mansion or one house of the state legislature. Currently, 26 states have Republican governors, and 31 have Republicans in control of at least one branch of the state legislature (including some states with a Democratic Governor). Furthermore, 20 states are virtually certain to vote to re-elect President Trump in 2020 and have voted Republican in nearly every Presidential election since the 1964 Democratic landslide victory. In this environment, it is hard to believe the US could have a wealth tax in the foreseeable future. Such problems are not unique to the US. A wealth tax in Germany was declared unconstitutional because it lacked clarity in how wealth would be valued (Glennerster, 2011).

Nonetheless, *Capital and Ideology* doubles down on taxing wealth. In fact, Piketty (2020: 976) goes even further, claiming that a wealth tax is *the only way* to reduce income and wealth inequality. Reminiscent of some problems with *C21*, his own data shows this is *not* the case. US inequality was low and stable from the 1940s until around 1980, even though there was no wealth tax during this time. Piketty cannot have it both ways. Either a wealth tax is necessary for keeping inequality under control, in which case there must be problems with Piketty's data, or his data on income distribution in the US during the middle of the 20th century is by and large correct and we don't need a wealth tax to achieve low levels of inequality. I side with the empirical Piketty on this.

The US can return to post-war levels of inequality without a fight over the constitutionality of a wealth tax. Besides raising estate taxes, top individual income tax rates and corporate income tax rates can be increased, and there could be a significant financial transactions tax.[4] The US could also return to the post-war situation where capital income was taxed at the same rate as labor income, rather than at half that rate. All these changes would fall mainly on the shoulders of the very rich, who own most corporate stock, and would require only Presidential support and a majority of both houses of Congress.

From the perspective of *Capital and Ideology*, we might view *C21* as providing an ideology or justification for taxing wealth. As such, the political impact of the wealth tax proposal must be acknowledged – both Bernie Sanders and Elizabeth Warren advocated rather steep wealth taxes in their 2020 campaigns for the Democratic nomination to be President. However, this positive experience still runs counter to the experience in Europe, where almost every OECD

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[4] There is currently a small financial transactions tax that funds the Securities and Exchange Commission.

country that had a wealth tax abandoned it, including Piketty's France (beginning in 2018). Reviving wealth taxes in a world of capital mobility where every nation must be on board seems impractical compared to raising existing taxes so that the rich bear a larger share of the national tax burden.

Piketty also undermines his case for the necessity of taxing wealth with a new policy proposal in *Capital and Ideology*, one involving changes in corporate governance and ownership. Chapter 17 pushes for a participatory socialism; among other things, it wants labor and the government to have representation on company boards. This practice has existed in Nordic Europe since the late 1940s and 1950s. Piketty (2020: 494) notes that West Germany passed a law on co-management in 1976 that is still in place, and gives workers some power over corporations. The law requires firms with more than 2000 workers to allocate half the seats on the Board of Directors to labor; and firms with 500 to 2000 workers to allocate one-third of Board seats to labor. Labor can obtain additional seats by owning shares of the firm. Further, Piketty (2020: 974) suggests limiting the percentage of voting shares one person can have in any company. This proposal, also, would reduce the power of business interests in determining corporation policies.

Piketty does recognize that the success of this policy has been limited because in case of a tie on the Board, shareholders rule. Also, much of the decision-making power in German firms adheres in the Directorate of the firm, which has no labor representation. Still, giving labor seats at the table has had a significant impact on CEO pay in Denmark, German and Sweden, which has not increased to anywhere near the level prevailing in the US and other nations where labor has no seat at the table and no voice (Piketty, 2020: 499). And according to Wolff and Zacharias (2009), rising CEO pay has been a major contributor to rising inequality in the US since the 1980s.

There is an even stronger justification for these changes than what Piketty provides. The corporation, unlike individually owned firms, is an entity created by the state in order to protect owners from any liability beyond their financial investment. Without such limited liability there would be no large corporations. This is part of the protective function that governments have played in ownership societies over long periods of time.

Furthermore, as we have seen recently in the US (the 9/11 attack, the Great Recession, and the current Covid-19 depression), large corporations tend to get bailed out by governments rather than being allowed to fail when "the market" says they should go under. As institutions that are, in practice, insured by the government because they are regarded as essential, workers and government officials should have seats on corporate boards to ensure that they act in the public interest rather than doing as they please and taking unacceptable risks with the knowledge that there is no downside because they will be bailed out by the government if anything goes wrong. Effectively, many large companies are public firms and should be seen as such. If firms are unwilling to accept this control, they should not be bailed out by the government; and if they are truly essential for contemporary economies (e.g., banks and airlines), governments may have to take these firms over in the national interest because they are essential for the health of the nation and cannot be allowed to fail. Given a choice between failure during the next crisis and stricter government regulation, shareholders and management may see the virtues of the regulation route.

## 6. Summary and conclusion

Two broad perspectives prevail regarding how history progresses.

Marx saw history as a power struggle between groups with diametrically opposed economic interests. The famous opening line of *The Communist Manifesto* proclaims: "The history of all hitherto existing society is the history of class struggles" (Marx and Engels, 1948[1848]: 9). In feudal times landowners and serfs struggled over the division of agricultural output. Under capitalism, workers and business owners battle over the division of revenue from selling services and manufactured goods. To the winner of this struggle go the spoils. Winners also write the (economic) history and promulgate the accepted ideas regarding income distribution.

Others have seen history as a struggle of ideas rather than a power struggle. At the end of *The General Theory of Employment, Interest and Money,* Keynes (1936: 383) contends that:

> "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas."

*C21* sought a middle ground in this debate, a space between the real world of economic power and the academic world of ideas. Using data to show changes in income and wealth distribution over time, it focused on empirics and avoided mentioning either ideas or power. However, in a few places Piketty did see inequality as a struggle over the distribution of the output that gets produced. When discussing a miner's strike in Johannesburg, South Africa, Piketty (2014: 40) notes that the miners lost the strike because mine owners had greater economic power due to their great wealth, which would let them survive during a long strike.

Nonetheless, *C21* explained rising inequality by resorting to r>g, an empirical regularity, and generally ignored real-world power dynamics and the ideology of business interests that opposed taxing the rich. *C21* shined when it focused on these numbers; it dimmed when using economic ideas to explain r>g and thus distributional changes. Its main message was that inequality was all about luck – largely, the luck of the draw in terms of one's parents.

*Capital and Ideology* likewise seeks a space between power and ideas as the driving force in history. By focusing on ideas and power it overcomes several problems in *C21* and also leads to a deeper and richer understanding of the causes of inequality. As its title proclaims, ideology sustains the current regime of inequality. Piketty does a workmanlike job laying out the history of how ideology sustains inequality. He is also right that we can do better when it comes to reducing inequality. However, his wealth tax remains unworkable and unnecessary; there are plenty of other options for taxing the rich and reducing inequality. Piketty is on stronger ground pushing some sort of participatory socialism to help reduce inequality and other workplace problems (including how workers are treated, something that became a grave issue due to covid-19). The big lesson of the book, and its main advance over *C21*, is that institutions do matter and can be changed. This can be done *both* in the world of ideas and at the ballot box.[5]

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[5] The author thanks Annie Tubadji for comments on an earlier version of this paper. The usual disclaimer applies.

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**Author contact:** pressman@monmouth.edu

SUGGESTED CITATION:
Pressman, Steven (2020) "Thomas Piketty's changing views on inequality." *real-world economics review*, issue no. 92, 29 June, pp. 103-115, http://www.paecon.net/PAEReview/issue92/Pressman92.pdf