



Œconomia

History, Methodology, Philosophy

11-1 | 2021

Alternative Traditions in Public Choice

This Time it's Ideological!

Andrew Leigh



Electronic version

URL: <https://journals.openedition.org/oeconomia/10565>

DOI: 10.4000/oeconomia.10565

ISSN: 2269-8450

Publisher

Association Œconomia

Printed version

Date of publication: 1 March 2021

Number of pages: 135-142

ISSN: 2113-5207

Electronic reference

Andrew Leigh, "This Time it's Ideological!", *Œconomia* [Online], 11-1 | 2021, Online since 01 March 2021, connection on 18 June 2021. URL: <http://journals.openedition.org/oeconomia/10565> ; DOI: <https://doi.org/10.4000/oeconomia.10565>



Les contenus d'*Œconomia* sont mis à disposition selon les termes de la Licence Creative Commons Attribution - Pas d'Utilisation Commerciale - Pas de Modification 4.0 International.

This Time it's Ideological!

Symposium on:

Thomas Piketty, *Capital and Ideology*, Cambridge, MA:
Harvard University Press, 2020, 1104 pages, 978-067498082-2

Andrew Leigh*

Thomas Piketty isn't scared to tell a big story. In 2013, he produced *Capital in the Twenty-First Century*, a 700-page tome about inequality that combined Jane Austen and Honore de Balzac with data from tax returns and national statistics. One idea that captivated many readers was r versus g . When the rate of return on capital (think rental yields and share dividends) exceeds the overall economic growth rate, then inequality rises. When g is bigger than r , inequality falls.

The theory didn't explain everything about inequality. As Piketty discussed, the rise in inequality in countries such as the United States during the 1980s and 1990s was mostly due to widening wage gaps—such as the increasing pay gulf between cleaners and surgeons—rather than the difference between labour earnings and capital returns. But r versus g gave *Capital in the Twenty-First Century* a leitmotif, and readers were drawn in by Piketty's broad sweep of European and American history, painstaking archival work, and literary allusions. *Capital in the Twenty-First Century* became the most popular economic history book in decades.

Seven years on, the French economist has produced a meaty follow-up: *Capital and Ideology*. 'This time it's ideological', cries the promotional material. At 477,000 words, it's only one-fifth shorter than *War and Peace*. Then again, Tolstoy didn't include supplementary charts and an online technical appendix. Much of the data in *Capital and Ideology* draws on the Paris School of Economics' *World Inequality Report 2018*, which estimated long-run income and wealth series for a large number of countries, painting a more comprehensive picture of trends in inequality than previous studies.

Capital and Ideology is divided into four sections. Part one discusses inequality regimes in history, delving into explicit class structures and

*Member of the Australian parliament, former professor of economics at the Australian National University. Andrew.Leigh.MP@aph.gov.au

the role of property rights. Part two analyses slave and colonial societies, and the role of colonialism. Part three addresses the 'great transformation' of the twentieth century, including communism, social democracy and *laissez faire* capitalism. Part four explores the current dimensions of political conflict, changes in electoral cleavages, and the interrelationship between democratic reform and economic equality.

The book is in the same spirit as other 'big history' works, such as Stephen Hawking's *A Brief History of Time*, Jared Diamond's *Guns, Germs and Steel* and David Christian's *Origin Story*. But where some *longue duree* history merely offers a new interpretation of known facts, Piketty supplies the reader with both new data and fresh analysis. This isn't the inequality equivalent of Yuval Noah Harari's *Sapiens*, a book that drew on an established body of scientific research to develop unusual perspectives. Even someone who had read every book and article ever published about inequality would learn plenty of new facts from *Capital and Ideology*.

Early sections of the book focus on the extremes of inequality that existed from the 1500s to the 1700s. In India, Japan and much of Western Europe, a tiny elite of clergy, nobility and warriors ruled over a vast peasant population. Even more unequal were 'slave societies', such as Jamaica, Barbados and Haiti, in which four-fifths of the population were enslaved. The point is to remind the reader that inequality 'is determined primarily by ideological and political factors, not by economic or technological constraints' (268). A society where most people are on the brink of starvation will be equal by necessity. But as incomes rise, it becomes possible for oppressive elites to confiscate any excess for their own pleasure.

Eventually, autocrats who treat the peasants revoltingly will find that the peasantry revolts. This happened most dramatically in Haiti, which from 1791 to 1804 saw a massive slave uprising that upturned society and redistributed income. Yet even then, there was backsliding. During the Haitian revolt, the French National Convention of 1794 abolished slavery in all French colonies. Then, under Napoleon, slavery was reinstated, finally to be scrapped a second time in 1848.

Slavery shaped American inequality too. In the south, slaves comprised one-third of the population in 1861, and the cotton they picked helped power Europe's industrial revolution. Slaves comprised a majority of the population of Mississippi and South Carolina. In Virginia and Louisiana, the law imposed penalties on anyone who taught a slave to read. It took more than 600,000 deaths in the United States Civil War to end this inegalitarian institution.

In Britain, the Enclosure Acts—particularly those of 1773 and 1801—were used to create and reinforce property rights of the upper classes; ending the ability of peasants to plant crops and graze animals on communal lands. Commoners who defied these laws were brutally punished. The Black Act of 1723 imposed the death penalty for those

caught poaching game or collecting wood on land that did not belong to them. This ferocious law helped to entrench the divide between the landed and landless classes, and was not repealed for a century. Until the House of Lords lost its veto power in 1911, the unelected upper house was able to block any reform that threatened the aristocracy.

The same held true for other egalitarian reforms. In the Belle Époque—the half century that preceded the outbreak of World War I—the concentration of wealth was exceptionally high. In Britain, France and Sweden, the top 10 percent owned more than 80 percent of all private property.

One way in which this inequality was maintained was restricting the franchise to property owners, or giving more votes to the most affluent. In 19th century Sweden, the wealthiest citizens could cast up to 100 votes apiece—a model akin to the way voting takes place within a corporation. Expanding voting rights was a long fight. In some European countries, universal male suffrage only came after millions had died in World War I. Piketty notes that universal male suffrage was instituted in Britain, Denmark and the Netherlands in 1918, and in Sweden, Italy and Belgium in 1919.

Other parts of the world saw a backlash. As Steven Levitsky and Daniel Ziblatt (2018, 91) have documented, African American turnout soared above 60 percent in the immediate decades after the US Civil War. Then with the end of the Reconstruction era, white elites used literacy tests, poll taxes and vigilante violence to block most African Americans in the south from voting. As late as 1912, black turnout in the south was just 2 percent. It took the landmark Voting Rights Act of 1965 to end some of these practices, and even today, there are attempts to restrict the franchise. A universal truth about universal suffrage is that it has come about as a result of street marches and social struggles, not the beneficence of the powerful.

The same holds for progressive taxation, adopted in Britain in 1909, the United States in 1913 and France in 1915 only after “epic political battles and major constitutional reforms” (151). Piketty reminds us that French inequality was so acute in that era that almost no-one in Paris owned an individual apartment. Instead, a wealthy handful of people owned entire apartment blocks, and most people rented from them. From 1800 to 1914, around seven-tenths of Parisians had no property at the time of their death, or else had such meagre personal effects that the authorities did not bother to record them. From the age of Stendhal to the era of Proust, the typical Parisians died penniless.

Redistributive income taxes were often increased to fund wars (in the US, the 1942 law that raised the top tax rate to 91 percent was called the ‘Victory Tax Act’). But in peacetime, egalitarian income taxation enabled egalitarian spending, including age pensions, public schools and universal health care.

Elsewhere, political movements affected inequality in different ways. In India, independence led to the introduction of affirmative action for members of the lower-castes, such as the ‘untouchables’. In Germany, Austria and the Nordic countries, workers succeeded in obtaining minority representation on boards. As it turns out, co-management has two major impacts: it boosts firms’ productivity and constrains executive pay. The system is now widely accepted in the Germanic and Nordic nations, but only came into being “as the culmination of a very long process involving union struggles, worker militancy and political battles” (500).

Many progressive reforms took place in what Piketty dubs the “social democratic era” of 1950 to 1980. Since then, he argues, we have moved into a “hypercapitalist” era. From 1970 to 2015, the average real income of the poorest 50 percent of Americans rose only slightly, from \$15,200 to \$16,200. Meanwhile, incomes of the top 1 percent more than tripled, from \$403,000 to \$1,305,000. The world’s largest fortunes have been growing five times faster than global income. In nearly every region of the world, inequality has risen over recent decades. Today, the Middle East is the most unequal region of the world, with dynastic privileges ensuring that oil wealth is tightly held by the elites.

Globally, the gap between nations is immense. Adjusting for purchasing power, the World Bank’s most recent figures show that the *weekly* income of the typical person in Denmark is similar to the *annual* income of the typical person in the Democratic Republic of the Congo.¹ Infant mortality is below 0.1 percent in advanced nations, but almost 10 percent in the poorest African nations.

Looking across the world, Christoph Lakner and Branko Milanovic (2013) show that the income trends of the past generation trace out what they call an ‘elephant curve’. Piketty updates their estimates, using figures from the World Inequality Database to trace out income growth at each percentile of the world income distribution over the past generation. For the ‘bottom billion’, growth has been modest. If you’re in a corrupt, violent and landlocked African nation, escaping poverty is still difficult. But in the 20th to 40th income percentiles, income growth is more considerable, with incomes doubling over the period 1980 to 2018. These people are the middle classes in emerging economies, who have experienced rising living standards as a result of solid national growth, especially in the Asian region.

As we move into the 60th to 90th percentiles of the world income distribution, the gains are smaller. These percentiles include the lower and middle classes in advanced nations, for whom technology and trade has posed significant challenge. In the 60th to 90th percentiles, economic

¹ World Bank, ‘GDP per capita, PPP (current international \$)’, ID: NY.GDP.PCAP.PP.CD, sourced from International Comparison Program, World Bank; World Development Indicators database, World Bank; and Eurostat-OECD PPP Programme. Figures are for 2018.

growth over the past generation amounts to about a 40 percent increase in real income. Finally, we get to the trunk of the elephant, representing those in the top few percent of the income distribution. These people have enjoyed the highest income gains of all, with incomes tripling at the very top. Globally, Piketty estimates, the top 1 percent have captured 27 percent of all income growth over the period 1980 to 2018.

Standard political economy models would suggest that if the median voter is missing out, then he or she will elect candidates who promise to address the problem. So why hasn't politics kept inequality in check?

Here, we come to some of Piketty's most provocative findings. Mainstream politics, he argues, has become a battle between the 'Brahmin Left' and the 'Merchant Right' (719-806). Progressives increasingly value intellectual work and academic qualifications. Conservatives are more likely to prize business acumen and negotiating skills.

Across the advanced world, Piketty shows, voters with university degrees tended to support conservative parties in the 1950s and 1960s. Today, electors with tertiary qualifications are far more likely to back parties of the left.

Take America. In 1948, US university graduates were 20 percentage points less likely to vote Democratic than non-graduates. In 2016, university graduates were 14 percentage points more likely to vote Democratic than non-graduates. Little surprise that Donald Trump crowed in 2016 "I love the poorly educated" (Trump 2016). Piketty identifies similar trends in Britain, France, Italy, Switzerland, Canada, the Netherlands, New Zealand and Australia. In each of these nations, the highest-education voters are now more likely to vote for parties of the left.

Since high-education voters also tend to earn higher wages, this has affected the relationship between voting patterns and income. In the mid-twentieth century, income was a strong predictor in most countries of how people would vote, with low-income voters more likely to vote for parties of the left, and high-income voters more likely to support parties of the right. Today, the relationship is much weaker.

The sharpest change in the income-voting relationship has taken place in the United States. Among voters in the top income decile in 1948, just three in ten supported the Democratic Party. In 2016, Democratic support among top income earners had risen to six out of ten. For the first time in US history, the highest earners were more likely to vote Democratic than Republican.

What's going on? Piketty suggests that the left-right party system of the post-war era is breaking down. Like prior scholars (e.g. Miller and Schofield, 2003; Hochschild, 1996), he notes that race-based appeals have become more common, and points to a growing cleavage between 'globalists' and 'nativists'. Conservatives have increasingly resorted to exploiting racism for political gain, and attacking international institutions. In Britain, this was most apparent in the case of Brexit. Among

the highest-educated Britons, more than 70 percent voted to remain in the European Union. Among the lowest-educated, less than 40 percent voted to remain.

But Piketty also thinks that progressives have made some crucial mistakes, particularly when it comes to education. In the United States, there is a linear relationship between parental income and university attendance. In the poorest decile, three out of ten children attend university. In the highest income decile, nine out of ten children go to college. Indeed, some elite US universities have more students drawn from the top 1 percent of the income distribution than from the bottom half of the income distribution (Chetty et al., 2017). By embracing the language of meritocracy, Piketty contends, the US Democratic Party has become “the party of the highly educated in a country with a hyper-stratified inegalitarian educational system” (838). This echoes the critique of Brookings Institution scholar Richard Reeves (2017), who argues that upper middle class Americans have become “dream hoarders”—entrenching their privilege at the expense of a more mobile society.

Piketty is especially scornful of the ‘inegalitarian and hypocritical’ French system, which invests far more in students who attend the elitist *grandes écoles*. He calculates the total expenditure over the course of an educational career, stretching from preschool to (potentially) university. Public expenditure on the 10 percent of students who receive the least totals around €65,000 to €70,000. By contrast, French students who receive the most public investment benefit to the tune of €200,000 to €300,000. That spending gap, Piketty notes, is equivalent to the wealth of an average French adult today. Still, this statistic may not capture the full extent of educational inequity. Across the advanced world, he notes, school students from privileged backgrounds are more likely to be taught by experienced and qualified teachers than those from disadvantaged backgrounds. This is the opposite of what a policy of “educational justice” would deliver.

It is worth noting at this point that Piketty’s book was released just as COVID-19 swept across the world, leading to the closure of schools in most countries. Home-schooling is expected to radically widen educational inequities, with advantaged families using it as an opportunity to extend their children’s learning, while children from disadvantaged families fall behind (Van Lancker and Parolin, 2020).

At the core of Piketty’s proposals is that social democratic parties must radically improve educational access and quality for the most disadvantaged. No longer should the poorest pupils attend schools where teacher absenteeism is highest and teacher pay is lowest. Parental wealth ought not determine whether a child attends university. If anything, COVID-19 makes these recommendations even more pertinent.

In the case of taxation, Piketty argues that corporate profits should be apportioned across countries in proportion to the share of sales in a

country. For example, if a multinational firm has global profits of \$100 billion, and 10 percent of its sales occur in a given country, then Piketty argues that \$10 billion of profits be nominally allocated to that nation. If the country then chooses to impose a 30 percent tax on corporate profits, the multinational firm would be expected to pay \$3 billion in company taxes. As he notes, such an approach is not dissimilar to the manner in which the United States apportions corporate tax revenue across states.

Beyond education and taxation, Piketty wants to see global cooperation on reducing carbon emissions. He also advocates the creation of non-profit media organisations, in which voting would be skewed in favour of smaller shareholders, so as to ensure that rich investors could not take control of the editorial board.

As this list shows, Piketty takes an ambitious approach to the role of social scientists. Through analysing history, comparing countries with different traditions, and studying the evolution of inequality, he is convinced that social scientists can play a part in forming a more accurate picture of the past, and painting a more inspiring picture of the future. Towards the end of *Capital and Ideology*, he admits that his proposals “are not intended to answer every question”, but instead “to show that human societies have yet to exhaust their capacity to imagine new ideological and institutional solutions” (1034).

As optimists from Stephen Pinker to Hans Rosling have pointed out, modern life is in many ways the best time that our species has known. For most of the time that humans have been on the planet, living standards barely budged. Even after the advent of settled agriculture, progress was glacially slow. It was only with the industrial revolution that people began to see substantial gains in income during their lifetimes.

Since then, the progress in raising living standards has been remarkable. Over the past two centuries, average life expectancy has almost tripled, from 26 to 72. Average incomes have grown tenfold. Yet over the past generation, new challenges have emerged. Inequality has increased. Carbon emissions are soaring, and temperature records are being broken around the globe. The rise of populists and charlatans has convinced many that politics is broken.

Ultimately, Piketty’s message is one of hope: past egalitarian reforms were hard-won, and the future is malleable. The story isn’t just about the power of capital; it’s also about the potency of ideology. As he observes: ‘The inequalities and institutions that exist today are not the only ones possible, whatever conservatives may say to the contrary.’ (7)

References

- Chetty, Raj, John N. Friedman, Emmanuel Saez, Nicholas Turner, and Danny Yagan. 2017. Mobility Report Cards: The Role of Colleges in Intergenerational Mobility. *NBER Working Paper*, No. 23618.
- Christian, David. 2018. *Origin Story*. Boston, MA: Little Brown and Co.
- Diamond, Jared. 1999. *Guns, Germs and Steel*. New York: Norton and Co.
- Harari, Yuval Noah. 2015. *Sapiens*. New York: Vintage Books.
- Hawking, Stephen. 1988. *A Brief History of Time*. New York: Bantam Books.
- Hochschild, Jennifer L. 1996. *Facing Up to the American Dream: Race, Class, and the Soul of the Nation*. Princeton: Princeton University Press.
- Levitsky, Steven, and Daniel Ziblatt. 2018. *How Democracies Die*. New York: Crown.
- Lakner, Christoph, and Branco Milanovic. 2013. Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession. *World Bank Policy Research*, Working Paper No. 6719.
- Miller, Gary, and Norman Schofield. 2003. Activists and Partisan Realignment in the United States. *American Political Science Review*, 97(2): 245-260.
- Reeves, Richard V. 2017. *Dream Hoarders: How the American Upper Middle Class Is Leaving Everyone Else in the Dust, Why That Is a Problem, and What to Do About It*. Washington, DC: Brookings Institution Press.
- Trump, Donald. 2016. Speech After the Nevada Republican Caucuses. Las Vegas, NV, February 23, 2016. Available at <https://www.youtube.com/watch?v=Vpdt7omPoa0>
- Van Lancker, Wim, and Zachary Parolin. 2020. COVID-19, School Closures, and Child Poverty: A Social Crisis in the Making. *The Lancet Public Health*, 5(5): 243-244.