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Book Review
Capital in the Twenty-First Century

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1. INTRODUCTION

If I were required, in the manner of Hillel, to very briefly summarize Piketty’s book, I would offer the following: Given plausible economic forecasts regarding global world output in the twenty-first century, unless sufficiently robust political measures are taken (say, a global tax on capital), the contingent (but historically prevalent) fact that the rate of return on capital is greater than the rate of growth will probably allow past capital allocations to devour larger proportions of capital reducing the capital available for those without large fortunes potentially to levels similar to the distributions prior to the two world wars—and this is bad.
What did capital allocations look like around 1910? In Europe the top 10 percent owned about 90 percent of capital—the top 1 percent owned 50 percent, and the middle 40 percent (between the top 10 percent and the bottom 50 percent) owned about 5 percent, as did the bottom 50 percent. As we will see, the two world wars and the Great Depression destroyed large fortunes, and policies were put in place during the wars and their aftermath leading to the creation of a property-owning middle class (the 40 percent between the top 10 percent and bottom 50 percent (Table 7.2)) owning significantly more capital than at any time in the past, around a third of the capital stock rather than 5 percent. Piketty refers to this middle class as the *patrimonial middle class*, for it is not uncommon for members of the new middle class to possess enough capital to hand down some of it at death. Many of us take it for granted that a patrimonial middle class will persist in the wealthy countries. Piketty is not so optimistic.

Do not allow my inelegant summary to lead you to believe that Piketty’s book is dense and riddled with equations. The fact that a book of well over 600 pages can be summarized in one sentence is evidence that this tome is elegant—inasmuch as a tome can be elegant. And Piketty has the admirable quality of intellectual modesty; indeed, part of what he is attempting to do is to find a way to procure better data so that one need not include *Forbes* magazine and university endowments (for which we have public data) to argue for the conclusion that capital in the hands of the extremely wealthy may grow faster than the capital in the hands of less wealthy individuals due in part to financial mediation (e.g., money managers).

I hope to summarize Piketty’s reasoning more thoroughly in what follows. The final section will focus on what his data and arguments mean for those of us who are interested
in political philosophy, in particular regarding notions of distributive justice. In the remainder of this section, I will briefly set the stage for the remaining sections.

First, given the paucity of information prior to (and to some extent including) the twentieth century and early twenty-first century, Piketty relies on information provided mainly by the United States, Japan, Germany, France, and Great Britain. These are the leading developed countries, and they are the countries with some level of transparency and lengthy tax records, and so on.

Second, while some economists make a distinction between capital and wealth, Piketty uses the terms interchangeably. By *capital* he means “the sum total of nonhuman assets that can be owned and exchanged on some market” (46). He does not include human capital in his definition.

Third, Piketty agrees with economic projections concluding that world output or growth will be reduced in the twenty-first century; the rapid growth after the world wars was a function mainly of post-war rebuilding and the growth that is a function of some countries (e.g., China) catching up to the countries (e.g., the US, France, et cetera) at the technological frontier. Once all countries catch up, then growth will no longer reach levels over about 1.5 percent, according to Piketty (375). Since it is the proportional difference between savings and the growth rate that determines (over time) the ratio between capital and income, we may be on the way to a capital-income ratio associated with an inheritance society in which capital is concentrated and the very wealthy can acquire a larger proportion of the remaining and (slowly) growing stock of capital by reinvesting a portion of their annual return from capital investments. And there is only so much capital to go
around. The pie does grow, but slowly. The slices going to
the very wealthy, however, grow disproportionately.

Consider a marble-loving club. At $t_1$ the distribution is as
follows: the top 10 percent own 70 percent of the marbles,
and the other 90 percent own 30 percent of the marbles. At
$t_1$ there are 1,000 marbles total, so the top 10 percent own
700 marbles and the other 90 percent own 300 marbles.
Now let’s say that the group was able to increase its total
amount of marbles by 2 percent at $t_2$. At $t_2$ there are thus
1,020 marbles. Let’s further assume that the top 10 percent
increased its marble collection by 6 percent at $t_2$. In this
case, the top 10 percent own over 72 percent of the marbles
held by the whole group, 742 of the 1,020 marbles, while
the other 90 percent own slightly more than 27 percent, 278
of the 1,020 marbles. As our example illustrates, it is quite
possible for the amount of capital to increase overall (the
pie is getting larger) and for inequalities in ownership
within the country to become vast over time. It is not
always the case, and perhaps it is not often the case, that a
rising tide lifts all boats.

Fourth, Piketty uses one symbolic representation and two
equations throughout the book. It is unclear to me whether
a reader of his book must know the two equations to
understand the book well, for he tends to explain his points
rather than expect the reader to remember his equations.
Still, they are helpful and simple. But I will follow
Piketty’s lead and use his equations merely as a secondary
and (for some) simplifying addition. With the exception of
the symbolic representation $r > g$, you need not know them
to continue, but here they are.

$r > g$ (This means that the average rate of return on
capital (e.g., dividends, interest, rent, and so on) is
larger than the rate of growth in the economy. $r > g$
is a historical regularity rather than a necessary fact. This very simple symbolic representation is central to Piketty’s arguments.)

\[ \alpha = r \times \beta \] (\(\alpha\) is the share of capital income in national income; \(r\) is the average rate of return on capital; and \(\beta\) is the capital-income ratio—the value of the capital stock/the income from all sources (i.e., labor income and income from returns on capital). So \(\alpha = r \times \beta\) “says that the share of capital in national income is equal to the product of the return on capital and the capital-income ratio…” (33).)

\[ \beta = \frac{s}{g} \] (This equation obtains only over the long run (168). It says that the capital-income ratio is equal to savings divided by growth. For example, if the US saves 10 percent of its income and the growth rate of the economy is 2 percent, then \(\beta = \frac{10}{2} = 5/1\). Putting the last two equations (\(\alpha = r \times \beta\); \(\beta = \frac{s}{g}\)) together and using the numbers I have supplied for \(\beta\), if \(r\) is 5 percent, then \(\alpha = .05 \times 5\) (or 25 percent). So the share of capital income (e.g., dividends, interest, and so on) in national income would be 25 percent, with labor income making up the remaining 75 percent.)

Finally, I will not consistently follow Piketty’s sequence as I present his arguments. I found it easier in a summary to organize topics in a slightly different way.

2. CAPITAL’S COLLISION WITH TWO WORLD WARS

As mentioned in section 1, capital was highly concentrated at the turn of the twentieth century, with the wealthiest 10
percent holding almost all of the capital (about 90 percent) and the remaining 90 percent owning the remaining 10 percent, with the bottom 50 percent of a country’s population owning virtually nothing. There are a few reasons for this concentration of wealth in the rich countries. First, taxation was essentially nonexistent, so nominal returns on capital (the returns from dividends, rents, interest, and so on) were nearly the same as the real return after taxation. Second, the growth rate was very low (.01 percent rather than the 3 percent that we have become accustomed to seeing (Table 2.1, Figures 2.4 and 2.5)). The return on one’s capital need not be too high to continuously evolve into larger and larger acquisitions of capital. Third, significant and consistent technological improvements requiring heightened skills and training were lacking, so it was difficult for labor to make economic progress.

The two world wars, however, interrupted this deliberate and regular system of wealth concentration. One obvious assault on acquired capital was physical destruction of assets, public and private. Foreign investments were often a wash, and the savings rate was reduced during this period as well (148). Those who did save often lent to their governments, only to be repaid later with inflated dollars (149). And the Great Depression and ensuing bankruptcies had an impact on concentrated wealth as well, as did public polices (e.g., nationalizations, rent controls, and wage controls) (275). As Piketty puts it, “In the twentieth century it was war…that erased the past and enabled society to begin anew with a clean slate” (275).

Obviously some countries suffered less than others during these wars, and it is hardly the case that all large fortunes were reduced to such an extent that access to capital reached something like a resetting of capital acquisitions leading to a fresh and fair competition for new capital.
acquisitions. Still, it only takes a superficial perusal of some of Piketty’s data (see Figures 8.1 and 8.2 for example) to get his point and forgive the hyperbole.

3. MAIN FORCES FOR CONVERGENCE

In this section we will consider three important changes that occurred in the twentieth century that have narrowed the wealth gap, changes that have created a patrimonial middle class (the class between the top 10 percent and bottom 50 percent) and have made it more difficult for fortunes to be amassed quickly: complex production technologies requiring skills and training; significant taxes on income and capital; and growth rates minimizing the difference between \( r \) and \( g \).

Over the long run, it is investment in education and skills that will allow people to compete for professions that pay well (21, 313). And if enough of these jobs are available requiring complex skills and education, then it is possible to maintain a difference in labor income between the top 10 percent and the patrimonial middle class that is not too wide. Piketty is dubious regarding the prospects of technological advances requiring such training and skills continuing at as rapid a pace in the twenty-first century as it developed in the twentieth century. Still, this is certainly a force for convergence, even if its relevance declines somewhat in the twenty-first century.

Prior to the wars, a rich country only consumed about 10 percent of its income in taxes. This, as mentioned earlier, is one of the reasons why fortunes could grow quickly and robustly prior to the wars. The return on capital was not significantly reduced by taxation. To fund the wars, taxes were increased in nearly all categories, earned income from labor as well as unearned income from capital. The
progressive income tax and inheritance tax were put in place also due to the emergency situation rather than a calculated attempt to foster more just allocations of wealth (493). All of the rich countries today consume about a third to a half of their national income in taxes, a huge (threefold to fivefold) difference from the 10 percent prior to the wars (476). The progressive income tax is responsible for reducing the gap in income from labor, but capital income did not escape unscathed, for “the average tax rate on income from capital is currently around 30 percent in most of the rich countries. This is the primary reason for the large gap between the pure economic return on capital and the return actually accruing to individual owners” (208).

It is nearly common knowledge that post-war tax rates in the US were higher in the two decades following World War II than they are today. The top federal income tax bracket was 39.6 percent in 2013—from about $500,000 on up, while it was 91 percent on incomes over about $1,000,000 in 1963. (Both figures represent 2012 dollars.) The top rate has been reduced to under half its high in the middle decades of the twentieth century. It is, however, still considerably higher than (say) 1931, in which the top rate was 25 percent. Is this force for convergence here to stay?

The major twentieth-century innovation in taxation was the creation and development of the progressive income tax. … It may…be in jeopardy because its foundations were never clearly thought through, owing to the fact that it was instituted in an emergency that left little time for reflection. The same is true of the progressive tax on inheritances, which was the second major fiscal innovation of the twentieth century and has also been challenged in recent decades. (493)
Later we will consider Piketty’s argument for strategically using taxes on all capital for procuring information useful to both institutions like the International Monetary Fund as well as informed democratic discussions regarding the growth of inequality of capital allocations. The tax(es) would have a dual purpose: to inform and to abate runaway inequality.

Throughout most of history, the economic growth rate was very low compared to the growth rate in the last few centuries. Coupled with low taxes and a consistent income from capital at about 4 or 5 percent, \( r > g \) (where \( r \) is (say) 5 percent and \( g \) is (say) .01 to .02 percent) will allow accumulated capital to grow and devour further capital, a devouring that is not the result of the purchasing power of labor income. The income from capital “buys” more capital. And there is only so much to go around. Even as the capital pie grows, the wealthy are able to take proportionally larger slices. While the state of affairs in which the difference between \( r \) and \( g \) is reduced is a force for convergence, the victory is, for Piketty, of small consequence, for “inequality of wealth would still increase substantial (halving the middle-class share of national wealth, for example, which voters might well find unacceptable)...” (375). The expected reduction in the difference between \( r \) and \( g \) in the world may, from a certain perspective, be good news, but it may not, from that same perspective (i.e., minimizing inequality of capital allocations), be great news. A problematic difference remains.

4. FORCES FOR CONVERGENCE AND THE PATRIMONIAL MIDDLE CLASS

As we have seen, Piketty commonly refers to the following classes: the top 10 percent (he calls it the upper decile), the
top 1 percent (he calls it the \textit{upper centile}), the bottom 50 percent, and occasionally the top thousandth. He refers to the class (40 percent) consisting of members between the top 10 percent and the bottom 50 percent as the middle class. Prior to the twentieth century—especially in Europe, the difference in capital ownership between the middle class and bottom 50 percent was fairly small, around 5 percent or less for the bottom 50 percent and just slightly more than that for the middle class. There was little suggesting “middle” in this middle class. The members were merely slightly less poor.

Let’s again take a look at what the capital distributions looked like around 1910. In Europe the top 10 percent owned about 90 percent of capital—the top 1 percent owned 50 percent, and the middle 40 percent (between the top 10 percent and the bottom 50 percent) owned about 5 percent, as did the bottom 50 percent. In the last section, we saw that the two world wars and the Great Depression destroyed large fortunes, and policies were put in place during the wars and their aftermath (e.g., progressive taxation) leading to the creation of a property-owning middle class (the 40 percent between the top 10 percent and bottom 50 percent (Table 7.2)) owning significantly more capital than at any time in the past, around a third of the capital stock rather than 5 percent.

Are the distributions so different today? It is a victory of sorts for those of us who believe that economic justice requires a significantly egalitarian distribution of income and wealth, but “all the middle class managed to get its hands on was a few crumbs: barely more than a third of Europe’s wealth and barely a quarter in the United States” (261). Today the upper 10 percent “own 60 percent of Europe’s wealth and more than 70 percent in the United States” (261), and the 2010 survey from the United States’
Federal Reserve “indicates that the top decile won 72% of America’s wealth, while the bottom half claim just 2 percent” (257).

Piketty’s purpose in his book is largely to provide useful information not merely for the sake of providing interesting economic trends, but to provide us with the means to preserve this more robust middle class. While Piketty briefly discusses John Rawls’ (egalitarian) difference principle (480), he tends to believe that democratic debate with adequate information is the best means for resolving matters of distributive justice, since the consensus at the theoretical level, where something like Rawls’ difference principle would reside, must be filtered through historical circumstances and economic possibilities. It is clear, however, that Piketty’s leanings are significantly egalitarian. (We will discuss Rawls’ difference principle in the final section.)

Piketty states that the “emergence of a patrimonial middle class was an important, if fragile, historical innovation…” (261). Why is it fragile? In section 3 we discussed the role of taxes in minimizing the return on capital and labor income—specifically the important role that the progressive income tax and the progressive inheritance tax played in minimizing the difference between \( r \) and \( g \). The real rate of return on capital and the ability to save a large portion of one’s labor income were both reduced, slowing the process of accumulating wealth. An inheritance society requires a high capital-income ratio, on the order of about 6 to 1 or 7 to 1 (410). Recall that it takes a lot of time for \( \beta \) (the capital-income ratio) to obtain even when savings in a country is high, for \( \beta = s/g \) is true over the long run. When \( s \) (savings) is frustrated by taxes that reduce the amount of a person’s income that can be saved, it may be possible to slow or terminate the possibility for \( \beta \) to reach a level that
was reached prior to the world wars—the capital-income ratio would be too small to allow distributions of wealth seen prior to the two wars. So the existence and persistence of the patrimonial middle class is indeed fragile, for it is far from clear that the trend toward lower taxation in the rich countries can be met with sufficient democratic argument to return to something like the tax rates witnessed in the wake of the world wars. The high tax rates were in large part a response to the need to pay for the wars; they were not intended to be deliberate moves toward an egalitarian distribution of wealth.

5. FORCES FOR DIVERGENCE AND THE CONCENTRATION OF CAPITAL

What are the main forces today that are instrumental in creating or fostering inequality in the distribution of capital? The reduction of taxes, both on earned income (i.e., income from labor) and unearned income (e.g., dividends) is one of the chief reasons for the growing concentration of wealth in the rich countries since the 1980s. The lower taxes on high incomes and capital gains allows for those who have a lot to save a lot, and much of what is saved consists in the return on capital rather than income from labor, especially in Europe.

Another reason for divergence is the slowing world economy. Growth is slowing and according to Piketty will continue to slow as countries like China catch up with the rich countries on the technological frontier. If we assume that the rate of return on capital remains about the same or is only reduced somewhat, the decline of growth can have enormous consequences for future allocations of capital. The smaller $g$ is in relation to $r$ in $r > g$, the easier it is for $r$ to increase fortunes inordinately. This is true because a wide capital-income ratio does not necessitate a large
number for savings necessarily so long as the growth rate is low. For example, if the growth rate is 10 percent and the savings rate is a whopping 30 percent, $\beta$ (the capital-income ratio) is only 3 to 1, probably far too small for large savers to run away with the rapidly growing capital stock in spite of the huge amount being saved. However, if the growth rate is 1 percent and the rate of savings is 10 percent (rather than a wild 30 percent!), then $\beta$ is 10 to 1. If the rate of return on capital averages (say) 4 percent, then (over time) 40 percent of national income would be income from capital (e.g., dividends, interest, and so on). Using the equation provided in section 1, $\alpha = r \times \beta$, if $r = 4$ percent and $\beta = 10$ to 1, we obtain a value for $\alpha$ (the share of capital income in a country’s total income) of 40 percent. A country like this is ripe for an inheritance society and distributions of capital inconsistent with maintaining a patrimonial middle class. Capital consumes more capital. “The past devours the future” (571).

Since, compared to the distribution of capital, labor income is not as unequal as one might think (for example, in Europe in 2010 the top 10 percent possessed 25 percent of the year’s income from labor and the top 1 percent possessed 7 percent, while the middle class and bottom 50 percent possessed 45 percent and 30 percent respectively (Table 7.1)), for high concentrations of wealth, it is also required that “most of the capital stock must consist of inherited capital” (410). Without inherited capital playing the larger role in wealth accumulation, we may see the volume effect predominate over concentration. There will be a lot of petits rentiers, middling fortunes, as the rule. There will be a lot of wealthy families rather than a small number of extremely wealthy families. Perhaps not such a bad thing, given one of the alternatives: enormous (even outrageous) concentrations of wealth.
The United States and other Anglo-Saxon countries are experimenting (if that’s the right word) with their own form of inequality: inequality of labor income at the extremes. While the United States is well known be below the average regarding the minimum wage among the rich countries, we certainly do have winners at the other extreme. Piketty refers to the US as having a hypermeritocratic society rather than (as in Europe before the world wars) a hyperpatrimonial society. The US rewards competence, work, and risk—or so the story goes. Since the 1970s the US has witnessed the birth of what Piketty refers to as the “supermanager” (265). Regarding this hypermeritocratic society, Piketty says, “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” (Ibid.). And there is nothing to stop the children of these supermanagers from becoming rentiers and living off of (and reinvesting large portions of) their inherited wealth (Ibid.).

Are such large compensation packages deserved? Piketty does not think so. Given that this level of work is difficult to replicate (unlike, say, the work of an assembly line worker), it is not really possible to even roughly determine the marginal product of the highly compensated manager; it is not possible to make a strong argument from added productivity (330-331). Furthermore, since managers from other countries, especially non-Anglo-Saxon countries, are equally successful while receiving far less in wages, it is difficult to show how the especially high wages of US managers can be justified. According to Piketty the only “justification” for extraordinary wages at the top of the income distribution in the US is a social norm that was developed in Anglo-Saxon countries, and in particular the United States (332-333). Apparently this “justification” is
catching on, for Europe and Japan are moving in this
direction as well, but not yet to the same extent (Ibid.).

There is yet another force for divergence at the peak of the
wealth hierarchy: the ability of the extremely wealthy (the
top thousandth on up) to acquire more capital than the
merely very wealthy. The extremely wealthy possess
sufficient resources to hire the very best money managers.
There is some evidence to believe that there is more than
just luck as a factor when it comes to beating the market.
The barely wealthy and even the middling wealthy do not
have the extra resources to employ the best money
managers even part time. But the extremely wealthy can
spend far less than 1 percent of income to employ the best
financial consultants on a full-time basis. And we do see
that the extremely wealthy have a larger real growth rate
than the rest of us (Table 12.1). This portends a frightening
future state of affairs.

If the top thousandth enjoy a 6 percent [real]
rate of return on their wealth, while the
average global wealth grows at only 2
percent a year, then after thirty years the top
thousandth’s share of global capital will have
more than tripled. The top thousandth would
then own 60 percent of global wealth, which
is hard to imagine in the framework of
existing political institutions unless there is a
particularly effective system of repression or
an extremely powerful apparatus of per-
suasion, or perhaps both. (439)

In this case, the concentration of capital (in fewer and
fewer hands) would override the volume effect in which
capital allocations, while unequal, are spread out more
evenly throughout the top 10 percent.
Imagine having a fortune like one possessed by Bill Gates or Liliane Bettencourt, the heiress of L’Oreal. Gates’ fortune grew from $4 billion to $50 billion in twenty years—from 1990 to 2010 (440). During the same period, Bettencourt’s $2 billion grew to $25 billion (Ibid.). “Both fortunes thus grew at a rate of more than 13 percent from 1990 to 2010, equivalent to a real return on capital of 10 to 11 percent after correcting for inflation” (Ibid.). With fortunes this large, the growth of the person’s capital income will not be disturbed too much by removing enough for a luxurious life—and paying taxes on that amount. The remainder can be reinvested so that the person’s capital stock grows and acquires the ability to procure larger proportions of the capital stock. And, once again, there is only so much to go around.

Given the powerful forces for divergence considered in this section and the significantly less-powerful forces for convergence considered in section 3, Piketty is rightly concerned about the future distributions of capital and the vitality of the patrimonial middle class.

6. PIKETTY’S PROPOSAL FOR COMBATTING WEALTH INEQUALITY

Taxes have been an effective way to at least slow down the inegalitarian concentration of enormous wealth to levels comparable to those prior to the world wars and Great Depression. But these taxes are an imperfect means to continue to arrest divergence, especially given that taxes are not popular with many citizens and they were originally instituted during a time of emergency: world wars. In the US we have seen the top federal income tax rate drop from a high of 90 percent to the current rate of 39.6 percent, and we have likewise witnessed the capital gains top tax rate move from a high of 39.8 percent in 1978 to the current 20
percent. And one might wonder why it is a consistent theme within the US tax code that the taxes on capital gains are lower than taxes on labor income. It is possible for a very wealthy person with income mainly from capital gains to pay a federal tax rate of about 20 percent or slightly higher while someone who is doing well (but a far cry from wealthy) may be paying a federal tax rate closer to 39.6 on his or her labor income.

Why should the focus of taxation be income—and in particular income from labor? Why not work toward creating institutions in which capital (all world capital ideally) can be mapped and followed? A cadastral survey of this kind would allow for more “effective regulation of the financial and banking system in order to avoid crisis” (518). A survey like this would also allow for more informed democratic debate regarding the appropriateness of capital allocations and inequalities (519). So not only would a tax on capital impede the growth of large fortunes, it would also allow greater transparency fostering informed democratic debate and more informed interventions by (say) the International Monetary Fund when faced with a potentially destabilizing financial crisis.

Ideally there would be at least a small capital tax worldwide, but this would of course require an agreement of all countries as well as a consistent and effective regulatory agency. But a tax on capital can be used by individual countries or the EU to achieve the goals mentioned above as well as to thwart the growth of wealth inequalities. How might we include a tax on capital in our taxation system?

A…solution is to compute the tax due on the basis of wealth rather than income. One can then assume a yield (of, say, 5 percent a
year) to estimate the income on capital and include that amount in the income subject to a progressive income tax. Another solution is to apply a progressive tax directly to an individual’s total wealth. (526)

With the presence of the tax on capital, the very wealthy would find it more difficult to avoid taxes on large portions of their capital stock. For example, at this time in the US, a very wealthy person will pay only 20 percent in taxes on dividend income. And the extremely wealthy are in a position to only take out a small portion of the annual growth of their capital for living expenses, leaving the bulk of it to grow at $r$ or (if managed well) better. The tax on capital would also improve our ability to inform democratic debate and institutions like the IMF, and it would allow us to tax larger proportions of the capital possessed by the very wealthy progressively.

7. GRIST FOR THE POLITICAL PHILOSOPHER’S MILL

One of the main areas in political philosophy is distributive justice. How, from the moral point of view, should society’s goods be allocated? Two prominent views in the US are libertarianism and (some version of) economic egalitarianism. Since Piketty refers to John Rawls’ difference principle, we will consider Rawls’ conception of justice as our alternative to economic libertarianism. Our focus for our egalitarian arguments and positions will be collected from Rawls’ *A Theory of Justice* (hereafter *TJ*) and *Justice as Fairness: A Restatement* (hereafter *JF*). Arguably most of us are somewhere between these two views in our intuitions and argument arsenal prior to substantive inquiry and reflection. Many of us remain somewhere between the two after substantive inquiry and reflection. In this section
we will apply much of what was considered in the prior sections to the area of distributive justice.

Libertarianism is the view in political philosophy that maintains that the role of the state should be confined to providing protection from foreign enemies by supplying military protection, providing protection from violations of the rights to life, liberty, and property by supplying police protection, and supplying civil courts for resolving violations of rights that are not essentially the state’s direct concern by allowing entities to sue for damages. Providing essentially these governmental functions allowed for the consumption of about 10 percent of a country’s income in taxes—unlike the third or half consumed today in taxes. Our focus for libertarian arguments and positions will be garnered from Robert Nozick’s book Anarchy, State, and Utopia (hereafter ASU).

Very briefly, the attempt to justify libertarianism typically consists of using our intuitions regarding voluntary transactions as well as a “forced-labor” argument. Regarding the former, it makes sense to many of us that if a person used her labor income (or her income in general) to buy something or to invest the money, the object purchased or investment made belongs to her. She should be left alone to decide what to do with her purchase, and she should be able to reap the benefits (or suffer the losses) of her investment without interference. Regarding the forced-labor argument, if the person discussed above must give (say) 10 percent of her income (from labor or capital) to provide services or goods for others (e.g., education, food stamps, and so on), then those people who receive the goods or services are “part owners” of her since she was forced by the government to provide help to others without her consent:
Seizing the results of someone’s labor is equivalent to seizing hours from him…. If people force you to do certain work, or unrewarded work, for a certain period of time, they decide what you are to do and what purposes your work is to serve apart from your decisions. This process whereby they take this decision from you makes them a part-owner of you; it gives them a property right in you. (*ASU*, 172)

It is as if she worked for her pay (or took the risks involved in investing), and then she was forced to give up some of what rightly belongs to her to help others she may not even know and may not want to help.

There is, I think, a natural plausibility to the moral justifications that are frequently used to defend a libertarian approach to distributive justice. If we want to know who should get what, we need look no further than to the history of the capital allocations. So long as the history does not include theft, fraud, coercion, and so on, then the capital allocations belong to whoever has them now—and it would be wrong, a kind of theft, to take some of it from those who own it to redistribute to others, regardless of the nobility of the intentions.

But if we consider distributive justice more carefully—and Piketty’s data have provided a lot of information to consider, we see that what appears to be justice at one time does not appear to necessarily provide us with justice at another time. In *ASU* Nozick says, “As correct rules of inference are truth-preserving…so the means of transition from situation to another [absent force or fraud] are justice preserving” (151). But is justice preserved? Bill Gates has decided to leave his fortune to charity, for the most part. He
has no intention of leaving his fortune to his children. (But something tells me that his children will do okay with the millions rather than billions.) But let us say that a fortune like Gates’ is bequeathed to children, which is often the case with the extremely wealthy. What did the kid do to deserve, say, $20 billion? And then let’s say that, in income from capital and not labor, that amount increases in real dollars four times that amount and Gates’ grandkids inherit $40 billion in today’s dollars? According to libertarians like Nozick (in ASU), there is nothing wrong with this state of affairs: it is perfectly just so long as no laws were violated, et cetera. But can we sincerely believe that allocations of capital like those prior to the two world wars (in which 90 percent of capital was owned by the top 10 percent) can possibly be considered just? Can it be just for capital alone to be able to magnify its growth and consume nearly all available capital? The justifications for libertarianism in the economic realm are indeed simple and perhaps immediately plausible, but on further reflection, especially with good data regarding what happens when capital is unleashed, the simple appears simplistic.

Economic egalitarianism is the view in political philosophy that maintains that the role of the state should include mechanisms for providing substantially equal access to similar allocations of income and wealth, or that the state should be a force for reasonable convergence regarding these allocations. The work of John Rawls, most notably in his book TJ, has produced some of the strongest arguments for economic egalitarianism in the last century. According to Rawls, if we were to argue for principles of economic justice from a fair starting point, a starting point in which the parties to the discussion somehow lost specific information about themselves—their race, class, religion, and so on, the parties would select principles of justice that both mandated fair equality of opportunity and also focused
on the long-term betterment of the worst-off class. If you lost the ability to know whether you are wealthy, middle class, or poor, you would protect yourself (just in case you are poor) and select a principle of justice regulating economic arrangements that would ultimately work for your betterment. The worst thing that can happen to you in this regard, once you find out who you are in society, is that you are poor. Wouldn’t it be nice to have the entire economic system working in your favor?

Is this level of economic regulation feasible? Rawls was working up his arguments in the mid-twentieth century, publishing *TJ* in 1972. This was a time in the US in which tax rates were high and there was a War on Poverty. The federal minimum wage under Nixon was higher (indexed for inflation) than it is today under Obama. However, Rawls’ arguments in his major work appeared just as the effects of the War on Poverty were being questioned, and the high tax rates on income were likewise being questioned. The simple slogans from a more simplistic conception of distributive justice proved a more effective persuasive mechanism than the subtle arguments of the egalitarians. “Tax-and-spend liberals.” “Free to choose.” “Get government off our backs.” “Welfare state.” “Welfare moms.” While Piketty mentions Rawls and his difference principle in his book—and he appears to support something like it, theoretically, he does not explain it much or focus on whether it would be a good idea to implement it. Let’s see why this might be the case.

According to the difference principle, any economic inequality is to be permitted only if this inequality is “to the greatest benefit of the least advantaged [members of the society]” (*TJ*, 83). The entire focus of the economy is the long-term betterment of those who are least advantaged. A principle as radical as this is tough enough to sell to an
audience consisting of philosophers interested in distributive justice, let alone typical citizens. What may have appeared to be a movement in the 1960s and early 1970s toward further economic egalitarianism did not have anything like the momentum required to provide more than what has been called a “safety net” for the poor. Rather than focusing on the poor, many egalitarians today (but certainly not all) simply want to improve the lives of the poor in proportion to improvements in the economy overall. Rawls attempted to provide the “justification” for high taxes that Piketty believes is lacking. The arguments were not lacking; they were rejected—or ignored.

The concern now (or it is at least Piketty’s concern and I tend to share it) is to salvage what we can from the forces of convergence that led to a patrimonial middle class. This is arguably the best means today to promote the interests of the worst-off class as well, for it is easier to move from poverty to the middle class than from abject poverty to the upper 10 percent.

As I write this, Donald Trump is stumbling and bumbling his way to the top of the Republican polls. He is rich. Some Republican candidates have quit the campaign, not necessarily for lack of ideas, but lack of donors. Mitt Romney was rich. To run for high office or to affect those who run for high office requires a kind of clout—not rhetoric, not character, not the possession of good ideas. Money. A further worry of the concentration of wealth is the creation of (or perhaps the victory of) oligarchy. This is an additional reason to question the moral standing of libertarian principles of economic justice that would permit extreme concentrations of wealth to exist. Rawls elucidates the problem as follows:
While it may appear...that citizens’ basic rights and liberties are effectively equal—all have the right to vote, to run for political office and to engage in party politics, and so on—social and economic inequalities in the background institutions are ordinarily so large that those with greater wealth and position usually control political life and enact legislation and social policies that advance their interests. (JF, 148)

This was true in 2001, when JF was published. It is truer today. And tomorrow? Piketty’s work does not only provide us with content for a distributive-justice lament. Democracy may also at stake.

REFERENCES


