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Power to the Piketties!

Nancy FOLBRE

While confessing her admiration for Thomas Piketty, American economist Nancy Folbre has three objections to his theories. What is the impact of labor inequalities on class conflicts? What part do gender-based differences play? And lastly, aren't economic inequalities between nations even more problematic than those between individuals?

If there were more economists like Thomas Piketty, the world would be a better place, though it's hard exactly to say how much better without a detailed econometric model. I jest only in order to explain the history of my own love-hate relationship with the economics profession. I love it when really smart economists like Piketty bring trends in wealth inequality to the fore, showing how they affect the trajectory of economic growth. I hate it when they treat it in mechanical terms, as though the economy itself were an automobile beyond our control, or a GPS that simply needs to be reprogrammed.

Piketty's book almost escapes this criticism by explaining how we could take the steering wheel. But the steering wheel he reaches for points to—a progressive, global tax on wealth—seems so small, remote, difficult to reach. It's hard to imagine how to campaign for, much less implement such a tax. And while Piketty emphasizes the growing power of a small wealthy elite, he doesn't say much about how they wield that influence.

His book has more to say about how the machine works than how its guidance system has been designed. Many economists on the left have registered similar complaints. My favorite exposition of these, published on line in *Jacobin* by Suresh Naidu, is called Capitalism Eats the World, which aptly describes the policy prescription as "technically feasible and politically hopeless." Piketty's very model predicts increasing consolidation of wealth and power.

Still, like Suresh, I love Piketty's book because it effectively undermines the case mainstream economists have made against a tax on capital—a technical litany of claims that it would reduce efficiency and lower economic growth. In the context of the global economics profession, the theoretical model he develops is subversive because it shows why profits may continue to expand at the expense of wages, a process which could potentially undermine the growth that economists love to hail. His historical narrative, based on persuasive empirical research, clearly shows how political power has shaped tax policy—and vice versa.

In person, Piketty is even better than his book. In a talk he gave at my university in September, he won over his audience with his humility, a quality rare among economists. He pays obeisance to the data, making his painstakingly collected numbers available to everyone, with detailed documentation.

He won a laugh for his confession that he longs for a wealth tax in part because it would generate better data on the distribution of wealth (the most reliable data on income distribution comes from obligatory income tax returns).

He presented figures on the real growth rate of top global wealth between 1987 and 2013 substantiating his claim that the more capital individuals own, the faster it seems to grow. He illustrated the same point with a comparison of rates of return on college endowment portfolios in the U.S. between 1980 and 2010. Elite universities with the largest endowments garnered far higher rates of return than those (like mine, the University of Massachusetts) with small endowments. Whether or not capital eats the world, it seems to reproduce faster the bigger it gets.

He also made strong political points in a gentle way, contrasting the mainstream emphasis on the "invisible hand" of markets with the "grabbing hand" of power. His graph of long-run trends in the U.S. shows income inequality rising in the 1920s, then falling partly as a result of more progressive taxation, only to intensify again as marginal tax rates were cut. The U-shaped dip in inequality in the mid-twentieth century demonstrates political interruption of an economic trend. "The ruling class," he explained " hasn't always had this kind of power; otherwise we wouldn't see this kind of graph."

Piketty is open to more complex narratives. Responding to a question about the impact of midcentury decolonization, he conceded that too, had played a role. He went beyond an emphasis on progressive taxation to mention possibilities for changing corporate governance, referring to the German policy of co-determination that has given workers more voice in management and, likely as a result, contributed to lower stock market valuations in that country. "New forms of ownership" could include cooperative businesses and employee stock ownership plans.

I didn't get a chance to pose my own questions, but I came away with three concerning the ways we define the groups contending for wealth and power. Like the traditional left, Piketty focuses on capital versus labor.

But how do differences among workers affect class conflict? While Piketty acknowledges the importance of growing inequalities in labor income, particularly with the U.S. he doesn't fully explain this polarization. Why are high-wage earners faring so much better than low-wage earners? Are they really that much more productive that their less successful peers? Or are they essentially capitalists in disguise, able to capture higher rents for their skills than other earners? If so, might predominantly white, native-born professionals and managers ally themselves with owners to keep wages low at the bottom where people of color and immigrants are over-represented?

Similarly, how do differences based on gender come into play? Kathleen Geier and others have observed that gender goes completely unexplored in Piketty's story even though it shapes both wealth and income inequality. Men enjoy a significant earnings advantage over women, in part because they take less responsibility for the care of dependents.

Public policies, too, have an impact on gender inequality Since women take more responsibility for other people's welfare than men do, it's not surprising that they benefit more—and offer more political support for—the welfare state.

Inequalities based on ethnicity, citizenship and gender don't reach the extremes of those based purely on wealth or income. Still, they clearly influence family living standards and cleave the larger constituency of "labor" in ways that hinder effective negotiations with "capital."

Finally, should economic inequality within one nation, or even within a group of nations (such as the advanced capitalist economies) be the paramount issue? Or is growing inequality among nations an even more serious problem, as Branko Milanovic persuasively argues in The Haves and the Have Nots? This fissure helps explain skepticism regarding a global wealth tax. Poor countries have good reason to welcome rich immigrants, along with their tax havens—on any terms. That's another reason to move beyond a simple capital versus labor model and consider other dimensions of collective conflict.

The last question in the public lecture came from a radical student. Responding to her dissatisfaction with his political emphasis on taxation, Piketty's French-inflected English complemented a politically bilingual response. "Let's not make an opposition between progressive taxation and class struggle," he explained. "You need class struggle to implement progressive taxation."

I think he's right about that. We also need a theory of how collective interests based on class intersect with those based on citizenship, gender, and other dimensions of collective identity and action. The development of that theory may require many more Piketties. More power to them.

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