Fans of Thomas Piketty’s influential 2013 book *Capital in the Twenty-First Century* will find much to like in this long-awaited sequel. It is even more weighty (literally: the English edition has more than 1,000 pages), reflects a prodigious amount of scholarship and is as full of indignation at our world.

It contains fascinating descriptions of lesser known historical uprisings against inequality such as the Haitian revolution, and interesting details about better known ones such as the French revolution. Yet, as a call for nations to enact massive redistribution programmes to reduce *inequality*, this latest work will persuade few outside his devoted following.

What *Capital and Ideology* does not lack is ambition. Piketty describes societal
systems through the ages — such as slavery, feudalism, colonialism and caste — collectively as “inequality regimes”. No surprises, then, about what he thinks is their key attribute. In each case, he uses historical sources to map the distribution of incomes and wealth and show how the situation today parallels those earlier abhorrent episodes. The obvious implication: if we are not disturbed by what is going on around us, we should be.

Unlike Marx, Piketty does not seem to believe the structure of society — the ownership of property, and the economic shares of different groups — is strongly influenced by the technology of production. Marx argued the plough gave us the feudal manor and the steam engine gave us the capitalist mill. Piketty claims instead that the nature of property rights and their distribution is largely driven by the prevailing ideology, a vague term that seems to imply a kind of public brainwashing.

Clearly, intellectuals such as the clergy in feudal Europe and Brahmins in Hindu India in the first millennium CE might have manipulated public beliefs to secure their place at the top of society. It is less clear that ideology rather than technologies of production and war determined power and position more generally. Be that as it may, the reason for the emphasis here is clear. If inequality stems primarily from ideology, all the reformer has to do is to change the prevailing ideology.

So why, then, in ostensibly democratic societies do voters not do more to curb high and increasing levels of inequality? The Marxist explanation was “false consciousness” — essentially, the working masses did not understand where their true interests lie. Piketty does not address this question directly but hints at a more prosaic answer: they merely lack the data.

For instance, he argues the publication of statistics after the promulgation of a progressive inheritance tax in France in 1901 helped “undermine the idea of an ‘egalitarian France’”. It showed that “France bore no resemblance to the ‘country of smallholders’ described by the adversaries of progressivity.” And so Piketty’s focus on documenting the true state of economic inequality, following which informed voters will push for change.
And what change should they push for? Piketty wants steeply progressive taxes on income, wealth, carbon emissions and, if anyone has somehow managed to hold on to any wealth after all that, on bequests. The author is not enamoured by communism — he does not want the state to hold all property.

Small and medium-sized businesses have an important role to play, he argues. He prefers “temporary ownership” by which successful businesspeople will not accumulate wealth but will see it taxed away, giving others the chance to succeed. The government will use the revenues to create a more egalitarian educational system, give a sizeable capital endowment to every young adult so that they can study more or open a business, and ensure everyone has a minimum basic income of 60 per cent of average after tax income. *Et voilà*, we have our dream society.

This is a serious agenda, one which appeals to sizeable segments of the population across the world, and certainly to the 60 per cent of Democrats younger than 30 that a recent [Economist/YouGov poll](https://www.economist.com/leaders/2020/04/01/whatprice-optimism) found supported Bernie Sanders or Elizabeth Warren. It is also, however, seriously misguided.
Piketty’s interpretation of the data is questionable, which means the prescriptions that follow could be much more harmful to prosperity. Moreover, while he claims he wants greater democratic participation, he pushes grand elite-devised centralised schemes that suggest a tin ear to the protest movements that have roiled the world.

Start first with the data. Piketty, along with collaborators, has done yeoman work on gathering data on incomes and wealth. However, strong assumptions are still needed for any inference. Piketty’s assumption in this and his previous book is that today’s rich are largely the idle rich — people like the late Liliane Bettencourt, the L’Oréal heiress, who collected returns on enormous amounts of financial wealth but allegedly paid tax on only a small part of her fortune. What could be the harm in taxing people like her?

Recent studies suggest Bettencourt is not representative of today’s rich, certainly not in America. Much of the increase in top incomes in the US stems from the 1980s, after the Reagan tax cuts. As my colleague Eric Zwick and his co-authors show in a paper published by the National Bureau for Economic Research, businesspeople moved towards corporate structures such as partnerships, where what was earlier shown as wage income was now misleadingly shown as profits or income to capital. Correcting for this, they find that most top earners in the US today are the self-made “working rich”, such as lawyers, doctors and car dealers, deriving their income from their skills rather than their physical or financial capital.

If today’s rich work, the sky-high taxes Piketty wants could have serious adverse effects on effort, gross domestic product and tax revenues. Also, one virtue of the entrepreneurial rich retaining control over their wealth is that they have already shown an ability to put resources to good use — which is why they are wealthy. How costly would it be to hand over their wealth to a bevy of untried entrepreneurs? Temporary ownership may be very detrimental to society’s productivity.

Piketty dismisses such arguments by pointing to the glorious postwar years between
1950 and 1980 when Europe and the US enjoyed strong growth even with high progressive taxes. But is this proof his nirvana is possible? As Tyler Cowen and Robert Gordon have argued, high postwar growth resulted from special factors such as the reconstruction of bombed cities, the resumption of trade after its collapse during the Depression, and the growing participation of women in the labour force. Without correcting for these — and they are unlikely to be repeated — it is hard to draw strong lessons from this episode.

Moreover, if those times were so good, why did voters end them by embracing the liberal policies of Thatcher and Reagan, and why did François Mitterrand abandon his socialist agenda barely a few years after being elected French president in 1981? In part, Piketty blames the collapse of Soviet-style communism for the abandonment of the progressive egalitarian dream. This is simply deflection. There was plenty of disillusionment with high taxes and big government within Britain and the US, long before the Soviet Union started crumbling.
In part, Piketty also chastises social democrats for failing to devise an international tax regime when in power that would have prevented tax avoidance and evasion. He may be on stronger ground here. Indeed, in the “glorious” high-tax years (1950-1979) that Piketty favours, the personal income tax collected in the US averaged 7.6 per cent of GDP, while in the supposedly lower-tax 1980-2018 period he disfavours, it averaged a higher 7.9 per cent.

Piketty believes tax loopholes can be eliminated today through international agreement and better information. Yet, if loopholes were rampant then, it undermines his argument that high progressive taxes are consistent with strong growth. If nobody actually paid those taxes in the glorious years between 1950 and 1979, we never actually ran the high-tax experiment.

Indeed, Piketty’s single-minded focus on taxation and redistribution blinkers his overall vision. Tax policy cannot be the only cause of inequality (especially given evasion). Trade, technology, winner-takes-all markets and antitrust regulation find little place in his narrative of the rise in inequality. And greater
government spending cannot be the only solution, even in his telling.

For instance, Piketty emphasises the importance of equal access to quality education but finds fault with the state-run centralised French system, where the best teachers avoid problem schools in left-behind areas. Would greater educational resources from taxing the very rich change matters? Why would middle-class educational administrators not follow their class interests and reallocate greater resources to their favoured middle-class school districts rather than poor ones?

More worrisome, it is unclear what would offer a countervailing balance to an overpowerful state when so many are dependent on it for endowments or minimum support, and there are few independent private players of any size.
Finally, there is a fundamental contradiction in Piketty’s alluring vision of participatory socialism — the pretence that a dose of democracy and a dollop of egalitarianism can be picked off a menu. He admits that more coercion will be needed to achieve this in Europe — a European superstate, where no country will have veto power, and common fiscal rules will be imposed on all countries (all the better to tax the rich). Yes, it ostensibly will be democratic but also centralised, with the tyranny of the majority deemed a virtue. Most people will have little sense of control over their futures. It was this very view of Europe that many in Britain rejected with the Brexit vote.

Worse, if outside countries such as Switzerland object to the policies of his envisioned European superstate, Piketty suggests threatening them with brutal sanctions that will bring them in line. Of course, to make an omelette, you have to break eggs, but that is a saying variously attributed to Napoleon or Robespierre, not to a social democrat.

Inequality is a real problem today, but it is the inequality of opportunity, of access to capabilities, of place, not just of incomes and wealth. Higher spending and thus taxes may be necessary, not to punish the rich but to help the left-behind find new opportunity. This requires fresh policies not discredited old ones. Read and learn from the vast amount of scholarship on display in this book. But look sceptically at its solutions.
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