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Accumulating Capital: *Capital and Ideology* after *Capital in the Twenty-First Century*

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Abstract: Thomas Piketty's blockbuster *Capital in the Twenty-First Century* was followed by the publication of *Capital and Ideology* in early 2020. This paper looks at the differences between the two books, and provides an analysis and a critique of the main advances in the new book. First, Piketty drops r>g as an explanation for rising inequality. Instead, inequality is generated and constrained by economic power supported by an ideology. Second, there is a focus on the political consequences of inequality, including the rise of right-wing populism and the election of people like Donald Trump. Third, there is a new policy proposal—changes in corporate governance that gives labor and government seats on the Board of Directors of public corporations.

Keywords: Piketty, inequality, voting Behavior, meritocracy, populism, corporate governance

1 Introduction

Thomas Piketty's (2014) surprise blockbuster, *Capital in the Twenty-First Century* (hereafter *C21*) took the world by storm after the English version of the book was published in April of 2014. It became the #1 best-seller on Amazon for several months, despite numerous tables and figures as well as some mathematical equations thrown in for good measure. Although not a page turner, it grabbed public attention.

Timing and good luck both contributed to the book's success. Inequality increased sharply over several decades in developed nations. People knew this from their own experiences as well as the 2011 Occupy (Wall Street) movement, with its slogan 'we are the 99%'. C21 focused on the other 1%, those who captured most of the income gains over the past several decades (Saez/Zucman 2019). The good luck was a stellar review of C21 in the *New York Times*. Paul Krugman (2014) called it "a

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landmark" that would "change … the way we do economics". A Nobel Laureate and widely admired economic pundit, Krugman's *New York Times* pieces are read by millions.

Another reason for the success of *C21* was its easy-to-understand data. Most inequality measures are hard to comprehend. What happens if the Gini coefficient goes from .43 in the US in 1992 to .49 in 2018? In contrast, everyone knows what happens when the top 1% in the US increase their share of total income from slightly under 10% in 1970 to more than 20% in 2008—the rich double their take of national income, leaving a 10% smaller share (on average) for everyone else.

There was also a memorable slogan, r>g, explaining rising inequality. r stood for the returns on wealth, or how much income one received during the year in rental income, profits, capital gains, and interest; g stood for economic growth, or average income growth. Inequality rose because, in percentage terms, the gains from owning wealth (r) exceeded the income gains of average citizens (g). When some returns to wealth are saved, wealth increases and inequality rises (see Pressman 2016, ch. 4).

Finally, Piketty had a unique policy solution—a global wealth tax of 1%-2%, imposed annually on individual net worth exceeding the equivalent of US$1.5 million. Silver bullets like this tend to be remembered for centuries. The Physiocrats in 18th century France and Henry George in 19th century America advocated taxing only land, Adam Smith in 18th century England pushed *laissez-faire* policies, and John Maynard Keynes argued for government spending to end economic slumps. Similarly, Piketty will likely be remembered for prescribing a wealth tax to solve the problem of inequality.

Academic economists, as is their wont, raised many objections to C21. Some felt Piketty overstated rising inequality due to data problems (Kopczuk 2015; Sutch 2017)[1]. Many complained that r>g lacked theoretical backing. And Pressman (2016, ch. 7) held that a wealth tax was impractical and unworkable, as evidenced by the many nations that had abandoned it.

Nonetheless, *Capital and Ideology* was eagerly anticipated. Unlike C21, publication of this book (in March 2020) was not serendipitous. Economic and popular interests had shifted from inequality to the economic consequences of the coronavirus pandemic and how to deal with this health crisis. Consequently, *Capital and Ideology* seemed inconsequential when it was released.

Additionally, Krugman (2020) gave the book a rather negative review in the *New York Times*. He thought the 1000-page tome lacked focus, and he questioned whether Piketty had mastered all the disciplines (sociology, economic history and

1 Pressman 2016 argues that C21 *understates* rising inequality.

politics) covered in his new book. Krugman specifically noted that his teacher, Evsey Domar, was ignored even though his work is highly relevant to Piketty's book. This 'slight problem' probably led a more negative review. Another factor likely irritating Krugman was more political. Krugman (2019) has maintained that racism and xenophobia explain the rise of the populist right. *Capital and Ideology* sees the problem in terms of an ideology of meritocracy that has failed a significant portion of the population.

The next *section* of this paper looks at how *Capital and Ideology* differs from C21. Then we discuss its major advances. *Section 3* looks at the ideology of meritocracy and its consequences, focusing on the rise of right-wing populism. *Section 4* discusses the competing theories of Krugman and Piketty regarding the cause of rising populism throughout the world. *Section 5* examines the new policy proposal in *Capital and Ideology,* changes in corporate governance. *Section 6* concludes.

2 What is New in *Capital and Ideology*

Capital and Ideology starts by identifying two shortcomings of its famous predecessor—an exclusive focus on developed capitalist nations and inadequate focus on ideology or ideas.

C21 looked at developed capitalist economies because data was easier to get and more reliable. *Capital and Ideology* updates figures for Western nations, where little has changed over the past half dozen years. It also includes data from a broader set of countries, including China, India, Russia, and Eastern Europe. Except for India, these nations had low levels of inequality until the 1990s, when government-owned assets were sold off. Politically connected insiders (former Communist bureaucrats) purchased these assets at low prices, making them extremely wealthy and raising the level of inequality in these countries.

More important, *Capital and Ideology* avoids using r>g to explain rising inequality. With wealth increasing over time, r should fall, bringing it close to g. Why doesn't this happen? Piketty's explanation, based on standard economic theory, was inadequate (see Pressman 2016). In *Capital and Ideology* the power of ideas and vested interests now explains rising inequality—power drives inequality and ideology sustains it.

I would add three additional differences between the two books, which also reflect shortcomings with C21.

First, *C21* focused on only income and wealth inequality. *Capital and Ideology* discusses other types of inequality—inequality of education, life expectancy, and living in a clean environment. Educational inequality perpetuates inequality in income and wealth, especially when income is related to educational achievement. Falling life expectancy in the US has become a major concern of late, especially for those at the bottom of the income distribution (Case/Deaton 2020). And *Capital and Ideology* points out that the poor are less capable of dealing with, and are harmed more by, climate change.

Second, as John King (2019) points out, C21 ignored the negative consequences of inequality. *Capital and Ideology* remedies this to some extent. It documents how less educated, low-income voters have gone from supporting left-of-center political parties to supporting right-of-center parties, fueling the rise of right-wing populism throughout the developed world.

Third, while still advocating a wealth tax, *Capital and Ideology* proposes giving workers additional power in order to impact income distribution. Putting worker and government representatives on the Board of Directors of public corporations gives them a say in how firms are run, how employees are treated, and company pay practices.

3 The Ideology of Meritocracy and Its Consequences

Probably the major advance in *Capital and Ideology* is that Piketty drops r>g in favor of an explanation for rising inequality based on power and ideology. A long historical account of inequality in *Capital and Ideology* makes the case for a natural tendency towards great inequality. Wars and natural disasters can reduce inequality; but this is only temporary. Inequality soon rears its ugly head again. To be sustainable, however, the existing income distribution needs an ideology to make people think that it is normal or natural. This counters widespread feelings that the current distribution is unfair as well as attempts to reduce inequality through government policy.

Ideology for Piketty is a set of ideas describing how society should be structured and the limits to property rights. These ideas answer questions such as how much people should be taxed; how values, skills and knowledge get transmitted from one generation to another; what a person can own; and how property can be transferred across generations. These stories buttress existing ownership rights, and yield a justification for the existing distribution of income and wealth (Piketty 2020, 29).

The function of ideology is to reduce opposition to inequality. Such opposition may take the form of an actual revolution, with private property being confiscated, or revolution at the ballot box, where politicians seeking to radically change national income and wealth distribution get voted into office.

To make his case, Piketty begins with how power arose and was justified in ancient times when the population was divided into the three 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. 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 great poverty and inequality. Things changed somewhat during the industrial revolution. Mainly what changed was nomenclature; power relations stayed the same. A rising merchant class reduced the power of the nobility. Still, the business class needed warriors (now the state) to protect them, priests (now educated intellectuals) to justify their wealth, and workers to produce it.

Colonialism involves one nation exercising power over another; slavery involves some people exercising power over others. The power of the conqueror, on the one hand, and its negative consequences for the conquered on the other hand, explain why former colonies have great levels of inequality today. The power of property owners explains why slave owners were compensated when slavery ended in the US, but *not* those deprived of property rights over their own body. Both examples show how beliefs about the sanctity of property have distributional consequences that continue until today.

Piketty then moves to more recent economic history. This discussion follows along the lines of *C21*. During the late 19th and early 20th centuries income and wealth were unequally distributed. Inequality fell during the first half of the 20th century due to two world wars, which destroyed a good deal of private property, and numerous bankruptcies during the Great Depression. Inequality remained low for several decades after World War II because highly progressive income taxes helped maintain equality. Around 1980 inequality again rises, although at different rates and beginning at different dates in different countries. In the former Communist nations, those with political connections got rich when the government sold off its assets. In the west, especially the UK and the US, the wealthy held that economic success required low taxes and free markets, claiming that everyone would win from these policies.

One result of this ideological shift was that Western governments deregulated finance, allowing capital to flow freely around the world searching out the highest rate of return. This changed power relations. Multinational companies pit nations against each other, getting them to bid for the privilege of taxing their profits at the lowest rate. With subsidiaries throughout the world, which buy and sell goods from each other, multinational companies can (through 'transfer pricing' between subsidiaries) book their profits in whatever nation offers the lowest tax rate. The result is that corporate profits escape taxation—except in the tax haven, where they get taxed minimally.

When large firms pay lower taxes, governments must find other revenue to support their activities or cut the benefits they provide to their citizens. Corporate tax reductions also give firms more money to pay out as dividends, or influence elections and legislation to benefit capital. Wealthy individuals, who own most shares of large corporations, win.

Deregulating domestic industries likewise increased the economic power of capital or wealth. It became more difficult for labor to unionize, and to bargain over wages, working conditions, and benefits. The result was lower real wages and numerous prohibitions that keep workers from taking a job with a competitor (see Krueger/Posner 2018), effectively making them indentured servants.

Perhaps the biggest negative consequence of all this has been political—the rise of right-wing populism throughout the world. Examining voter surveys following national elections, Piketty connects inequality and the changing political landscape by estimating the percentage of people in different socio-economic groups voting for different parties in national elections. These surveys let him track how voting propensities have changed over time.

Some voting behavior has not changed. The business class always vote for right-of-center candidates because they favor low taxes and reduced regulation. The very wealthy almost never vote left. The poor almost never vote right. These groups cast ballots reflecting their economic interests.

But some people vote based on their intellectual interests. One change in voting propensities over the past half century has been striking. Historically, the left has been the party of the worker and the less educated; well-off and better educated voters have supported candidates from right-leaning political parties. Today, left-leaning parties attract votes from the more affluent and better educated; workers with lower incomes and lower education levels support parties on the right of the political spectrum.

The Brahmin Left, descendants of the priestly class or educated elite from olden times, accumulated human capital and have thrived. Because they succeeded through education, they believe everyone can and think that free markets can improve everyone's well-being. As a result, they have pushed a neoliberal agenda—free capital flows and business deregulation. The economic consequences of this have been rising inequality, stagnating incomes, and a shrinking middle class.

The political consequences of this are well-known. Votes from right-wing populists have led to Brexit, Donald Trump, and the rise of democratically elected autocrats such as Jair Bolsonaro in Brazil, Viktor Orbán in Hungary, and Recep Erdoğan in Turkey. Right-wing populists in other nations receive a large fraction of votes in elections and threaten to acquire political power. Even Nordic nations, with large and active governments, and whose people seem willing to be taxed in order to support a large welfare state, have not been immune from right-wing populism.

Piketty documents these changes in political alignment, focusing on France, the US, and the UK. In France, during the 1950s and 1960, the 10% of the population with the most education tended to vote for right-wing candidates while the other 90% tended to vote Socialist (Piketty 2020, 724). In the 1974 Presidential election, Socialist François Mitterrand, received only 27% of the votes of those in the top 10% of the distribution but nearly 52% of the votes from everyone else. His poor showing with the top 10% cost him the election. Over the subsequent two decades, the well educated in France came to vote for candidates on the left to the same extent as candidates on the right. Starting in the mid-1990s, and continuing until today, the better educated were 12 percentage points more likely to vote for the left candidate than the right candidate. In the 2012 election, Socialist François Hollande beat Nicolas Sarkozy, 52% to 48%. Hollande received the support of only 18% of voters with only a primary degree, but 50% of voters with a secondary school (high school) degree and 58% of voters with a college degree (Piketty 2020, 745).

In the 1948 US Presidential election, voters without a high school diploma comprised 63% of the electorate; 62% of them voted for Democratic candidate Harry Truman. Those with a high school degree and no additional education constituted 31% of voters; half of them voted for Truman. Those with a college degree were 6% of those voting; only 30% of them voted for Truman. The least educated US adults gave Truman the Presidency (Piketty 2020, 809). During the 1970s and 1980s, educational differences by party narrowed. From the 1990s onward, those with more education tended to vote for Democrats. In 2016 the intellectual elite strongly favored Democrat Hilary Clinton while the business elite valued Trump's cunning and deal-making ability; those with little education also supported Trump (Piketty 2020, 817).

British Labour remains to some extent a working class party, but experienced the same changes as France and the US, although the timing was slightly different. Not until the 2010s did more educated workers tended to support Labour, while less educated workers were more likely to support the Tories (Piketty 2020, 812, 833, 846). In the Brexit vote, the lower income deciles in the distribution of education, income, and wealth voted 60%-65% to leave the European Union; those in the upper income deciles voted 65%-70% to remain.

4 Krugman, Piketty and the Rise of Right-Wing Populism

Piketty's election survey data demonstrate a major shift in voting propensities. Historically, the left has been the party of the worker and those with less education; well-off, better-educated voters supported candidates from right-leaning parties. Today, left-leaning parties attract more affluent and better educated voters; those with lower incomes and less education support parties on the right of the political spectrum. This section focuses on why workers with less education than average have abandoned the US Democratic Party and other Social Democratic parties. It also focuses on a corollary of this—the rise of right-wing populism.

Piketty identifies two possible reasons workers with little education now vote for right-leaning parties. One Piketty (2020, 753) calls the "the nativist hypothesis," which garners support from Krugman (2019). On this view, xenophobia and racism have driven people away from political parties supporting minorities and immigrants. As the Democratic Party increasingly championed minorities (due to the policies of Truman, Franklin Roosevelt, and Lyndon Johnson), Republicans enticed racists previously unwilling to support the party of Abraham Lincoln. Richard Nixon's southern strategy and Ronald Reagan's attacks on 'welfare queens' were first steps towards building a coalition between white racists and the business class. Trump sealed the deal with dog whistles only racists could hear. A second possibility comes from Michael Young (1958), who coined the term 'meritocracy'. According to Young, winners of the economic game feel entitled to their gains, while those experiencing downward economic and social mobility develop resentment, believing they were cheated out of what they once had.

Piketty stands close to Young, believing the ideology of meritocracy led the Brahmin Left to focus on helping the educated elite and the rich, rather than average workers and the poor. High-speed rail links major metropolitan areas, while rail lines serving rural communities get shut down because they are not money makers. Income tax cuts for the wealthy get countered by higher payroll and sales (VAT) taxes that fall more heavily on poor and middle-class households. Per capita, more state funds go to schools with educated, high-income parents rather than go to other schools (Piketty 2020, 756-8).

As a result, those at the bottom of the income distribution are ignored because the business class controls right-leaning parties and Brahmins control left-leaning parties (Piketty 2020, 774). Workers with less education responded by abandoning the parties that used to represent their interests, although blacks remained loyal Democrats. For Piketty (2020, 834), the deep-seated problem is that Democrats never came up with a response to the conservative revolution of the 1980s led by Reagan, and never developed an alternative ideology. The same could be said of other left-leaning political parties around the world. They had no answer to the problem of income distribution in a global economy.

Piketty (2020, 754) does try to rebut the nativist hypothesis, contending it fails in terms of timing. He notes that the shift to the right by less educated workers began in the 1960s and 1970s, before the rise of racism, and that the xenophobic explanation fails because the same educational realignment has taken place throughout the world—even places not experiencing a great influx of immigrants and with few minorities.

Neither argument is convincing. Racism has a long history in the US, beginning with the institution of slavery when the nation was established. It surely existed in the US during the 1960s, as protest marches in the south sought voting rights for blacks. Piketty's claim that the change in voting propensities is a worldwide phenomenon, while immigration is not, is likewise weak in age of television and the internet, where people have access to information about what is going on in other countries and where fears can spread like wildfires.

Going further, a parallel timing argument can be leveled against Piketty. It should be remembered that he is trying to explain the rise of right-wing populism based on ideology. As such, he needs to explain why the ideology of meritocracy sometimes leads to populist revolts and sometimes does not. Meritocracy has been with us a long time. It didn't arise in the late 1970s and 1980s as voting behavior started changing. In contemporary economics, it can be traced back to the marginal productivity theory of the early 20th century. The ideology of meritocracy was likewise present in John Locke's justification for property ownership in the 17th century and in Robert Thomas Malthus's argument that the inability of the poor to slow their procreation was responsible for their poverty. Piketty (2020, 710) himself traces the ideology of meritocracy back to the Middle Ages. Yet populist revolts against this ideology and against income inequality are infrequent. It seems that something else happened in the late 20th century.

More important, Piketty himself doesn't seek to rebut the ideology of meritocracy or present an alternative in *Capital and Ideology*, as he expected left-of-center political parties to do. The closest he comes is a graph showing how the probability of attending college in the US (a measure of equal opportunity) increases with the rising income level of one's parents. Piketty (2020, 35) claims this shows 'the wide gap' between meritocracy and reality. But this graph tells only part of the story. The opportunity to go to college is useless if nearly all college graduates without wealthy parents obtain middle-class incomes, but are burdened with enormous college debt. On the other hand, if there are options for earning a good living without a college degree, the relationship between attending college and one's parent's income is irrelevant. The real issue is not equal opportunity to attend college but intergenerational mobility—whether someone from a poor background has a good chance of become wealthy or middle class, and whether children growing up in middle-class households can become rich. A large literature on this topic shows that greater inequality is associated with a stronger correlation between one's income and the income of one's parents at the time of prime working years (Wilkerson/Pickett 2009, ch. 12). This indicates that something other than merit is actually determining economic outcomes.

To rebut meritocracy requires more. In economics, meritocracy is embedded in the standard economic explanation of income distribution—the marginal productivity theory advanced by John Bates Clark. This theory holds that workers are paid an amount equal to the revenue they bring to the firm. Although Clark (1899, 84-5) claimed that he was attempting to refute Henry George's (1879) view that high incomes (rents) stemmed from the monopoly power of landowners, John Henry (1983) argues that Clark was responding to Marx on worker exploitation. In either case, Clark's theory contends that individual incomes and the overall income distribution can be justified based on the productivity of each worker. Worker skills and worker effort determine how much they produce; those who produce more deserve to be paid more and they get paid more.

Piketty doesn't attempt to refute this view. However, it has been criticized frequently, on both theoretical and empirical grounds. On the theoretical side, the Cambridge controversy pointed out that the standard neoclassical theory of distribution was circular—we must know the return to capital, which the theory seeks to explain, in order to measure the quantity of heterogenous capital and determine its rate of return (see Harcourt 1972). On the empirical side, there is a disconnect between the highly skewed distribution of income and the normal distribution of human intelligence. If income depends mainly on merit or ability, one would expect the distribution of income to approximate a normal curve. It is far from this. There are also court cases against large firms such as Chase, Hertz and Pizza Hut providing a great deal of evidence that firms discriminate against women (Bergmann 1986, 139), something that should not be sustainable according to the marginal productivity theory.

Even more compelling are quasi-experiments, where a set of two similar resumes and cover letters (except for some indication of gender or race) are used to apply for a job. The gender (or race) of the applicant gets alternated from one job application to the next, thereby controlling for aspects of each application that might affect the results. In these studies, female (and minority) applications were less likely to get asked to interview for jobs (Riach/Rich 1995). Problems continue during the interview phase of the job search. For example, blind auditions of musicians lead to more women being hired by symphony orchestras than when the gender of the performer is known during the audition (Goldin/Rouse 2000). All this counters the view that people 'merit' what they get.

Finally, there is an historical case relevant to the dispute between Krugman and Piketty, and that speaks to the causes of rising populism. The populist revolt in the US during the 19th century was primarily a movement of farmers; however, industrial workers in the Northeast did join in. Some historians see 19th century populism as a reactionary force; others see it as a progressive force. Detractors include Richard Hofstadter (1955), who called populism a schizophrenic response to modernizing society, and worried about its intolerance, anti-Semitism, and racism. On the other side, Charles Postel (2007, chs. 3, 8) saw this populism challenging the existing ideology. Women were drawn to the movement because they saw it as a means to achieve greater independence for themselves. And Postel argues that 19th century populists believed in science rather than creationism, countering the view that the populists sought to maintain the status quo and were narrow minded.

Similar to Hofstadter, Krugman sees today's right-wing populists as racist and xenophobic, drawn to far-right TV and radio shows expressing outrage against non-white foreigners, and waving Confederate flags while protesting. Like Postel, Piketty sees populists rebelling against an ideology propagated by the well-to-do in order to justify their great earnings and wealth, and to maintain the status quo.

Despite their differences, Krugman and Piketty seem to agree that beliefs or ideas are at the root of changing political alignments. For Krugman it is racist and xenophobic ideas. For Piketty it is ideas about what determines one's income. One difficulty with ideological explanations of change involves measuring the impact of ideas whose purpose is to buttress the existing income distribution. Without such a measure, it is not clear how one might test to see which idea has greater real world impact. A related problem is that *both* racism and failed meritocracy can spur right-wing populism. Some may be motivated by one factor, while someone else is motivated by the other. Indeed, many people might be driven by *both* forces. And these are not the only possibilities. Missing from this debate are actual economic circumstances, or materialism, as a cause of changed voting propensities, rather than ideology. This is something Young (1958) identified as a main reason for rising discontent with meritocracy (also see Judis 2016). It is also why economic growth gets stressed in discussions about income distribution. If economies grow and average living standards rise, people will do better over time and do better than their parents did. With growth, a rising tide is thought to raise all ships and cure the evils of poverty and inequality. It also quells the rage that would otherwise arise from downward economic mobility.

Interestingly, there was no populist revolt during the Roaring 20s or in the decades immediately following World War II, when median incomes increased a great deal. The two populist revolts in the US both arose at a time of downward economic mobility in both relative and in absolute terms. A materialist explanation seems to explain the rise of populism better than an ideological one.

Adopting a more materialistic approach, historians Lawrence Goodwyn (1978) and C. Vann Woodward (1951) see late 19th century populism as a grassroots response to the rising and exploitative commercial order. It sought to put power against power. As such, it was a revolt against actual downward economic mobility. The original US populists were mainly small rural farmers. They were rebelling against rising and crushing corporate power. They were angry with the railroads shipping their produce, the large producers buying it, and the banks lending them money. Railroad monopolists charged high freight fees, with a large fixed charge that worked against small farmers. Conglomerate food producers paid low rates for the agricultural output of farmers. And banks charged high interest rates to small farmers, which kept them perpetually in debt. Small farmers responded by forming organizations to bargain with large conglomerates and producer co-ops that promoted their economic and social needs; they organized new political parties that would support their agenda of opposing the oligopolistic 'robber barons'.

Downward mobility imperils households with many fixed living costs (housing, transportation, utilities, insurance). Human fight-or-flight responses naturally kick in. These can easily manifest themselves by seeking a scapegoat, thereby leading to the racism and anti-Semitism that Hofstadter and Krugman attribute to populism. They can also manifest themselves by opposing the existing power structure, as the 19th century populists sought to do.

The material changes facing farmers at the end of the 19th century are similar to those facing many US households since the end of the 20th century, especially those where no adult has a college education.

Beginning around 1980, as Piketty has documented, a larger share of income began going to the top of the distribution. However, there was also an *absolute income decline* or a decline in material circumstances for many households. This is especially true when taking debt and required interest payments on that debt into account when measuring living standards (Pressman/Scott 2009, 2020). In addition to incomes stagnating, incomes became more volatile in the late 20th century (Morduch/Schneider 2017). Irregular income flows make it harder for households to manage their money and budget expenses. Many resorted to borrowing during the hard times. Having to repay these loans make the good times more difficult.

The ideology of meritocracy and its political-economic consequences compounds this problem. In this respect, Piketty is correct—people were failed by the state, as politicians came to favor those with money over those who vote them into office (Bartels 2016). Individuals faced greater risks as social insurance programs were cut back. Unemployment benefits were cut and eligibility tightened. Yet, workers were no longer returning to their old job when a recession ended. They needed to find new employment and maybe obtain new skills in order to get a new job. For many households childcare has become a problem because all adults in the family work full-time. It is required for non-school hours, sometimes on short notice; and it can be very expensive (Gould/Cooke 2015). The government has provided little help; so the financial responsibility for childcare fell on to the family. Social Security benefits were cut (Ball 2010) at the same time the US moved from firm-provided pensions to individual retirement accounts, putting the responsibilities for retirement on the shoulders of people lacking the training to do this (Ghilarducci 2008).

With falling incomes and more volatile incomes, people need more help, not less. With falling living standards over several decades, and many adults not doing nearly as well as their parents, a large rebellion should not be unexpected. It is no wonder people long for the bygone days before globalization, before equal rights for women and minorities, and before the need for a college education to have a middle-class existence. Perhaps the only wonder is why it took so long.

5 Some Policy Proposals

Pressman (2016, ch. 7) identifies several problems with taxing wealth—there are asset evaluation issues, liquidity issues, security issues and tax avoidance issues. Furthermore, there is a practical issue for the US that makes a *global* wealth tax unlikely. A Constitutional amendment was needed to begin taxing income; the Supreme Court will likely use this as a precedent for taxing wealth. Changes to the US Constitution need a super-majority—two-thirds of the US House and the Senate, as well as three-quarters of US states, must approve the change. A polarized electorate, close to evenly split between the two major political parties, makes it unlikely this will happen anytime soon. It would be quicker and easier to legislate tax hikes on the rich that require a simple majority. Similar sorts of problems likely exist in other nations. Yet, as Piketty recognizes, a wealth tax must be global in order to keep assets from moving to countries that don't tax wealth and can't report wealth holdings to other nations.

Raising corporate income taxes would be a good alternative. Piketty (2014, 561) supports this in C21 and in *Capital and Ideology* (Piketty 2020, 1033). Higher corporate income taxes would have distributional consequences similar to a wealth tax, as most stock is owned by the top 1%, and it could be accomplished through combined reporting, which counters transfer pricing at the state level in the US (Pressman 2016, ch. 7).

Besides doubling down on wealth taxation, *Capital and Ideology* devotes insufficient time and space to its new policy proposal concerning corporate governance, which Piketty refers to as 'participatory socialism'. Unlike the wealth tax in C21, Piketty presents few details and doesn't make a strong case for changing corporate governance by giving labor and government representation on corporate boards. This is not hard to do.

Representation on corporate boards give workers and the state (its citizens) more control over company behavior. The Germanic and Nordic countries provide models for how this can be done; and many OECD nations already have some form of employee representation. Nonetheless, some questions do need answers—how workers get chosen, how many workers will sit on the Board, and the dual role of workers on the Board (especially conflicts of interest).

The practical argument for changing corporate governance stems from the bad behavior of large corporations. Undoubtedly, there is a lack of accountability and oversight. Even German firms, with considerable worker representation on their Board of Directors, have had problems. Perhaps the best example of this is the Volkswagen emissions scandal, where firm-installed software was designed to cheat emissions testing (Parloff 2018). It seems that firms prefer paying fines, if caught, to changing their behavior. Future CEOs and Directors are left to deal with the problems arising from the current management team choosing a strategy that seeks to maximize only short-run gains for shareholders. Having more diverse eyes on corporate decision-making and behavior creates both greater transparency in decision-making and makes unsavory behavior less likely.

Dean Baker (2011, 43) contends that current corporate governance rules led to this situation. These rules stem from a paper by Jensen and Mecklin (1976) arguing that corporations should only seek to maximize shareholder value. The result was an ideological change with real-world consequences. First, CEO pay has been increasingly tied to stock performance, giving senior executives great incentives to increase profits and the value of the company stock in the short run. This is mainly a redistribution from rich shareholders to rich CEOs, or redistribution *within* the top 1%. The second result has been greater incentives to cut wages and costs as a means to increase profits, share prices and CEO pay. This redistributes income from the middle class to the rich, something we have seen since the 1980s, and something that Piketty's data demonstrates.

The case for changing corporate governance is clear. Firms are created by national governments, and they are protected by the national legal system and national defense spending. Furthermore, government laws stipulate owners of corporations can only lose the value of their corporate stock; the rest of their wealth is not at risk. Corporations are thus public institutions. Moreover, we are all stakeholders in companies and their success. This is clearest during economic crises (like the Great Recession and the coronavirus pandemic) when governments bail out large corporations in monopolistic industries (e.g., auto manufacturing, airlines and banks) to keep the economy from collapsing. Since we are all backing large firms, in part through taxation, we should all have representation on corporate directorates. This justifies giving workers and government officials seats on corporate boards to ensure that firms answer to the nation as well as to their wealthy owners.

Some evidence regarding how this policy affects inequality comes from work on CEO pay and worker representation. Felix Hörisch studied the impact of worker representation on the national distribution of income. Developing a measure of co-determination or worker representation, and looking at 32 developed nations, Hörisch (2012, 15) concludes that "higher levels of codetermination in western welfare states come along with more equally distributed income". The US serves as a good case in point. Currently, it has the greatest gap in the developed world, by far, between CEO pay and average wages. It also has the lowest union membership and lowest worker representation among developed nations.

Still, we need to do more. Rent-seeking by large firms must be curtailed (Stiglitz 2012) and policies are needed to improve the living standard of those at the bottom and middle of the income distribution. Here are just a few simple ideas. First, raising the minimum wage and indexing it to inflation. Second, a rail system connecting declining rural areas with booming cities and high-speed wifi for rural residents. The New Deal focused on electrification of rural areas, which greatly helped the people living there. This is one reason that low-income people living in rural areas, and having little education, tended to vote for Democrats for decades. Third, a revival of social insurance systems that prevent living standards from dropping too much due to factors outside an individual's control (Hacker 2006). Fourth, support to small businesses struggling to compete against large monopolies, including a revival of trust busting, which was one response to rising populism in late 19th century America.

These policies will require a different ideology, one that emphasizes how we are all in this together and how inequality has bad economic and social consequences. Some work has been done on the negative effects of inequality (see Payne 2017; Wilkerson/Pickett 2009). But we also need a critique of meritocracy and an alternative ideology stressing the importance of things like community, luck, and power when it comes to economic success.

6 Summary and Conclusions

Piketty's unique genius is to home in on predominant issues of the day with simple figures showing key changes taking place. *C21* revealed rising inequality starting around 1980 in much of the developed world, largely due to a much greater share of income going to the rich. C21 was less successful explaining *why* inequality rose and what we should do about it.

Capital and Ideology takes the story of rising inequality one step further. Relying on economic history, it examines how ideas impact distributional outcomes. It also documents how capitalism developed differently in different nations and in different time periods. Each nation has its own history, its own set of ideological beliefs and its own policies. National outcomes stem from economic power and the power of ideas, as well as historical circumstances in each country. Still, similar and disturbing trends have arisen in most developed nations—rising inequality and a nascent right-wing populism. According to Piketty, this stems from left-of-center political parties adopting an ideology of meritocracy and ignoring the needs of those left behind. Having nowhere else to go, individuals from low-income families and lacking educational credentials have gravitated to right-wing parties and moved conservative parties even further right. People are angry. Their anger made Brexit and President Trump possible. Finally, Piketty expands his policy toolkit in *Capital and Ideology* by arguing for changes in corporate governance that gives votes and more power to workers and government.

While advancing the argument of C21, *Capital and Ideology* has some flaws. It provides neither a good critique of meritocracy nor a good alternative. It also provides an inadequate response to the alternative hypotheses concerning the rise of right-wing populism (racism and falling living standards). As a result, there is no ideological backing to its policy proposal of giving workers a greater say in corporate decision-making.

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