Inequality as a Danger to Democracy: Reflections on Piketty’s Warning

SANFORD LAKOFF

“BOOKS THAT REPRESENT THE LAST WORD on a topic are important,” the economist Lawrence H. Summers observed of Thomas Piketty’s *Capital*. “Books that represent one of the first words are even more important.”1 Drawing on his own prodigious research and that of colleagues,2 Piketty has assembled a battery of economic data from the past several centuries dispensing the “fairy tale” that “a rising tide lifts all boats”3 (lately revised to read, “a rising tide lifts all yachts”4). His warning deserves to be taken seriously, even though, as he acknowledges, trend is not destiny and public policies with respect to taxation, regulation, and governmental investment can alter the trajectory. Given the trend that Piketty and others have pointed to,5 it is hardly surprising that President Barack Obama has

2Especially Emmanuel Saez and Anthony B. Atkinson.

SANFORD LAKOFF is Dickson Professor Emeritus of Political Science at the University of California, San Diego. His books include *Equality in Political Philosophy, Democracy: History, Theory, Practice, and Ten Political Ideas That Have Shaped the Modern World.*
called growing inequality and the decline of upward mobility “the defining challenge of our time.”\(^6\) Discussion and debate are now called for to identify potential remedies.

The basis for such remedies is clear enough, even though democracy is sometimes considered a “contested concept.”\(^7\) Liberal democracy is founded on the principle of universal suffrage in free, fair, and frequent elections under constitutional laws that protect basic human rights. Among these guarantees is the right of individuals and the businesses they form to own and exchange property and that of employers and employees to enter into contracts for labor and services. Public policy aims to ensure that contracts are respected and that the swings of the business cycle are contained; economic growth and job creation are encouraged by support for education and infrastructure and international trade agreements; markets are regulated to prevent fraud and monopolization; workers are guaranteed the right to bargain collectively; and the well-being, health, and safety of all are protected. No pattern of economic outcome is stipulated, but progressive taxation has come to be generally accepted as the fairest way to pay for public goods such as defense, education, disease prevention, environmental protection, and research and development. Otherwise, democracy requires only political equality and equality of opportunity.

Extreme inequality of wealth and income, however, creates social divisions and tensions that are dangerous not only for societies in transition to democracy but also for those in which it has a firm footing. Both in ancient times and today, a large middle class has been a bulwark of democracy. “A middle condition” is best for a polity, Aristotle contended, because “men in this condition are the most ready to listen to reason.” Those who belong to either extreme (measured by strength, noble birth, or wealth)

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find it hard to follow the lead of reason . . . those who enjoy too many advantages—strength, wealth, connexions, and so forth—are both unwilling to obey and ignorant how to obey . . . We have thus, on the one hand, people who are ignorant how to rule and only know how to obey, as if they were so many slaves, and on the other hand, people who are ignorant how
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\(^7\)For a widely accepted list of criteria, see, in particular, Robert Dahl, \textit{Polyarchy: Participation and Opposition} (New Haven, CT: Yale University Press, 1971), 3.
to obey any sort of authority and only know how to rule as if they were masters of slaves. The result is a state, not of freemen, but only of slaves and masters; a state of envy on the one side and on the contempt.\textsuperscript{8}

The often-cited modern study by Barrington Moore, Jr., sums up his findings pithily: “no bourgeoisie, no democracy.”\textsuperscript{9}

When a concentration of wealth in the hands of a few engenders what amounts to a self-perpetuating caste system, the middle class shrinks and loses its stabilizing role. Breakdowns of social solidarity raise cynicism about the bearing of democratic ideals, and the political system tends toward plutocracy. Additionally, the concentration of income at the top of the economic pyramid diminishes the rate of economic growth by depriving most of the population of purchasing power—although admittedly, the economic crisis of 2007 was brought about in some part by speculation in the housing market by overleveraged ordinary home buyers.

Lasting and systemic remedies will be difficult to achieve, for a variety of reasons. International cooperation will be needed to eliminate tax havens and prevent a global race to the bottom in wages and working conditions. The benefits of some proposed remedies—such as early childhood education and skill enhancement later—are controversial. Tax reform aimed at limiting higher incomes will meet opposition from ideological opponents of income redistribution and powerful vested interests. (As Martin Gilens points out, the inclination of the rich to use their wealth to promote the economic policies from which they benefit “raises the disturbing prospect of a vicious cycle in which growing economic and political inequality are mutually reinforcing.”\textsuperscript{10}) Nevertheless, the relative success of government programs since the onset of the recession in 2007 in cushioning the effects on both middle-income and poor households indicates that more can be done to reduce economic inequality without stifling incentives for entrepreneurial activity and investment—or creating the culture of dependency that opponents of reform profess to fear. Studies by economists and the Congressional Budget Office have shown that government policies, including the “safety net” of jobless benefits and the economic stimulus measures, helped protect both middle-income and lower-income households from the effects of the recession. Because of both the recession


and government policies, inequality of income did not rise during this period—“a reminder that rising inequality is not inevitable, and that the country has the power to shape its economy.”

This power is available, as Piketty recognizes, because the trend toward increasing economic inequality is not simply the result of economic forces alone, such as the replacement of manual labor by robotics or the lowering of wages of the unskilled as a result of the globalization of production and the increased demand for better educated workers. “The history of the distribution of wealth and income,” he observes, “has always been deeply political, and it cannot be reduced to purely economic mechanisms.”

This is especially so in economically and technologically advanced societies in which conditions and rules set by the state and international regimes strongly affect the play of market forces. In the United States, globalization, state “right-to-work” laws and competitive tax forgiveness, and the shift from industrial to service sector employment have combined to reduce membership in trade unions to only 7 percent of the workforce in the private sector and 14 percent overall. The result is that industrial employees now earn considerably less than their counterparts in the same sectors in other countries where trade unions are stronger. Similarly, the ratio of executive compensation to that of ordinary wage earners in large businesses rose from 24 times the pay of a typical worker in 1965 to almost 300 times in 2013 because of self-dealing by executives and corporate boards and lowered tax rates on high incomes. The distribution of wealth and income and access to opportunity therefore inevitably and properly become contentious social and political issues. Where wealth is allowed to play an unrestricted role in the electoral process, as it now does in the United States, campaigns for office make a mockery of the principle of “one person, one vote” and result in policies that exacerbate economic inequality. Political reforms are therefore essential.

THE FINDINGS

Piketty’s cross-country findings show that the economic system commonly called capitalism benefits the major owners of capital more than the other income groups that constitute the vast majority of the population. His basic explanation is that, over time, the return to invested capital has been greater than the return to labor. The rationale for this overall result is summed up in the formula \( r > g \), where \( r \) is the rate of return to capital and

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g is the rate of growth. The reduction in inequality that took place from 1910 to 1950 and was maintained for several decades, Piketty explains, was attributable to government policies aimed at coping with the shocks of war and depression. Since then, the gap has been allowed to widen. If present trends continue, capitalism will generate “arbitrary and unsustainable inequalities” that will “radically undermine the meritocratic values on which democratic societies are based,” with consequences that are “potentially terrifying.” Fortunately, Piketty points out, democracy “can regain control over capitalism and ensure that the general interest takes precedence over private interests, while preserving economic openness and avoiding protectionist and nationalist reactions.”

These findings compel a reconsideration of the results of economic growth. In 1953, Simon Kuznets published his monumental *Shares of Upper Income Groups in Income and Savings*, which seemed to show that in the United States, as in other economically advanced countries, earlier pessimists such as David Ricardo and Karl Marx were altogether wrong in supposing that capitalism would benefit the owners of capital at the expense of farmers and the industrial proletariat. Referring to data on the shares of income in the United States and elsewhere, Kuznets contended that inequality increased at first and then decreased in the course of industrialization and economic development. The message was summed up in a reassuring message: “Growth is a rising tide that lifts all boats.” In 1956, Robert Solow drew on later data confirming Kuznets’s thesis and showing that during balanced economic growth, every social group would benefit from growth in the same degree. Piketty summarizes the message: “The idea was that inequalities increase in the early phases of industrialization, because only a minority is prepared to benefit from the new wealth that industrialization brings. Later, in more advanced phases of development, inequality automatically decreases as a larger and larger fraction of the population partakes of the fruits of economic growth.”

While praising Solow’s work for making the first major attempt to collect the relevant data, Piketty contends that the empirical foundations of the thesis were fragile and that more recent work has shown that the reduction of inequality between 1910 and 1950 was “above all a consequence of war and of policies adopted to cope with the shocks of war.” Solow has acknowledged that recent developments bear out Piketty’s overall conclusions:

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14 Piketty, *Capital*, 1, 571.
15 Ibid., 14.
16 Ibid., 20.
Currently in the United States, the top 10 percent own about 70 percent of all the capital, half of that belonging to the top 1 percent; the next 40 percent—who compose the “middle class”—own about a quarter of the total (much of that in the form of housing), and the remaining half of the population owns next to nothing, about 5 percent of total wealth. Even that amount of middle-class property ownership is a new phenomenon in history. The typical European country is a little more egalitarian: the top 1 percent own 25 percent of the total capital, and the middle class 35 percent. (A century ago the European middle class owned essentially no wealth at all.) If the ownership of wealth in fact becomes even more concentrated during the rest of the twenty-first century, the outlook is pretty bleak unless you have a taste for oligarchy.17

Some economists have been critical of Piketty’s work, but they have not rejected his basic findings. Critics have pointed to shortcomings in the assembly of the data,18 insufficient attention to the role of U.S. tax laws in changing the behavior of high-income earners,19 and Piketty’s oversimplified assumption that there is an economic law inherent in capitalism that promotes inequality, apart from the role of political and economic institutions and technological change.20 Piketty has lately clarified his point of view by stressing that the formula \( r > g \) is not “the only or even the primary tool” for analyzing changes in income and wealth in the past or future. Factors endogenous to capitalism, including “institutional changes and political shocks,” he notes, “played a major role in the past, and it will probably be the same in the future.” In addition, inequality of labor income is critically affected by other mechanisms, such as the supply and demand for skills and education21—qualifiers already introduced in his book. The criticisms do not affect Piketty’s findings, summed up by Summers, who observes that the data he presents “document, absolutely conclusively, that the share of income and wealth going to those at the very top—the top 1 percent, .1 percent, and .01 percent of the population—has risen sharply over the last generation, marking a return to a pattern that prevailed before World War I.”22

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22Summers, “The Inequality Puzzle,” 92.
THE SHADOW OF MARX
Is the upshot of Piketty’s work a revival of the Marxian claim that the “contradictions of capitalism” result in the “immiseration” of the masses? “Piketty essentially sides with Marx,” one American conservative has observed.²³ Karl Marx was reported by his collaborator Friedrich Engels to have said, “Moi, je ne suis pas Marxiste.” Piketty can say the same with far more justification. Although the title of his work invites comparison to Das Kapital, he is no Marxist, with respect to either inequality or democracy, as even a cursory comparison makes clear.

Marx and Engels, and Lenin after them, were so hostile toward inequality of rewards that they wanted to eliminate the problem by abolishing private ownership. They were ambivalent about democracy. On the one hand, it was a means by which capitalists could use the coercive power of the state to enforce their exploitation of the toiling masses. On the other hand, democracy would allow the proletariat to demand a wider suffrage and then use its numerical electoral superiority to socialize private property. Because all ruling classes resist displacement, violent revolution might well be necessary. Either way, once the working class won “the battle of democracy,”²⁴ it would establish the “dictatorship of the proletariat” to abolish capitalism. Afterward, in the “higher phase” of communism, the state would “wither away”²⁵ and be replaced by “the administration of things.”²⁶ Lenin was even more explicit in seeing democracy only as a way station in the struggle to establish real equality. While it is of great importance to the working class in its struggle, it is “by no means a limit one may not overstep; it is only one of the stages of development from feudalism to capitalism and from capitalism to communism.”²⁷

Neither Marx nor Lenin deigned to go into detail on exactly what society and government would be like once communism was achieved. In early writings, Marx suggested that the abolition of scarcity would end humanity’s alienation from its own true nature.²⁸ Otherwise, all he had to say about what life would be like under communism was along the lines of his flippant remark that once freed from capitalist control, automation would

produce so much abundance that men would hunt in the morning, fish in
the afternoon, herd cattle in the evening, and criticize after dinner.29
Lenin, the tough-minded advocate of the need for a disciplined “iron
core” to lead the revolution, held out a no less visionary view of what
equality would mean under communism: “The narrow horizon of bour-
geois rights, which compels one to calculate, with the hard-heartedness of a
Shylock, whether he has not worked half an hour more than another,
whether he is not getting less pay than another—this narrow horizon will
then be left behind.” Instead, “each will take freely ‘according to his
needs.”30

Piketty is hardly a champion of such a roseate vision of a return to a
golden age of perfect equality of results—with “all modern conveniences.”
At the outset, he explicitly rejects Marx’s “apocalyptic” view. He does not
propose the nationalization of the “commanding heights” of the economy,
let alone the abolition of all private property. He gives short shrift to Marx’s
economic theory, with its claim that a falling rate of profit must doom
capitalism to self-destruction. He warns against repeating the folly of the
“tragic totalitarian experiments undertaken in states where private capital
was abolished.” He also points out that Marx “totally neglected the possi-
bility of durable technological progress and steadily increasing productivi-
ty, which is a force that can to some extent serve as a counterweight to the
process of accumulation and concentration of private capital.”31

Piketty assumes that an economy that allows for the play of enterprise
and exchange is a much better engine of growth than the planned econo-
 mies envisioned by the most radical socialists. Nor does he adopt Marx’s
cavalier attitude toward liberal democracy as a system of rule by the rich
due to be superseded by some altogether new social and political system
once the “contradictions of capitalism” lead to its overthrow. On the
contrary, he sees democracy as the potential instrument of economic
reform. Governments reflecting the will of an enlightened citizenry could
presumably maintain the productive power of the market economy while
assuring a fairer distribution of the benefits. He is a Social Democrat who
would allow for a regulated market economy in which the state would
guarantee equal opportunity and provide incentives for innovation and
improved productivity not just to managers and investors but also to those
who contribute their labor.

31Ibid., 743.
THE DANGERS OF EXTREME INEQUALITY TO DEMOCRACY

Such an economic system permits a considerable degree of inequality of outcome, to allow for rewards to risk taking, talent, thrift, meritorious service, and diligence, as determined by the play of market forces—and also by sheer luck, including birth and inheritance. But it need not and should not shield undeserved great wealth that is either sheltered and passed on by tax avoidance schemes or acquired by rigging of the regulatory rules and the tax system. What concerns Piketty is both the moral incompatibility of extreme inequality of income and wealth with what he takes to be the democratic ideal of social justice, as well as the danger that rising economic inequality could revive the turmoil and resentment that led to the downfall of democracy in Europe in the 1920s and 1930s.

That kind of chaos could conceivably result from the rise of movements such as the nativist/populist parties in Europe and both the libertarian/populist Tea Party and the more evanescent left-wing/populist Occupy Wall Street protest in the United States. Then and now, extreme inequality tends to arouse resentment, and resentment leads to political extremism, making compromise seem like betrayal, fraying the bonds of civility and citizenship by promoting cynicism about politics, and promoting populist blame on supposed conspiratorial villains. On both the left and the right, suspicion grows that government is in the hands of some ill-defined “power elite” that acts to protect its own privileges by supporting “crony capitalism.” “Widening inequality,” Robert B. Reich has pointed out, “coupled with a growing perception that big business and Wall Street are in cahoots with big government for the purpose of making the rich even richer, gives fodder to demagogues on the extreme right and the extreme left.” Those on the left see government as the handmaiden of the wealthy, using free trade agreements to depress wages and destroy trade unions. On the right, populists and libertarians see rising tax revenues creating ever more intrusive and dictatorial government, enhancing welfare dependency, and lowering barriers to immigration that cause unemployment and a loss of cultural homogeneity. Populism, Arthur Goldhammer acutely suggests, “is an ineffectual protest against this state of affairs: it is a response to the widening of the gulf between elite and people, but remains an emotional protest incapable of articulating a strategy for remedying the malady.” Separatist movements also batten on the same suspicion that

33Personal communication.
controlling centripetal forces, either national or global, are conspiring to prevent regional autonomy.

Such movements erode one of the greatest virtues of democracy, which is that it provides a nonviolent safety valve for discontent. So long as people who are angry over a policy or unhappy with social conditions are free to associate with each other and press their case through the ballot box, they are less likely to conspire against the state and seek its overthrow. Paranoid fantasies will always lead to the formation of fringe groupings among those who imagine that they are authorized by God or some cause to resort to unlawful means, but so long as the political system allows for dissent and peaceful change, and the economic system does not foreclose social mobility, they are unlikely to sway the majority.

Alternatives to democracy, such as the “guardian states” of Singapore, China, and Islamist Iran, may be able to “get things done” more expeditiously than democracies, but they inevitably suppress dissent, sometimes brutally, and promote elite corruption. Frustration over economic inequality is even more directly expressed in Hong Kong, where 82 percent of young people are demanding greater democracy. Despite the “one country, two systems” arrangement that has prevailed since the former British colony reverted to China in 1997, inequality has increased because state-owned enterprises run by the Communist Party elite have enjoyed an increasingly prominent role in the economy. As a retired executive observed, Hong Kong is not performance driven but relationship driven.” Six of the 10 biggest companies on the Hong Kong stock exchange are state-owned companies, and “mainlanders with party ties also hold many influential positions in the city’s banking industry.”

When that perception becomes endemic in a democracy, as a direct or indirect result of extreme economic inequality, it is bound to have similarly corrosive effects. Whether resentment does or does not rise to a fever pitch, extreme economic inequality weakens the political process by undermining the ties of citizenship—the sense of common interest, the recognition of a duty to participate, and the willingness to respect electoral outcomes, judicial rulings, and political compromise—that are critical to democracy. Already in the United States, a major study has concluded that “affluent people have considerable clout, while the preferences of people in the bottom third of the income distribution have no apparent impact on the behavior of their elected officials.”

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35 Bartels, Unequal Democracy, 285; italics in original.
inequality, as Larry Diamond has acutely observed, becomes a “predatory society,” which is “the inverse of the civic community”:

First, there is no real community, no shared commitment to any common vision of the public good, and no respect for law. Behavior is cynical and opportunistic. Those who capture political power seek to monopolize it and the rents that flow from it. Thus, if there are competitive elections, these become a bloody zero-sum struggle where everything is at stake and no one can afford to lose. People ally with one another in the quest for power and privilege, but not as equals. Rather, relations are steeply hierarchical. Ordinary people are not truly citizens but rather clients of powerful patrons, who themselves serve as clients to more powerful patrons. Blatant inequalities in power and status cumulate into vertical chains of dependency and exploitation, secured by patronage and coercion. In a predatory state, officials feed on the state and the powerful prey on the weak. The rich extract wealth from the poor and deprive them of public goods. “Corruption is widely regarded as the norm,” political participation is mobilized from above, civic engagement is meager, compromise is scarce, and “nearly everyone feels powerless, exploited, and unhappy.”

Although Piketty’s warnings concern the effect of inequality on democracy, most of the discussion of his work has focused on economic issues—the validity of the data and the practical ways of affecting outcomes for the very rich, the poor, and the earners in the middle. Why the implications for democracy should be so potentially terrifying is not self-evident from the data alone, and Piketty’s political analysis is hardly as elaborate as his economics. Still, a strong case can be made that his warning deserves to be carefully considered.

In the economically advanced countries that make up almost all the world’s democracies, inequality of outcome has come to be accepted because it has been accompanied by a general rise in the standard of living. “Democracy has always rested on a broad middle class,” Francis Fukuyama has observed, “and the ranks of prosperous, property-holding citizens have ballooned everywhere in the past generation.” The living conditions of Americans counted as living “in poverty” in America today bear very little resemblance to those of people enumerated as poor in the first official government count attempted in 1965, Nicholas Eberstadt points out:

By 2011, for example, average per capital housing space for people in poverty was higher than the U.S. average for 1980, and crowding (more than one person per room) was less common for the 2011 poor than for the nonpoor in 1970. More than three-quarters of the 2011 poor had access to one or more motor vehicles, whereas nearly three-fifths were without an auto in 1972–73. Refrigerators, dishwashers, washers and dryers, and many other appliances were more common in officially impoverished homes in 2011 than in the typical American home of 1980 or earlier. Microwaves were virtually universal in poor homes in 2011, and DVD players, personal computers, and home internet access are now typical in them—amenities that not even the richest U.S. households could avail themselves of at the start of the War on Poverty. Further, Americans counted as poor today are manifestly healthier, better nourished (or over-nourished), and more schooled than their predecessors half a century ago.\(^{38}\)

The fact remains, however, that wages for the vast majority of American workers have stagnated or declined since 1979, even as gross domestic product and net productivity have greatly increased.\(^{39}\) A comparative study of “intergenerational mobility”—the measure of equal opportunity—shows that Denmark ranks first and the United States last of 11 economically comparable countries.\(^{40}\) The social collapse in Germany in the aftermath of World War I or currently in Greece and much of the Middle East can be blamed more on economic stagnation than resentment of the rich. It was joblessness and the view that parliamentary governments were helpless that fueled the rise of fascism before World War II. In the United States, the rise of the robber barons produced a populist backlash, but any envy that they inspired did not rise to the level of revolutionary opposition. On the contrary, the new self-made millionaires were celebrated as examples of a work ethic combined with democratic equality of opportunity, and their philanthropy was praised as the expression of Christian charity.

More recently, the “lifestyles of the rich and famous” have aroused fascination and emulation, and Ronald Reagan’s view that “government is the problem, not the solution” has the support of a large segment of the population. Noneconomic factors, such as clashes of cultural values, racial tensions, attitudes toward gun control, and hostility toward immigrants are no less important in providing electoral “wedge issues” exploited in

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40John Ermisch, Markus Jäntti, and Timothy Smeeding, eds., *From Parents to Children: The Intergenerational Transmission of Advantage* (New York: Russell Sage Foundation, 2012), Figure 1.1.
political campaigns. But if there is a prolonged leveling off of economic growth, coupled with a widening gap between the ultra-rich and everyone else, such as Piketty’s data point to, the concern for greater equity could become a decisive political issue. Already, the belief that government policies and programs benefit only the very wealthy and the very poor makes some in the middle- and lower-income ranks cynical and either unwilling to vote or ready to support candidates who peddle nostrums such as the abolition of the Internal Revenue Service or the Federal Reserve system. Class stratification, moreover, as is evident in distinctions between elite private institutions and public schools and between gated residential communities and urban ghettos, further intensifies and consolidates social tensions.

THE MEANING OF DEMOCRACY AND THE AMBIGUITIES OF EQUALITY

To assess the seriousness of Piketty’s warning, it is important to be clear about the rise and meaning of modern or liberal democracy and its moral foundation in the ideal of equality.

Modern democracy is an outgrowth of a relatively recent historical process in which the long-neglected examples of popular self-government that emerged among the ancient Greeks and Romans were revived in principle but greatly changed. The modern versions allow far larger societies to create representative forms of government based on free, fair, and frequent elections under the umbrella of constitutions setting the ends and limits of governmental authority. By the beginning decades of the nineteenth century, after revolts against feudalism and absolutism, the demand for popular sovereignty shook the foundations of the “Old Order” in Europe and led to the establishment of a federated republican form of government in the United States. “Everywhere,” Alexis de Tocqueville recognized in the 1830s, “the diverse happenings in the lives of peoples have turned to democracy’s profit; all men’s efforts have aided it, both those who intended this and those who had no such intention . . . all have been driven pell-mell along the same road, and all have worked together, some against their will and some unconsciously, blind instruments in the hands of God.”41 This apocalyptic prophecy proved premature, as demands for popular government met resistance from dynasts and aristocrats and were thwarted by opposition to the expansion of the suffrage and, in this

country, by the persistence of slavery followed by racial segregation. But by 2006, 121 countries, or more than 60 percent of the world’s states, were considered electoral democracies.42

As Tocqueville was among the first to appreciate, the moral spring in democracy was the liberal version of the ideal of equality, expressed in the American Declaration of Independence and the French Declaration of the Rights of Man and of the Citizen. At first, he pointed out, the call for equality entailed only a demand for “equality of conditions”—in other words, the end of feudal titles and other forms of social hierarchy. But in 1848, the same year that Marx published the Communist Manifesto, Tocqueville wondered whether the social forces unleashed by democracy would demand a leveling of all social distinctions: “Does anyone imagine that democracy, which has destroyed the feudal system and vanquished kings, will fall back before the middle classes and the rich. Will it stop now, when it has grown so strong and its adversaries so weak?”43

The trouble was that until then, equality was an ambiguous ideal that had been left ill-defined for centuries because it was considered altogether impractical.44 Now, suddenly, it was to be applied to politics as well as social relations. Until then, it was thought of as the condition of some lost mythical golden age of original innocence or one that would be reinstated at the end of time, but not as an ideal that might suit actual social conditions. It found early expression in the Stoic belief in the universality of natural human reason, but both the Greek and Roman Stoics were indifferent to social inequality, calling only for kindness toward inferiors and indifference to material wealth. The Hebrew prophets and Christian apostles were more critical of departures from moral law in economic dealings, but their belief in equality in the here and now was mainly focused on the spiritual dimension of existence: all souls were equal in the sight of God, whatever the earthly station of their human avatars. When the Apostle Paul declared that “there is no such thing as Jew or Greek, slave and freeman, man and woman; for you are all one person in Christ Jesus” (Galatians 3:28), he was not calling for social revolution. What he meant was that in the light of the eschatological promise of a better world to come, this world’s distinctions had no significance. But because equality was associated either with the prelapsarian age of innocence or with the messianic age to come, Christians were advised to accept

43Tocqueville, Democracy in America, 12.
44This summary draws on Sanford Lakoff, Equality in Political Philosophy (Cambridge, MA: Harvard University Press, 1964).
prevailing inequalities as consequences of the fall. The belief in ultimate equality was suspended to allow for operative inequality in this world—in the form of slavery, patriarchy, and social hierarchy. Only with the coming of the Protestant Reformation was it reinstated in the church, with profound implications for economic and political life. After the Reformation, it inspired both socialist and liberal demands for a realization of the ideal in practical life, a realization that eventually led to the abolition of slavery and racial discrimination, the emancipation of women, and the demand for universal suffrage.

Once the classical dualism of ultimate equality and operative inequality was overthrown, disagreement developed over what the ideal meant for the structure of society. In the socialist tradition, it inspired a call for economic equality harking back to the saying in Plato’s dialogue *The Laws* that “friends have all things in common” and taking shape in the left wing of the Reformation (as in Gerrard Winstanley’s Diggers and certain of the Anabaptist sects). Then came the calls for the constructions of communities by utopians, the Babouvists in the aftermath of the French Revolution, and subsequent experiments with religious and secular communes, none of which had lasting impact until the Bolshevik Revolution inaugurated a state-directed and antidemocratic version of socialism.

The liberal version of equality developed by the social contract theorists in the seventeenth and eighteenth centuries and reworked by the Utilitarians in the nineteenth century recognized that society rested on the autonomy of the individual and called for a competitive equality of opportunity for unequal rewards. It did not propose a leveling of all economic and social distinctions. Both the Federalist John Adams and the Democratic-Republican Thomas Jefferson believed in the virtues of “natural aristocracy” and the right of property. Governments were to be designed to protect the liberties of citizens and to allow them to strive for unequal rewards.

In the nineteenth century, liberals were split between the “social liberal” reformist views of Jeremy Bentham, John Stuart Mill, and Leonard Hobhouse and the unreconstructed “classical liberalism” of Herbert Spencer and William Graham Sumner, reinvigorated by Social Darwinism. The reformist liberals championed efforts by the state to address the problems of poverty and social pathology by legislating conditions of labor, allowing for collective bargaining, and putting in place a series of welfare guarantees that have come to be known as the “safety net.” But liberals have not called for the nationalization of industry or the equalization of incomes. Both classical and reformed liberals acknowledge the desirability of some degree of economic inequality to reward innovators and encourage saving and investment as well as self-reliance.
This debate within liberalism continues, but a major problem with Piketty’s social and political analysis is that he does not examine the meaning and working of democracy as carefully as he does capitalism. Had he done so, he might have recognized that both in its ancient inception and in its modern form, democracy is less an economic or social prescription than a political process enabling equally empowered citizens to achieve common ends and adjust their differences peacefully. It encourages meritocracy, especially in public institutions, but does not require it. It also promotes a spirit of civic equality by prohibiting unjust discrimination.

Democratic Athens, despite the celebrated reforms of Solon, which aimed at providing relief for debtors, not only allowed slavery and patriarchy but also had a class system based on wealth, initially rather rigid until the reforms of Cleisthenes and Pericles. At the top were the *pentakosio-medimnoi*, so called because they received income of at least 500 measures of produce. The *hippeis* or horsemen were formed of those who earned between 300 and 500 measures; the *zeugetai*, of those who owned between 200 and 300 measures; and the *thetes* or menial laborers, the lowest class, of those with incomes of less than 200 measures. This lowest group was ineligible to hold any public office. Only those in the highest grouping were eligible for the top offices, including those of the nine archons. Many analysts, including the late and preeminent Robert Dahl, have drawn a sharp distinction between democracy as a set of procedures by which governments are elected and make and enforce laws and the normative beliefs that those laws sustain. In short, both according to actual practice and widely accepted theory, democracy requires political equality but not economic proportionality.

Piketty mischaracterizes the moral aspects of this relationship when he takes as his premise the principle announced in Article 1 of the French Declaration of the Rights of Man and of the Citizen (1789): “Social distinctions may be based only on common utility.” But the distinctions referred to in the Declaration are those of status and political authority, not wealth. Article 2 lists property as one of the “natural and imprescriptible rights,” and Article 17 declares that “since property is an inviolable and sacred right, no one shall be deprived thereof except where public necessity, legally determined, shall clearly demand it, and then only on condition that the owner shall have been previously and justly indemnified.” The Declaration, as historians have often noted, laid the foundations of

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46 Dahl, *Polyarchy*. 
bourgeois republicanism. Feudal titles were no longer recognized and public offices were to be opened to all, but property remained inviolable and inheritable—so much so that the French Assembly disenfranchised not only women but also men employed as laborers, domestic servants, and journeymen artisans—a large section of the populace.47

Later on in the book, Piketty acknowledges that the distinctions that the revolutionaries had in mind were those of status, not wealth, but he argues that the same principle should now be applied to inequalities of wealth and income. There is nothing essential to democracy, however, which requires this adaptation, and even the well-founded belief that democracy requires a strong middle class—one with a high standard of living and equal opportunity for advancement—allows for considerable economic inequality between the majority and a minority of the very wealthy. The gradual evolution in the character and values of democracy opens the question of whether, as a matter of fairness and/or motivation, degrees of wealth and income should be socially determined, but there is nothing inherent in democracy that dictates the answer. Now that the right to vote has been made universal, democracy is based on the belief that all citizens should share equally in political authority, but no democratic constitution has called for a distribution of income by any standard of merit or desert. On the contrary, during the first decades, democracies replaced mercantilism with market economies built on the right to acquire, hold, and exchange private property, a right that was extended in the United States to include slaveholding. Belief in the right of property was especially strong here because it was enshrined in the founding national creed that Louis Hartz called “irrational Lockianism.”48 Tocqueville remarked in 1840 that “in no other country is the love of property keener or more alert than in the United States.”49

In the early and middle decades of the twentieth century, however, after bitter struggles between labor and capital and the shock of the Great Depression, democracies came to accept the view that government had to take major steps to relieve grinding poverty and promote equal opportunity by providing education, banning unjust discrimination, and taxing income and inheritance to create a safety net guaranteeing minimal social welfare. Reformist liberals from Hobhouse in Britain to Rawls in the

49Tocqueville, Democracy in America, 2:638–639.
The United States came to argue that inequality of income is just only to the extent that it betters conditions for everyone. “If the existence of millionaires on the one hand and of paupers on the other is just,” Hobhouse wrote in 1911, “it must be because such contrasts are the result of an economic system which upon the whole works out for the common good, the good of the pauper being included therein as well as the good of the millionaire.”

Rawls provided a variant, proposing that inequality of reward is just because material incentives spur the naturally gifted (the winners of “the genetic lottery”) to produce economic results that yield overall benefit not only to themselves but also to the “least advantaged.” But classical liberals (known as conservatives in America) have never accepted this contention. They believe that apart from the safety net, rewards justly earned are expressions of the equal liberty that democracy is designed to protect and that capitalism works for the benefit of all by promoting economic growth, whereas excessive government regulation, taxation, and welfare spending hamper growth and promote a culture of dependence rather than self-reliance.

THE SYMBIOSIS OF DEMOCRACY AND CAPITALISM

The complexity of the relationship between democracy and capitalism, however, beggars neat ideological formulas. On moral and practical grounds, democracy and the economy are strongly interconnected. The symbiosis between democracy and the market economy that has arisen since the Great Depression and has been reinforced by economic globalization makes the distribution of wealth and income a proper and troubling question for public policy. Liberal democracies are founded on the belief that governments should protect equal liberty—including the liberty to acquire and exchange property. Both liberal democracy and the market economy share moral foundations in individual liberty and the concomitant structural separation of the public sector from civil society. As has often been recognized, the widespread ownership of private property by an educated middle class, with the means to hold governments accountable and to form associations and interest groups to influence policy, is a bulwark of democracy because it checks arbitrary rule and legislation that rides roughshod over major public concerns. Similarly, private prosperity makes possible the existence of nongovernmental media—the fourth estate—that allow scrutiny of government and critical debate.

The symbiosis arises because government exercises important influence over the economy and economic interests in turn affect government policy. Government spending in democracies now accounts for a large part of the economy: “In America government spending increased from 7.5 percent of GDP in 1913 to 19.7 percent in 1937, to 27 percent in 1960, to 34 percent in 2000, and to 41 percent in 2011. In Britain it rose from 13 percent in 1913 to 48 percent in 2011, and the average share in thirteen rich countries has climbed from 10 percent to around 47 percent.” Whole industries have been spawned directly and indirectly by state-supported research and development, including jet aircraft, the computer, satellite communications, and new drugs and medical techniques. A modern economy would hardly exist without state-built and maintained roads, bridges, dams, harbors, airports, and waterways or the measures needed to project, forestall, and remediate natural and man-made catastrophes. The distribution of income and the acquisition of wealth are heavily influenced by a host of government policies and regulatory actions. These policies and actions include, among many others, the use of monetary levers by national banks and international agencies such as the International Monetary Fund to affect the values of currency and the rates of economic growth; the similar use of fiscal policy through government expenditures on public goods; legal protections of intellectual property; subsidies for sectors of the economy won by lobbying; bailouts of companies devastated by bad managerial decisions but deemed “too big to fail”; protective tariffs and nontariff barriers to trade; foreign trade agreements negotiated by governments; the Internet; public investments in infrastructure and education; transfer payments providing universal health care and welfare benefits to the needy; laws to prevent discrimination in employment and to protect the right of employees to bargain collectively; regulations to protect the environment and public health; licensing regulations that affect entry into professions and lines of work; and tax policies that affect employee and executive compensation.

Because of the very breadth and complexity of this relationship between government and the economy, pinpointing the sources of any potential damage to democracy attributable to inequality of wealth, income, and opportunity is hard, and finding remedies is harder still. In Europe, the ideological division over this linkage tends toward the

Social Democratic pole embraced by Piketty, which stresses an expanded welfare state supported by steeply progressive taxation. In the United States, it is reflected in the currently unresolved struggles over the Affordable Care Act and how to reform the tax code to support investments in education, infrastructure, and deficit reduction. Paradoxically, the very inequalities that Piketty finds a threat to democracy stem from the liberal foundations of the modern form of democracy. What makes democracies liberal is that they allow for and respect inequalities and pluralistic groupings that result from the exercise of individual liberty, the universal human right that liberal democracies are pledged to uphold. Democratic voters do not insist that candidates for office must be chosen in the basis of IQ, test scores, or advanced degrees. John Stuart Mill suggested that graduates of Oxford and Cambridge be given double votes, and until the 1950s, they were—but this precedent was followed nowhere else. Whether the electorate is influenced by cultural factors, including ethnic and religious identity, by charismatic personality, or, for that matter, by good looks and a full head of hair, the saving grace of democracy is that voters come to understand that if they do not choose wisely, they will bear the consequences. (Of course, it may be difficult to know which elected official is to be held accountable, and finger-pointing is often the rule.) Successful democratic leaders are those who inspire confidence, whatever their qualifications for office. Still, the representative process is supposed to filter out foolish judgments and allow for the choice of better-qualified champions of the popular will who will translate public interest and expectations into reasonable legislation and action. The judiciary is also supposed to provide a hedge against popular passions and badly crafted laws.

Under modern conditions, however, Piketty’s warnings are especially salient because the higher rewards enjoyed by the owners of capital and the top managers of economic enterprises are not simply outcomes of an autonomous economic system, freed from the shackles of mercantilism, as they once were to a larger extent. Hierarchy has benefits not only in industry but also in many institutions because it allows for gradations of authority and responsibility and for a process of promotion that comes with experience and demonstrated capacity. Competition for rewards is a major incentive for achievement, even if achievement is, at least in part, determined not just by hard work and diligence but also by genetic endowment. Some hierarchy results from voluntary association, as when a church allows a college of cardinals to select the pope or a Protestant equivalent to elect a bishop. The rise in “assortative mating”—the tendency of better-educated men and women to marry each other—has entrenched
inequality. In some instances, families control companies and determine their leadership. In other instances, shareholders, represented by boards of directors, choose executives and reward them according to what are supposed to be industry standards. The problem with economic inequality in business and industry is that the corporate reward structure is insulated from government interference, even though corporate profits are strongly affected by public policy and state action.

REMEDIES: PIKETTY’S UTOPIAN PROPOSALS AND MORE
PRACTICAL APPROACHES
Piketty’s analysis leads him to put forward some proposed remedies, but they are not investigated as thoroughly as the economic data. He calls for “the development of new forms of property and democratic control of capital,” pointing out that there are many areas, including education, health, culture, and the media, in which the dominant forms of organization are intermediate between the public and private. “If democracy is someday to regain control of capitalism,” he proposes, “it must start by recognizing that the concrete institutions in which democracy and capitalism are embodied need to be reinvented again and again.” But the reinventions he mentions are (as he admits) either utopian (a global tax on wealth), limited in scope (a requirement that workers serve on corporate boards), or speculative (such as the design of new economic institutions that would be neither completely public nor private).

Any practical approach to reform must focus on domestic efforts and rest on two key principles. First, economic inequalities should be respected both as expressions of personal liberty and because they provide incentives for risk taking, innovation, and economic growth, but only insofar as they enhance the well-being of all and enlarge the ranks of the middle class on which stable democracy relies. The tax system, along with moral suasion (including calls for corporate responsibility), must be used to ensure that gains from increased economic productivity are widely shared, that burdens are allocated in proportion to wealth and income, and that public goods are adequately supported. Evasions of taxation by resorting to offshore tax havens must be subject to serious penalties. Public expenditures and private philanthropy should strive to ensure equality of opportunity, access to universal education, health care, and a cleaner, safer environment for all.

52Piketty, Capital, 569–570.
Second, wealth must not be allowed to corrupt the political process. Especially in the United States, with its reliance on lengthy, expensive, privately financed campaigns, mainly waged through television advertising, reasonable limits must be imposed on the role of personal and group contributions to political campaigns.

Specifically, potential remedies in the United States—discussed in previously mentioned studies and elaborately outlined in a proposal for “inclusive capitalism” prepared for the Center for American Progress\(^5\) — fall under several headings.

- **Efforts to promote equality of opportunity and social mobility.** These include provisions for universal health care, tax credits for low-income earners, child care for working mothers, maternity leave, preschool education, subsidized college and vocational education, and apprenticeship programs, as well as relief of student loan repayment in exchange for voluntary public service.

- **Efforts to reduce income disparity.** These include linking the minimum wage automatically to rises in the consumer price index or to median employee wages; introduction of profit sharing in corporations, possibly through employee shareholding; shifting corporate wage policy by balancing increasing shareholder value with reward to employees; efforts to promote growth and productivity by educating workers in skills needed for employment in technologically advanced industries and the expanding service sector; encouragement for collective bargaining by expediting elections to decide union representation and punishing corporate unfair labor practices, including coercion of employees advocating unionization; changing tax policy to make the income tax more steeply progressive and lowering or eliminating regressive taxes such as the payroll tax for Social Security and Medicare; negotiating global trade agreements that level the playing field so as balance promote domestic employment with the benefits of free trade and comparative advantage; and better implementation of laws banning racial, gender, and other types of unfair discrimination in employment.

- **Efforts to lessen the impact of great wealth on the political process.** A general restraint might be imposed by a constitutional amendment such as has been proposed by retired U.S. Supreme Court Justice John Paul Stevens: “Neither the First Amendment nor any other provision of this Constitution shall be construed to prohibit Congress or any state from imposing reasonable limits on the amount of money that candidates for public office, or their supporters, may spend in election campaigns.”\(^5\)\(^4\) Other measures might entail automatic voter registration; encouragement of voting, perhaps by making it mandatory; voluntary acceptance of public financing of campaigns; banning political

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advertising on television and radio; and providing publicly sponsored television and radio broadcast time to allow candidates and parties to air policy views and take part in debates.

In sum, whatever the inadequacies of Piketty’s political analysis and policy prescriptions, he has done a major service in assembling the data on economic inequality and warning of its harm to the values and viability of democracy. Fortunately, as he suggests, these effects are subject to correc- tives that democracy itself makes possible.