

Piketty, Meade and Predistribution

For a *Crooked Timber* seminar on Thomas Piketty's *Capital in the Twenty-First Century*
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Thomas Piketty's *Capital in the Twenty-First Century*¹ presents a troubling puzzle for social democrats and for parties of the centre-left, as well as for academics interested in developing a more egalitarian public policy agenda. Supported by a previously unimagined wealth of statistical detail, gained through the archival labour over many years of a large team of researchers, Piketty's book confirms profound concerns about the long-range dynamics of capitalism. Wealth does not naturally disperse down to the many, but sticks to the few, and especially to those who carry the arbitrary advantages of patrimonial inheritance. The facts of inequality are devastating, and come with an accompanying sense of deflation at the level of policy and political action. We may have come to see the grim facts of capitalism's internal dynamics more clearly than ever before, but it is much less clear that we have the tools to cure capitalism's disfiguring disease of accelerating inequality. Hence we see that a common reaction to Piketty's work on the left is one of resignation or even despair. The sardonic good humour and cautious optimism displayed by Piketty himself can seem oddly out of place against the background picture that has been created by his years of ground-breaking research.

The sense that Piketty's book should be seen as a deeply pessimistic one is brought into full focus when we consider the single policy proposal for which he is best known: that is, the idea of a progressive global wealth tax. Such a tax would involve unprecedented levels of cooperation between international tax authorities, alongside a massive shift in the level of detail in reporting the ownership and transfer of both financial and non-financial wealth. Such a proposal sounds like pie in the sky: a wonderful policy if we somehow had a magic wand to change the nature of both the world financial system and of its various (often highly competitive) fiscal systems overnight, but a position inaccessible any time soon from our current circumstances. If we imagine states that could enact the policy that Piketty endorses, then we seem at the same time to be imagining a world in which the concrete problems of unequal power and unequal political influence that are created by large economic inequalities are somehow dissolved. Piketty's hoped-for fiscal fix would seem to involve an impossible act of political bootstrapping.

However, it seems to me that commentators have been too quick both to reduce the implications of Piketty's book to the headline proposals of more aggressive fiscal transfers, and to accuse him of utopianism in putting too much faith in such a solution. Piketty himself is not naïve about the short-run possibilities for a technocratic fix for runaway inequality through the actions of some international fiscal authority, seeing his global wealth tax proposal in strategic terms as a "worthwhile reference point, a standard against which alternative proposals can be measured" (p. 515). Moreover, and more importantly, he also has a more ambitious agenda, speaking of the need for a comprehensive democratic capture of capitalism, in which "the

¹ Thomas Piketty, *Capital in the Twenty-First Century*, (Cambridge, MA: Harvard University Press, 2014).
[All page references, unless otherwise indicated, are to this book.]

concrete institutions in which democracy and capitalism are embodied need to be reinvented again and again” (p. 570). This would involve “the development of new forms of property and democratic control of capital”, with regard to which “new forms of participation and governance remain to be invented” (p. 569).

Piketty is in fact both more ambitious and more realistic than many of his critics give him credit for being. What he proposes in fact is a broad and comprehensive research programme that would involve finding new ways in which the balance between democracy and capitalism can be reset. His extraordinary empirical work shows the background – of increasing inequality, a declining labour share of overall economic returns, and an increased role for patrimonial inheritance, where today’s entrepreneur becomes the *rentier* of tomorrow and “the past devours the future” (p. 571) – against which this research programme will have to develop. Piketty, whose contempt for the “childish passion for mathematics and for purely theoretical and often highly ideological speculation” (p. 32) of contemporary economics is entirely creditable and admirably refreshing, realises full well that this can only be a broad-based research programme across the social sciences, incorporating insights from history, sociology and philosophy as well as economics itself.

Before saying a bit more about where the road from Piketty’s remarkable book should lead, I want first to take a step back, and to discuss the fascinating relationship between Piketty’s weighty volume and an earlier, contrastingly concise book by the economist James Meade. Published fifty years before Piketty’s *Capital in the Twenty-First Century*, James Meade’s 1964 book, *Efficiency, Equality and the Ownership of Property* is an astonishingly prescient book that is centrally concerned with the same problems of inequality that drive Piketty’s work.²

Where Piketty has a team of multinational researchers armed with a wealth of historical data, Meade had to make do with no more than some inspired armchair hunches about the evolution of capitalism, made all the more remarkable by the fact that he was writing at the very high watermark of the *Trentes Glorieuses*, at a time when the labour share of economic returns was high, and inequality was historically low. Gazing into his crystal ball, Meade predicted that the relentless consequence of technological advances would be greatly to increase the productivity of capital relative to labour. He also suspected that (as Piketty and his colleagues went on to demonstrate) inequalities in capital returns between large and small investors would lead to the increasing growth of inequality among the holders of capital. Inequality grows as returns to the savings of the already-wealthy increase much more rapidly than those of more modest savers, even at the same time as the inequality between those with and those without capital holdings grows alongside it, creating a doubled force for divergence.

These twin forces of divergence would lead, Meade thought, to what would be a horrific social outcome, identical in its main features to Piketty’s prediction of a return to a new *Belle Époque*. Meade named his dystopia ‘The Brave New Capitalists’ Paradise’. Here is his vivid description of it:

“But what of the future? ... There would be a limited number of exceedingly wealthy property owners; the proportion of the working population required to man the extremely profitable automated industries would be small; wage rates would thus be

² James Meade, *Efficiency, Equality and the Ownership of Property*, (London: George Allen & Unwin, 1964). For a short general introduction to Meade’s book, see Martin O’Neill, (2015), “James Meade and predistribution: 50 years before his time,” *Policy Network*, 28 May 2015, (part of Policy Network series on *Classics of Social Democratic Thought*), online here: http://www.policy-network.net/pno_detail.aspx?ID=4909&title=James-Meade-and-predistribution-50-years-before-his-time

depressed; there would have to be a large expansion of the production of the labour-intensive goods and services which were in demand by the few multi-multi-multi-millionaires; we would be back in a super-world of an immiserized proletariat and of butlers, footmen, kitchen maids, and other hangers-on. Let us call this the Brave New Capitalists' Paradise.

It is to me a hideous outlook. What could we do about it?" (Meade (1964), p. 33)

Meade's problem – that is, the problem of what could be done to prevent the realization of the Brave New Capitalists' Paradise – is in effect the same as Piketty's problem of how to stop the emergence of a new *Belle Epoque*. Meade's solution to this problem was an intriguing one. He thought that the state should take any reasonable means necessary to prevent this dystopian outcome, pursuing three strategies simultaneously. A single egalitarian aim should be realised by a plurality of egalitarian means. Meade's vision was of a new kind of egalitarian social democracy, using a novel combination of both socialist and popular capitalist institutions to create a society that combined economic dynamism with a huge reduction in economic inequality.

Firstly, the traditional forms of redistribution through the welfare state should be protected, both with regard to transfers to the badly-off and the provision of collective public services. But Meade thought that no strategy that did not address the underlying pattern of ownership and control of *wealth* would go far enough. Public policy could not be concerned only with the flow of income streams, but with the sources of wealth from which they came.

On Meade's view, traditional methods of redistribution simply did not go deep enough, dealing – after the fact – with the symptoms of underlying inequality, rather than providing a more fundamental cure by restructuring patterns of individual and collective ownership within the economy. Only the more fundamental strategy could ensure, stably and in the long run, that the increase in the capital share of national income would be made to work for everyone, and not just for a narrow class of plutocrats. Egalitarian strategy had to be proactive, rather than merely defensive.

Meade's view was that attacking fundamental inequalities of wealth had to involve a double-barrelled strategy, consisting in the creation of a range of private and public institutions and policies, which he brought under the headings of (i) a property-owning democracy and (ii) liberal socialism. Instead of the role of the state being to sweep in as an *ex post* fiscal authority, reallocating the hugely unequal rewards of economic activity, the state's function in shaping the economy should instead be to restructure the rules of the capitalist game from the very start, through these varieties of both private and public forms of what I'll call "capital *predistribution*".³

Meade's property-owning democracy involves, in effect, changing the nature of property rights such that wealth is much less easily transferable across generations, given that it would be subject to high rates of taxation with regard to both inheritance and gifts *inter vivos*. Wealth would be dispersed across the population, with individual capital holdings for all viewed as an entitlement of citizenship, and the use of a myriad of mechanisms that would spread the returns to capital as broadly as possible. Such mechanisms could take a large number of different forms, including

³ See, e.g. Martin O'Neill (2012b), "Predistribution: An Unsnappy Name for an Inspiring Idea," *The Guardian*, 12 September 2012, online here:

<http://www.theguardian.com/commentisfree/2012/sep/12/ed-miliband-predistribution>

and Martin O'Neill and Thad Williamson (2012b), "The Promise of Pre-distribution," *Policy Network*, 28 September 2012, online here:

http://www.policy-network.net/pno_detail.aspx?ID=4262&title=The+promise+of+pre-distribution

“the encouragement of financial intermediaries in which small savings can be pooled for investment in high-earning risk bearing securities; measures to promote employee share schemes whereby workers can gain a property interest in business firms; and measures whereby municipally built houses can be bought on the instalment principle by their occupants” (Meade (1964), p. 59). The goal would be both to spread capital returns widely across society, and to overcome the forces for divergence between larger and smaller investors.

This ‘property-owning democracy’ was, though, just half of Meade’s strategy of (in my terms) “capital redistribution”. The other half – his “Socialist State” – involved the creation of forms of collective, democratic wealth. Meade envisaged the creation of public institutions akin to the sovereign wealth funds that have come to play an increasingly important role in the world economy, such as the Alaskan Permanent Fund or, most impressively, the Norwegian *Statens Pensjonsfond Utland* (SPU), a collective investment vehicle that owns roughly 1% of global equities. Such forms of public and democratic wealth ownership could be used to fund a citizens’ income (as in the Alaskan case), or in any other democratically authorized way that allowed the socialization of increasing returns to capital, and the decoupling of individual life-chances from excessive dependence on outcomes in the labour market.

Unlike John Rawls, whose own influences from Meade are clear even from the names which he gives to different kinds of socioeconomic regime (i.e. property-owning democracy and liberal socialism), Meade did not think that we need to choose *between* private and public forms of capital redistribution (and neither did he think that either strategy was a replacement for the traditional welfare state).⁴ Instead, Meade believed that a more egalitarian future would involve the state doing three things – (i) strengthening the provision of public goods and income transfers through the traditional mechanisms of the social state, whilst simultaneously pursuing capital redistribution in both its (ii) individual and (iii) collective forms. Meade thought that what we need “is a combination of measures for some socialization of net property ownership and for a more equal distribution of the property that is privately owned” (Meade (1964), 71), taken as measures “to supplement rather than to replace existing welfare state policies” (Meade (1964), 75).

It is only now, fifty years after the publication of Meade’s prescient classic, that the full force of his diagnosis of capitalism’s inegalitarian ills is becoming clear. It may also be time to pay more attention to his proposals for how those ills might be cured.

This brings us back to Piketty. In *Capital in the Twenty-First Century*, Piketty describes himself as “following in the footsteps” (p. 582) of Meade (and of Meade’s student and Piketty’s collaborator, Tony Atkinson). When I discussed these issues with Piketty when he came to London at the time of the publication of his book in English, he had this to say about the relationship between his thinking and Meade’s proposals:

“James Meade, just like me, believed that progressive taxation *and* the development of other forms of property relationships and of other forms of governance are complementary institutions. In the book I probably place too much emphasis on progressive taxation, but I do talk about the development of new forms of governance

⁴ See John Rawls, *Justice as Fairness: A Restatement*, (Cambridge, MA: Harvard University Press, 2001), and Martin O’Neill and Thad Williamson, (2012a), eds., *Property-Owning Democracy: Rawls and Beyond*, (Boston, MA: Wiley-Blackwell, 2012) <http://eu.wiley.com/WileyCDA/WileyTitle/productCd-1444334107.html>. For discussion of the relationship between Rawls and Meade, see Martin O’Neill, (2012a), “Free (and Fair) Markets without Capitalism: Political Values, Principles of Justice and Property-Owning Democracy,” in O’Neill and Williamson, eds. (2012a).

and property structure, but probably not sufficiently. So I agree with that – that can be for volume two!”⁵

Along the same lines, in his recent *Journal of Economic Perspectives* article, “Putting Distribution Back at the Center of Economics: Reflections on *Capital in the Twenty-First Century*,”⁶ Piketty has returned to what one might describe as the unwritten, Meadean parts of his argument for institutional change to combat inequality:

“I may have devoted too much attention to progressive capital taxation and too little attention to a number of institutional evolutions that could prove equally important, such as the development of alternative forms of property arrangements and participatory governance.” (Piketty, 2015, p. 87)

What Piketty’s painstaking empirical work has shown is that the besetting problems of inequality that worried James Meade are as bad as Meade had feared. These tendencies towards shocking levels of inequality constitute a deep challenge to the legitimate continuation of capitalism in its current form, and will need to be addressed urgently in the years ahead. Contrary to the occasional misreporting of Piketty’s forward-looking views, it is no part of Piketty’s view that we can rely on a simple technocratic fiscal fix to solve the problems ahead of us. Mechanisms of redistribution will not be sufficient, but will have to be supplemented by more radical forms of *predistributive* institutional innovation.

If solutions to the problem of inequality are to be as radical as reality now demands, what is instead required is a reimagining of what would be involved comprehensively to tame capitalism through democratic means. This will involve much further development of the kind of plurality of institutional and policy proposals sketched by Meade, and will involve both the private *and* public – individual *and* collective – forms of capital predistribution that Meade advocated. Piketty, like Meade, sees the need for *both* redistribution *and* predistribution, and both see that the institutional means necessary to create a more equal society will involve pursuing a plurality of parallel paths. It is closely in keeping with the spirit of Piketty’s *Capital* that the political and intellectual agenda ahead will be one that economics on its own cannot hope to encompass. It’s a vital agenda, with high stakes, and presents challenges to both academic researchers and political activists. On the success of this endeavour depends nothing less than the prospects for legitimate continuation of our economic system.

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⁵ See Martin O’Neill and Nick Pearce, (2014), “Juncture Interview: Thomas Piketty,” *Juncture*, 21 (1), 4-11, at p. 9. Online at: <http://www.ippr.org/juncture/juncture-interview-thomas-piketty-on-capital-in-the-twenty-first-century>, and Thomas Piketty, Martin O’Neill and Nick Pearce, (2014), “Interview: Inequality and What to Do About It”, *Renewal: a Journal of Social Democracy*, 22 (3-4), 101-15, at p. 108. Online at: <http://www.renewal.org.uk/articles/interview-inequality-and-what-to-do-about-it>

⁶ Thomas Piketty, (2015), “Putting Distribution Back at the Center of Economics: Reflections on *Capital in the Twenty-First Century*,” *Journal of Economic Perspectives*, 29 (1), 67-88