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THE PIKETTY PHENOMENON: WHY HAS *CAPITAL* BECOME A PUBLISHING SENSATION?

Robert H. Wade

Two gentlemen relax in mahogany-panelled clubland. One says to the other, looking up from his newspaper, "The poor are getting poorer, but with the rich getting richer it all averages out in the long run" (*New Yorker* cartoon, Mirachi 1988).

Thomas Piketty's book *Capital in the Twenty First Century* was published in its English translation in March 2014. As of April and May 2014 the book hit number one on Amazon's best-seller list (including fiction), beating out Lynn Vincent's *Heaven is for Real: A Little Boy's Astounding Story of His Trip to Heaven and Back*, and Erlend Blake's *Never Work Again: Work Less, Earn More and Live Your Freedom*. BookData reports that UK sales in the eight weeks following late April were 14,445. The Economists' Bookshop, next to the London School of Economics, says it has never sold so many non-fiction hardbacks in the first months of publication. The nearest competitor is Steven Hawkings' *A Brief History of Time*, from 1988. Yet Piketty's is no bedside reading: its 685 pages weigh 1.1 kilos, qualifying it for dual use in universities and gyms. An economist friend who mentioned his occupation to his London taxi driver was surprised and pleased to be asked whether he had read this book by a Frenchman named Piketty. A sure sign of a phenomenon.

Its success makes that of the earlier, slimmer (only 330 page) book about the *costs* of inequality, Richard Wilkinson and Kate Pickett's *The Spirit Level: Why More Equal Societies Almost Always Do Better*, look almost modest. *The Spirit Level* has sold "only" between 250,000 and 300,000 copies in 24 languages since publication in 2009. The publicity storm around *Capital* will die down; the question is whether the book will remain in the pantheon or disappear when – if – robust economic growth returns.

How can we explain the book's astounding success, which took the publishers, Harvard University Press, by surprise? One obvious reason is a slew of extravagant reviews, some extravagantly favourable, others extravagantly hostile. Martin Wolf of the Financial Times, one of the most influential economic commentators in the (English-language) world, described it as "an extraordinarily important book" (2014a). Paul Krugman, Nobel laureate in economics and columnist for the New York Times, hailed it as "awesome", "truly superb", "the most important book of the year – and maybe of the decade" (2014b). John Cassidy in the New Yorker said, "Piketty has written a book that nobody interested in a defining issue of our era can afford to ignore" (2014). Other reviewers trashed it. Clive Crook's review on BloombergView was titled "The most important book ever is all wrong" (2014a). Allister Heath's in The Telegraph described it as "horrendously flawed" (2014).

Why is the book so compelling to reviewers and the reading public? Here I give several reasons. First, the book makes a carefully documented frontal challenge to the long-dominant side of the inequality debate, which says that inequality is not a problem for public policy attention (Wade 2007, 2011). Second, inequality of income and wealth had already become a controversial subject, especially since the Great Crash of 2008; so the ground for the book's uptake was already prepared. Third, it clarifies, objectifies, legitimizes and provides a kind of catharsis for middle-class anxieties surging since the Great Crash. Finally, the book is in important ways reassuringly conventional in its analysis and prescriptions, and so is less threatening to familiar ways of thought. At the end I discuss the future of inequality.

The book challenges dominant beliefs about elites and inequality

Leading politicians have long extolled inequality. Prime Minister Thatcher assured her public, “It is our job to glory in inequality and to see that talents and abilities are given vent and expression for the benefit of us all”. Prime Minister Blair, of the Center-left, told his interviewer: “If you end up going after those people who are the most wealthy in society, what you actually end up doing is in fact not even helping those at the bottom end.”

One of the US’s two main political parties has long been committed to defending the interests of the wealthy over those of ordinary families. The biggest tax cuts presided over by President George W. Bush were on income from investments and on heirs to large fortunes: the top rate on dividends fell from just under 40% to 15%, and the estate tax was eliminated. The Republican tax plan during the second Obama administration would enable someone living off investment income to pay no federal tax at all.

Bernard Arnault, CEO of the French luxury group LVMH, said to be the 10th richest person in the world, boasted in 2000, “Business, especially international ones, have ever greater resources, and in Europe they have acquired the ability to compete with states.... Politicians’ real impact on the economic life of a country is more and more limited. Fortunately” (quoted in Halimi 2013).

Most economists, to the extent they think about inequality at all, have argued that inequality-reducing policy measures beyond modestly progressive taxes and help for the poor are unnecessary and even harmful to social well-being. "The market" will ensure inequality tends to stabilize at a level which appropriately balances social costs and social benefits, whatever they may be. That level will reflect the necessity of inequality as a source of incentives for effort and creativity, from which society benefits; and it will respect the freedom of individuals to make contracts as they wish (within the law), from which society also benefits.

In developed countries, according to this belief, the share of labour income has been roughly constant for decades; so as economic growth occurs, the earners of labor income share proportionately in the gains, together with the earners of income from ownership of assets. "A rising tide lifts all boats", and "studying changes in income distribution is like watching grass grow".

In developing countries, the high level of income and wealth concentration seen in countries like China, India, Brazil, South Africa -- much higher than in developed countries -- will tend to subside "by itself", through the workings of the market, urbanisation and social mobility. This is known as the Kuznets argument.

Willem Buiter, former professor of European economics at the London School of Economics and currently chief economist, Citigroup, expressed the prevailing nonchalance when he announced, "Poverty bothers me. Inequality does not. I just don't care" (2007). The Nobel Prize economist Robert Lucas was more aggressive: "Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion, the most poisonous, is to focus on questions of distribution" (2004). Earlier the famous neoliberal economist Ludwig von Mises declared his love for the anti-egalitarian, anti-democratic message of Ayn Rand's *Atlas Shrugged*. He wrote to Rand in 1958, "You have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your conditions which you simply take for granted you owe to the efforts of men who are better than you" (quoted in Frank, 2012: 147).

Economists and other social scientists tend to study "problems". Issues not studied tend to be seen as "natural". "Poverty" and the "poor" are problems, the subject of a vast social science literature. Inequality, income concentration, the behaviour and influence of the super-rich tend to be treated as part of the natural order of things, not in need of social science attention. We have a "poor economics" but no "rich economics".

Piketty challenges this corpus of beliefs in an easy-to-read but authoritatively scientific way. His central point is that viewed over centuries income and wealth have tended to concentrate in the top few percentiles of the population; and there is no self-equilibrating mechanism to reverse the trend.

The long term trend has been checked from time to time by some combination of (a) wars, depressions, hyperinflations, (b) highly progressive tax rates, and (c) high growth of productivity and population. The first two have lowered the rate of return on capital ownership; the third has raised the rate of economic growth and so raised the rate of growth of average incomes.

The middle decades of the twentieth century, from the 1930s to the 1970s, were an exceptional period of inequality decline in the West, thanks to these forces. But in "normal" conditions, including the period since the 1970s, the tendency to rising inequality re-emerges. The owners of capital (broadly defined, to include land, real estate, as well as factories and financial assets) accrue a rising share of national income, the suppliers of "labour" accrue a falling share. Piketty suggests that many developed economies in the past few decades have been moving up towards (but remain some way short of) levels of income and wealth inequality last seen in the early twentieth century. He further suggests that the much higher levels of inequality in today's "emerging markets" will persist rather than subside unless strong policy measures are taken to rein them in or unless they experience wars, depressions or hyperinflations.

Moreover, Piketty's and other data show that income and wealth concentration typically increases the higher the position in the hierarchy: within the top 1% of the population the top 0.1% have a disproportionately large share; within the top 0.1% the top 0.01% have a disproportionately large share. This pattern fits Zipf's Law, which characterizes not just income distributions but also city size distributions, word frequency distributions, and more.

Why does income and wealth concentration increase the higher towards the top? One reason is that the rate of return on fortunes *increases* with the size of fortunes. Another is inheritance, as fortunes are passed from generation to generation -- fortunes not just in material assets but also in the self-confidence learned from being brought up as a superior in social hierarchies. Piketty draws on the novels of Jane Austin and Balzac to show how inheritance dominated income distribution – and marriage strategies -- in the eighteenth and nineteenth centuries.

The upshot is that money begets money, and the more money there is, the more begetting ensures (Henwood 2014). In Piketty's phrase, "The past devours the future". The future may see a return to the "patrimonial capitalism" of the eighteenth and nineteenth centuries, in which income distribution is substantially shaped by the distribution of inherited wealth. This is a society at complete variance with understandings of the good society shared across most of the western political spectrum today.

However, Piketty's data show that Northwest European countries and Japan have experienced much less increase in concentration at the top than the US, UK and other Anglo countries (together with tiny Iceland: Wade and Sigurgeirsdottir, forthcoming). In the former, incomes of the middle class and the poor have increased faster than in the Anglo countries, while their economies grew more or less as fast and levels of material well-being for ordinary people kept pace.

From this we can conclude, first, that the trend towards rising concentration is not quite as hard-wired into capitalism as most (but not all) of Piketty's book says. Policies, institutions and politics – which are all changeable -- have more of a role in income distribution than the more fatalistic passages in the book say. Second, more equal economies are not necessarily less dynamic, and more unequal economies are not necessarily better at raising mass living standards, contrary to mainstream thinking. In other words, Anglo levels of income concentration are not necessary for a well-functioning society.

That being said, pointing to Europe as a place of significantly lower income and wealth concentration than the US raises a data problem. Gabriel Zucman's new research suggests that the fraction of European wealth hidden away in tax havens is substantially higher than the fraction of American income and wealth, which reflects higher rates of tax on top incomes and capital gains in Europe and therefore a stronger incentive for concealment. So European income and wealth concentration may be relatively higher than the tax return data suggests, as compared to the corresponding adjustment for the US. Zucman finds that the overall numbers for income and wealth concealment are huge – around 8% of global wealth of households is held in tax havens, most of it unrecorded, and most of it owned by residents of developed countries, especially Europeans (Zucman 2013).

As Zucman's findings suggest, one can raise plenty of queries (nit-pickettys) about Piketty's data, especially about trends in wealth concentration, which is the most original part of the data set. Indeed, *The Financial Times* launched a frontal assault on Piketty's main conclusions, saying in an editorial that errors and data problems "seem to undermine his conclusion that wealth inequality is rising in the US and Europe", "undermine his thesis that capitalism has a natural tendency for wealth to become ever more concentrated in the hands of the rich", "question his finding that the holding of wealth by the rich in Europe has increased since 1980" (Financial Times, 2014). However, the *Financial Times* conclusions have been substantially rejected by former World Bank economist Branko Milanovic, who knows as much about the data as anybody and has worked independently of Piketty (Milanovic 2014, 2011). A re-analysis of Piketty and the *Financial Times* comes to conclusions close to Piketty's and far from the *Financial Times'*. It turns out that the *Financial Times* did not make allowances for several changes in the methodology used to measure wealth distribution in Britain over time (related especially to the difference between tax return data and household income survey data, the latter underestimating income and wealth at the top by even more than the tax return data). So it took at face value – without adjusting for the methodology changes – that the wealth share of the top 10% in the UK did fall, *in reality*, by 12 percentage points during the 1970s and by another 11 percentage points in 2005-06. Piketty made the adjustment for the changes in methodology, and found a much higher wealth share in the top 10% (Elliott 2014). The *Financial Times* emerges with a bloody nose, having also ignored its own coverage of other indicators of income and wealth concentration, such as soaring prices of high-end real estate, booming market for luxury goods, and bubbling market for equities. In May 2014 Christie's contemporary art auction in New York returned the world's highest ever auction total for one day: $744mn; enough to build several schools and hospitals (Barker 2014).

Some conservative critics dismiss the *future* relevance of the trends, on two grounds. First, the current intense spurt of technological change (internet, mobile telecoms, digital economy) will accelerate economic growth in the West to the point where growth stays above the rate of return to capital; and this will drive income and wealth concentration down "by itself". Second, the whole world economy will grow faster thanks to developments in the "emerging markets", and this too will help to keep the concentration of income and wealth down. The message is, "this time is (or will be) different" (Worstall 2014). We have heard this message during every boom, and insistently between 2000 and the Great Crash of 2008.

Inequality became a heated topic after 2008

So Piketty's findings challenge the conventional wisdom. But the challenge on its own cannot explain the book's success, because his broad findings are not new. Sharp increases in inequality in developed countries since the late 1970s, especially in the United States but also in other Anglo countries (including New Zealand: Rashbrooke 2013), have been well documented by others, though less comprehensively and without much data on wealth as distinct from income. They include Larry Mishel and co-authors at the Economic Policy Institute in

Washington DC, who have documented rising income inequality in the US in periodic publications since 1988. James K. Galbraith and colleagues at the University of Texas, Austin have used data on wages to examine trends in distribution since the 1960s, in developed and developing countries. Their findings, too, have been readily accessible for decades. Likewise Anthony Atkinson's research at Oxford and Gabriel Palma's at Cambridge. The popular Nobel Prize-winning economist Joseph Stiglitz drew on a lot of existing evidence of fast-rising inequality for a recent book, *The Price of Inequality*, published in 2012; but it did not take off in the way that the publicly-unknown – and French, not Anglo -- Piketty's has. With these and other cases in mind I published an essay in 2012 called "Why has income inequality remained on the sidelines of public policy for so long?" (Wade 2012; also Wade 2014).

Timing matters. Had the book been published before 2008 it would have been much less successful. So the second reason for *Capital's* success is that inequality and concentration had already become controversial – had risen up the public and political attention cycle – by the time of its publication in early 2014. Many Americans, who used to dismiss concern about inequality as "the politics of envy" -- something that only status-conscious Europeans worried about -- were stung by the excesses of Wall Street and dismayed that they could no longer borrow against rising house prices; and began talking of inequality more negatively than for decades. President Obama declared inequality to be "the defining challenge of our time" (Obama 2013). Pope Francis identified it as a problem facing the world, as in his tweet that "inequality is the root of social evil" (quoted in Brown 2014). The World Economic Forum's panel of global risk experts ranked "severe income disparity" as the second equal global risk over the next decade (World Economic Forum 2012). The Occupy Protests framed the issue as the "top

1% vs. bottom 99%", as they occupied key sites in nearly a thousand cities in more than 80 countries in 2011-12 under the banner of "We are the 99%".

The wealthy hit back, furious at this questioning of their role in society as job creators for the common good, innovators for social betterment, and problem-solving philanthropists (Konczal 2014). Prominent Wall Streeters accused President Obama of "demonizing" and "persecuting" the rich. Stephen Schwarzman, CEO of Blackstone Group (an American multinational private equity firm), declared that proposals to eliminate tax loopholes for hedge funds and private equity managers were "like when Hitler invaded Poland in 1939". Venture capitalist Tom Perkins wrote to *The Wall Street Journal*, "I would call attention to the parallels of Nazi Germany to its war on its 'one percent', namely its Jews, to the progressive war on the American one percent, namely the 'rich'" (both quotations in Krugman 2014a). A sizable section of the American public supported the wealthy in their push back, out of anti-government sentiment. The Tea Party insurgency – financed largely by billionaires -- preached that government measures of progressive taxation and social protection undermined the moral fabric of society, by enabling some to free-ride on the hard work and creativity of others. By 2010 Friedrich von Hayek's *The Road to Serfdom* stood at 241 on the Amazon best-sellers list, exceptional for a book first published almost 70 years before. It was propelled to these heights by conservative media advertising it as a guide to what the Obama government was trying to do to America through its efforts to reduce the great divides in access to health care, health status and life expectancy (Farrant and McPhail 2010).

The book clarifies, objectifies and legitimizes middle-class anxieties post 2008

The third reason for *Capital*'s success is that it objectifies and legitimizes the unease and anxiety that have pervaded large swathes of western societies since 2008. And crucially, it does so from within a conventional capitalist discourse; Piketty is not an outsider, a member of a heterodox sect who can easily be dismissed. This is similar to what a psychotherapist does – help people to recognize that their experiences and feelings are legitimate.

One indicator of mood is the Conference Board poll which asks respondents whether business conditions are good or bad. From January 2008 to May 2014 – *76 consecutive months* -- more people said bad than good. In June 2014 the balance changed, but by a margin so tiny it could easily be reversed when the final June figure is released (Norris 2014). In Britain the Labour Party since 2012 has campaigned under the banner of "the cost of living crisis", meaning the long stagnation of middle-class incomes, uncertain career prospects for middle-class children, and job growth biased to internships and minimum-wage activities (the "precariate").

The World Economic Forum's *Global Risks 2012* reports, "On an unprecedented scale around the world, there is a sense of receding hope for future prospects. Gallup polling data in 2011 reveal that, globally, people perceive their living standards to be falling, and they express diminishing confidence in the ability of their government to reverse this trend. This discontent is exacerbated by the starkness of income disparities" (2012: 18).

Rage against the rich is the other end of the post-2008 zeitgeist, fuelled by daily revelations of corporate wrongdoing combined with immense personal enrichment and immunity from prosecution. The astounding bottom-line figure has become well known: in the period 2009 to 2012, 93% of the increase in US national income accrued to the top 1% -- this in a stable democracy rather than a kleptocracy like Equatorial Guinea (Klitgaard 1991).

Anger and anxiety around living conditions feed into a concatenation of other sources, including immigration, obesity, failing public health services, failing public schools, failed financial re-regulation, unaccountable governments, dead-end Congress, weird weather, climate change, globalization, terrorism, Islamic threat, and “rising powers” challenging western hegemony. Every day wakes with another intake of news that the fabric of peace and hierarchy around the world is fraying.

In the US only 36% of respondents in 2011 said economic globalization is a positive development, down from 60% in 2001. A Gallup poll in 2011 asked respondents in many countries the question, “Does globalization bring more problems than it solves?”. In Western Europe, 59% agreed or agreed strongly; in Asia and Pacific, 64% agreed or agreed strongly.

In this context *Capital* has the appeal of a dystopian novel like *Nineteen Eighty Four* and *Brave New World*, by indicating the destination we are headed for if we do not change now. In that future the wealthy lift off from the rest of society and perpetuate their wealth from generation to generation like the nobility of former eras. Capitalism mutates into “patrimonial capitalism”; democracy mutates into “plutocratic democracy”.

Then, having painted a dystopian future, the book ends with catharsis: an escape route to a more fair and stable world. The trend of rising concentration at the top is not destiny; it can be changed by political choices, short of wars, depressions, and Apocalypse. The past need not devour the future.

Piketty’s main proposal – a global wealth tax – is easily dismissed as utopian. *The Economist* rejects it with “Mr Piketty’s focus on soaking the rich smacks of socialist ideology, not scholarship” (Economist 2014). But it is not as utopian as might be thought at first glance. The US government taxes citizens wherever they live and work in the world. In recent years the government has elicited “cooperation” (with the help of thumbscrews) from several key foreign jurisdictions, notably Switzerland, to comply with US standards and hand over bank details of American citizens. A global wealth tax could build on this cooperation (Crook 2014b). A necessary condition is a global registry of wealth similar to land registries, which countries have had for centuries. Recording who owns the world’s equities and bonds would make tax evasion a lot more difficult (Zucman 2013).

Also, national governments could feasibly do more to tax wealth than at present without waiting for international cooperation across tax jurisdictions -- and then cut income tax or value-added tax (Morgan and Guthrie 2011). For example, the UK tax system presently encourages people to own big houses, because high value houses are taxed (by Council Tax) much less as a proportion of their market price than cheap ones (Dixon 2014). It would be quite feasible for the government to levy a flat percent of the price of the house; or at least place an extra levy on Council Tax for houses owned by “non-doms” who live in the UK but are not domiciled for tax purposes. The property taxes on the $20 million London house of New York City’s former mayor, Michael Bloomberg, are a mere $3,430 a year. The government should also place an extra levy on empty properties, which currently enjoy a Council Tax *discount*. The latter is particularly egregious, because – in wealthier parts of London – houses and apartments have become a place for the world’s super-rich to park their money at an annual rate of return of 10 percent, rather than a place to live. The minimal tax paid by those treating real estate like a global reserve currency gets reflected in failing public services, including a school capacity shortfall in London projected to be 90,000 places by 2015 (Goldfarb 2013).

However, the focus on wealth distribution does miss an important point. If we take Piketty's figures at face value and put aside Zucman's evidence on income and wealth concealment, then only about a third of the income of the top 1% (in US) is capital income; two thirds is "labor" income – eg super-salaries and super-bonuses. Trends in market income distribution (before tax) are driven more by the determinants of labor income distribution than wealth distribution, so far. Remedies for soaring income concentration have to tackle labor income concentration, which is not directly hit by wealth taxes.

The book remains reassuringly conventional

A fourth reason for the book's success is that its basic "lens" or paradigm is reassuringly conventional. If the book had been called *Capitalism in the Twenty First Century* it would have been less successful, for "capitalism" easily links to Marx while "capital" is a word in everyday and generally positive use. Even so, when a top-level executive of Deutsche Bank in London entered the office of a researcher and spotted *Capital*, he spat out, "Regurgitated Marxism!", leaving the researcher convinced he should not be seen around Deutsche with the book in hand (personal communication, June 2014).

It is conventional in two basic ways. First, like neoclassical economics in general, it concentrates on income and wealth distribution and says little about production – about the structure of power relations in the world of employment, notably between the owners and managers of capital and the rest. But one does not have to be a Marxist to see that these power relations in production are a prime cause of pre-tax income distribution. Second, to the limited extent that Piketty tries to *explain* income and wealth distribution he uses a fairly standard neoclassical marginal productivity explanation for distribution below the top one percent (and a power-based "grab everything you can" explanation for the latter). Thomas Palley comments, "That [the mostly neoclassical framing] creates a *gattopardo* opportunity whereby inequality is folded back into mainstream economic theory which remains unchanged" (2014). *Gattopardo* refers to the famous line in *The Leopard*, "For things to remain the same, everything must change".

Piketty's re-distribution policy solutions – including a wealth tax -- are also of a comfortingly conventional neoclassical kind (though they call for a much stronger redistribution of market income than has been achieved through current rates of tax progressivity, wage subsidies and social assistance). Had Piketty emphasised "pre-distribution" – changes in institutions and policies to make *pre-tax* income distribution less unequal, including in corporate governance law and trade union law -- he would have been seen as more radical, more threatening, more marginal (Baker, 2011).

The future of inequality

It is striking that in the course of more than 600 pages Piketty devoted almost no attention to *why* inequality matters. That would mean asking questions like: when (using what criteria and evidence) are the rich too rich, and when do the social costs of reducing their share outweigh likely social benefits?

For reasons suggested earlier, these have been largely taboo topics. But very recently researchers in the International Monetary Fund – a pillar of global orthodoxy – have published findings about the *macroeconomic costs* of inequality (Ostry et al. 2014), findings which Martin Wolf of the Financial Times describes as "strikingly clear" (2014b). First, countries with higher inequality tend to experience lower and more volatile growth; countries with lower inequality tend to experience higher and less volatile growth, other things being equal. Second, there is little if any trade-off between redistribution and growth; so the growth costs of redistribution measures (like higher taxes) are typically less than the growth benefits of lower inequality.

The implication of the IMF's and other evidence is that current levels of inequality in the Anglo countries make it difficult to achieve adequate economic growth *with financial stability* (unless by the unsustainable German route of repressed wages plus large export surpluses). High and rising income concentration generates savings glut at the top and underconsumption lower down. Governments are constantly tempted to engineer credit and asset booms. So credit remains too cheap and debt remains too high, and central banks become reluctant to damage the debt-heavy economy by tightening monetary policy. Meanwhile fiscal tightening is hobbled by political paralysis. When the boom turns to bust, governments and central banks are aggressive in trying to ease the ensuing hangover with loose monetary policy. But the bust is likely to usher in a "balance sheet recession", as in Japan through the 1990s and 2000s and much of the West since 2008. Balance sheet recessions are very difficult to escape from, because the chief objective of households and corporations becomes to pay down debt; so private demand shrinks and monetary policy becomes ineffective. It can take years for the deleveraging process to be complete enough for economic growth to resume without riding on the back of more borrowing and still more financial instability. As *The Financial Times'* Wolfgang Munchau says about Europe gripped by a balance sheet recession (which very low interest rates have not cured), "The most likely trajectory is a long period of slow growth, low inflation, and a constant threat of insolvency and political insurrection" (2014:13).

As well as the economic costs we also have the evidence on *social and health* costs analysed in Wilkinson and Pickett's *The Spirit Level* (2009). As for *political* costs, American political scientists have found a startlingly high degree of "representational bias" or "representational inequality" in recent US politics. Martin Gilens summarizes: "Under most circumstances, the preferences of the vast majority of Americans appear to have essentially no impact on which policies the government does or doesn't adopt" (2012:1). More specifically, when the preferences of the wealthy differ from those of the general public (on economic, financial, social welfare issues), public policy reflects the preferences of the wealthy, except in rare moments of radical social movements, such as the two "big bangs" of US social welfare policy in the 1930s and 1960s. Research across European countries also finds a high degree of representational bias in favour of the wealthy. But it is typically less than in America, the difference reflecting more public financing for candidates, parties and media in Europe and therefore somewhat lower dependence on private donors (Rosset et al. 2011; Mandle 2004).

On both sides of the Atlantic we seem to be caught in a vicious circle, such that economic inequality generates political inequality of party and governmental responsiveness, leading to policies which favour the wealthy and disfavour poorer citizens, most of the time

(Bartels 2008; Hager 2009). Long ago Louis Brandeis (justice of the US Supreme Court from 1916 to 1939) expressed the same insight: "We must make our choice. We may have democracy, or we may have wealth concentrated in the hands of a few, but we can't have both."

The effect is to reinforce institutional arrangements which keep sluicing pre-tax incomes upwards, often by enabling interlocking elites to create self-serving arrangements for themselves. Think of the elite networks of Wall Street, Washington, big agriculture, big energy, big universities (Brooks 2014; Wedel 2009).

Moreover, these privilege-protecting networks extend well beyond national boundaries, and coordinate national politics to advance transnational elite interests in high profits and low taxes. The "mega-regional" trade deal currently under negotiation called the Transatlantic Trade and Investment Partnership (TTIP) is a case in point. Corporations on *both* sides of the Atlantic, including European giants like Siemens and France's Veolia, are pressing for new privileges to take direct action against states that dare to threaten their profits by protecting employment, the environment and health rights. The deal is intended to strengthen the ratchet under corporate profits; to boost western business' "ability to compete with states" and limit "politicians' real impact on the economic life of a country", to use Bernard Arnault's approving words.

Another part of the same syndrome of political effects is that tax avoidance and wealth concealment have become socially quite acceptable in elite circles. Very rich people at London dinner parties boast that they pay virtually no tax anywhere; and tax lawyers at London dinner parties boast that they can ensure this result with no risk of penalties (personal communications, June 2014). They are entirely untroubled by the social implications of their actions.

For all the recent national and global attention to inequality (Obama's "the defining challenge of our time"), the chances that something significant will be done to curb it are not high. The policies and institutions of the post-war decades which helped to drive inequality down – including high upper-bracket tax rates, laws protecting trade union bargaining power, financial sector constraints, capital controls -- could not have happened without *elites being deeply fearful* of mass unrest, based on fresh memories of the Depression and war, strong trade unions, and the Soviet Union providing an apparently plausible alternative to capitalism. As these fears waned, higher capital mobility generated competition between jurisdictions to offer favourable conditions, including "light touch" regulation, anti-union laws, pro-CEO-remuneration laws, and lower income and inheritance taxes.

To the extent that western elites after the 1970s referred to inequality as a problem, they domesticated it as "poverty"; reducing inequality meant reducing poverty. The middle-class professionals who staff the commentariate, the higher offices of state and the agenda-setting organizations like the OECD, the IMF and the World Bank are comfortable talking about helping "the poor", "the other"; and all the major religions, as well as secular humanist philosophy, enjoin help for "the (deserving) poor". Compressing the whole income distribution cuts much closer to home. We are anxious that inequality could point to people like us as part of the problem rather than the solution. We are anxious that reducing inequality might mean taxing us and lifting up those not far below us in the hierarchy, reducing the gap – threatening our status.

This helps to explain why centre-left parties made a tactical choice not to emphasise the dangers of rising inequality. In the words of Roger Liddle, one of the principal strategists of the British New Labour Party,

"In the mid-1990s, the leaders of New Labour made a fundamental policy choice. In government [they had been out of government since 1979] they would not explicitly prioritise a lessening of inequalities between top and bottom. Instead their social justice priorities would be to tackle poverty, worklessness and economic and social exclusion.

Several reasons were clearly important in Labour making this choice.... [First, a sense] that intellectually Thatcherite neoliberalism was triumphant, and that the post-war welfare state consensus had irretrievable broken down and could only be rebuilt on a basis that incentivised (and did not penalise) hard work at all levels of society.

[Second], New Labour ... seized on the discourse of globalisation to provide a deeper intellectual rationale.... New Labour portrayed globalisation as an inexorable force of nature beyond political control – making irrelevant old egalitarian and interventionist social democratic responses and requiring a thorough rethink of the means of achieving social justice, if not a redefinition of its goals" (2007: 2).

But it was not just a matter of tactics. Leading centre-left figures really did believe in a moral society similar to that of conservatives: one in which, to quote two British theorists of the "Third Way", "the key to justice as fairness can be seen in terms of the procedural securing of *opportunities* rather than a substantive commitment to patterned relative *outcomes*" (Buckler and Dolowitz, 2000, emphasis added).

Another leading intellectual on the British centre-left, Will Hutton, likewise defines "fairness" as rewarding individuals in proportion to the amount of discretionary effort they deploy to achieve socially useful results, provided they actually achieve them. The aim of a centre-left government should be to make access to riches dependent on “talent, effort and virtue”, as distinct from making outcomes more equal (Hutton 2010).

For all that it has been vital to the center-left’s defence for ignoring inequality of outcomes, the distinction between achieving more equality of opportunity and more equality of outcomes falls down at the first nudge. Children of wealthy parents have far wider market opportunities than children of poor or middle-class parents, through multiple channels (Summers 2014; Boucher 2013).

All governments, including democracies, tend to fail in response to problems which have the clear potential of becoming catastrophes at some point beyond the next election. The stuttering responses to climate change and human and animal resistance to antibiotics are cases in point. So too is the response to rising inequality.

The key lesson from Piketty’s book is that, at present and likely future levels of income and wealth concentration, capitalism is losing its core claim to legitimacy, namely, that it incentivizes hard work and entrepreneurialism while it provides a floor of social protection to those towards the bottom end of the income scale. To generate the necessary political will in favour of curbing inequality we must re-frame the very way we discuss the role of state and market. Prevailing narratives use “deregulation” to mean more free market and “regulation” to mean more state. Even people on the Left use this framing, as in “We need regulation to curb the dangers of free markets”. In fact, the issue is not regulation or deregulation, because there is no such thing as a free or unfettered market. The issue is whether to regulate market society in line with broadly shared social values or regulate market society in line with the preferences of the wealthy sliver. Talk of "deregulation" is a smoke-screen; it conceals state actions (policies and institutions of the "pre-distribution" kind) which directly and indirectly drive money up. Not just the Left but also conservatives of the "one-nation" kind should be able to agree on this reframing. END

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