Thomas Piketty in Sydney: Data on social inequality, but no solution

By Nick Beams
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A public lecture by French political economist Thomas Piketty, “Is Increasing Inequality Inevitable? Reflections on Capital in the 21st Century,” delivered at the Sydney Opera House on Sunday, was a study in contrasts. In the course of his presentation, Piketty presented a powerful array of figures drawn from his best-selling book of 2014, as well as important new information on the growth of income and wealth inequality compiled since the book’s publication.

The lecture was chaired by Australian Labor Party frontbencher Andrew Leigh, a specialist in the economics of inequality before his entry into parliament.

Despite the wealth of vitally important data, however, there was a paucity of scientific historical and political analysis, particularly on the crucial question of how ever-widening inequality, both on a global scale and within each country, can be overcome.

The packed audience in the concert hall, which has a seating capacity of around 2,500, and its cross-generational composition indicated intense and widespread interest in growing social inequality and a striving for a political perspective to counter it. But as far as the latter was concerned, the audience left empty-handed.

Piketty’s outlook is shaped by his attempt to steer a course between what he characterises as the “apocalyptic” vision of Marx—that the economic contradictions of capitalism give rise to its breakdown and the eruption of social revolution—and what he has termed the “fairy tale” version of history advanced by the Ukrainian-American economist Simon Kuznets. In his 1950s study, Kuznets argued that the advance of industrial capitalism brings a lessening of income and wealth inequality.

Presenting data for the United States, the source of some of his most detailed statistics, Piketty showed that the graph of wealth and income inequality assumes a U-shaped curve, starting from high levels at the turn of the 20th century, falling in the 1930s, flattening out in the 30 years following World War II, and rising sharply again from the end of the 1970s.

It was clear from the presentation that what Kuznets had concluded was a historical trend—one in which, while income and wealth inequities remained, economic growth benefited all sections of the population to the same degree—was, in reality, only a particular feature of a longer-term curve of development. Kuznets’ conception was summed up in the aphorism of President John F. Kennedy, who declared in the early 1960s that “a rising tide lifts all boats.” In contrast, as Piketty noted, some two thirds of all aggregate growth today goes to the top 10 percent of the American population.

Piketty attributed the fall in social inequality from 1943 to 1980 to the great “shocks” delivered by two world wars and the great depression of the 1930s. Significantly, however, he made no reference to the greatest political shock of all, the Russian Revolution of 1917. The word “revolution” made its appearance only on the very last slide presented in the course of Piketty’s lecture. This virtual dismissal of the class struggle and social revolution completely distorts the historical process, and especially the evolution of the US in the 1930s and subsequently.

Coming to power just 15 years after the Russian Revolution, with its impact still fresh in the minds of millions, President Franklin D. Roosevelt’s denunciations of the “economic royalists” of his time—echoing the attacks earlier in the century by his predecessor, Theodore Roosevelt, on the “malefactors of great wealth”—reflected his acute awareness that his task was to offer the prospect of economic and social reform in order to save the capitalist system from the threat of socialist revolution.

In his analysis of the present situation, Piketty powerfully debunked the notion that the growth of social inequality is somehow due to the rise of a meritocracy. In one highly revealing graph, he showed how the probability of a young person going to college in the United States almost exactly reflected the position occupied by his or her parents in the national income distribution. Students from the poorest families had a 20 percent probability of attending college, while those from the wealthiest families had a 95 percent probability, and there was a perfectly straight gradient between these two extremes. Picketty commented that he had never before seen such a spectacular graph.

He also noted that the vast fortunes accumulated by individuals had little or nothing to do with what they created or built. He gave the example of the Mexican telecom mogul Carlos Slim, one of the wealthiest men in the world, whose vast fortune was the result of the privatisation of what had previously been publicly-owned assets. Piketty commented wryly that this particular path to great wealth might prove less lucrative in the future because there was not much left to privatise.

In another vivid example of how money makes money, he explained that the rate of return achieved by American universities on their private endowments was an expression of the level of assets they had to begin with. The wealthiest universities, such as Harvard, Princeton and Yale, earned a far higher rate of return on their investments than those with less wealth.

Using more recent data gathered since the publication of his book two years ago, Piketty provided valuable insights into the situation in both South Africa and Brazil. More than 20 years after the end of apartheid and the coming to power of the African National Congress (ANC) regime, initially headed by Nelson Mandela, South Africa has the highest level of income inequality in the world—higher even than in the United States.

As he rightly commented, this was a result of the fact that the ANC had, throughout its rule, carried out no redistribution of land or wealth. While he did not make this point, the data he presented constitutes a stunning refutation of the perspective of "identity politics" promoted so assiduously by the various pseudo-left formations.

The figures on Brazil, where the Workers Party (PT) government of Luiz Inácio Lula da Silva, a darling of the pseudo-left within that country and internationally, held power for much of this century, present a similar picture of inequality. Brazil has the second highest level of income inequality in the world.

Piketty's bankrupt political perspective emerged most clearly in response to a question from this reporter at the conclusion of his presentation. The question was directed to Piketty's claim, both in his book and in the course of the lecture, that increased taxation on wealth and capital gains could provide an antidote to the rise of social inequality.

The question was: "Who is going to carry this out? Clearly, not Donald Trump, who has called for the slashing of corporate taxes, nor Hillary Clinton, the creature of Goldman Sachs, with one 'public' position and another 'private' one. Nor, after the experience of Greece, will it be carried out by a 'left' bourgeois government such as Syriza, much less by Andrew Leigh and his Australian Labor Party.

"You mentioned revolution at the end of your talk—significantly, not at the beginning. But, in the light of these undeniable experiences, is it not the case that the only realistic way to end social inequality is the fight for socialism by the international working class, based on a program for the expropriation of the banks, the financial system and the transnational corporations, to bring them under public ownership and democratic control, so that the economy can be based on human need, not the requirements of private profit?"

Answering the question, which received warm support and applause from a sizeable section of the audience, Piketty, who has been touted for a possible political career in France, responded by saying that political pressure could bring about change. Democratisation of knowledge, he said, was the answer, adding in a genuflection to identity politics: "Maybe in another time, another Bernie Sanders, maybe less white and a bit younger, will be able to win the election and make a difference."

Piketty failed to mention Sanders' role in nominating Hillary Clinton on the floor of the Democratic convention. Nor did he refer to the betrayal of the Greek working class carried out by Syriza, saying only that he was "very sad" that France and Germany had decided to "push away" a proposal to renegotiate the debt.

Piketty's response, in which he again made a fleeting reference to the possibility of "revolution," was a graphic demonstration of his class outlook, which is aimed at warning the ruling elites of the consequences of their policies, not at overthrowing them. It also revealed his empirical method and the consequent lack of any historical assessment of the capitalist economy that he has subjected to statistical analysis.

Basing himself on the supposed lessons of past experience, when pressure from below did bring about significant changes, he ignored what it was in the capitalist economy that had made this possible, but now makes it impossible. In the 1930s, the "experiments" of Roosevelt were viable only because of the continued economic strength of American capitalism. And they were able to be extended in the post-war period because of the economic boom enjoyed by global capitalism in the 1950s and 1960s.

Today, the economic strength of US capitalism is a thing of the past and world capitalism is mired in "secular stagnation"—a term first developed in the 1930s to characterise an economy marked by low investment, falling productivity and declining world trade.

In this situation, the claim by Piketty that more knowledge and the spread of "democratic discussion" can effect a policy shift by the ruling elites is no less a "fairy story" than that of his predecessor Simon Kuznets, who concluded in the 1950s that capitalism had entered a "golden age" in which the contradictions identified by Marx had been overcome.

On the contrary, these contradictions remain very much alive, and they will lead to ever greater wealth and income inequalities, along with escalating attacks on democratic rights and the ever-increasing danger of another world war. The size and interest of the audience at the Opera House is indicative of a broader trend. Today's unprecedented level of social inequality is entering into the consciousness of millions of people. It will propel them into major political and social struggles in the period ahead.