Thomas Piketty in America

Nicolas Barreyre

The success that the English translation of *Capital in the Twenty-First Century*[1] enjoyed in the United States took everyone by surprise, including its author. As the present article is being written, the work has been among the twenty-five best-selling books of non-fiction for nine weeks—exceptional for any publication by a university press.[2] Its reception in the American media went far beyond what it had initially been in France, where it was already a bestseller: two Nobel prize winners applauded it; one prominent former economic assistant to Barack Obama expressed grudging admiration for it; the president's current council of economic advisers met with Thomas Piketty at length to hear what he had to say; a country-wide lecture tour established him in the press as an economics "rock star."[3]

It is always difficult, in the heat of the moment, to explain such a reception. One reason assuredly lies in the fact that *Capital in the Twenty-First Century* confirmed beyond a doubt that inequality in income had reached historically

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1. Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge/London: Harvard University Press, 2014).

2. See the *New York Times* list, http://www.nytimes.com/best-sellers-books/2014-06-22/hardcover-nonfiction/list.html.

3. Paul Krugman, "Why We're in a New Gilded Age," *New York Review of Books*, May 8, 2014, 15–18; Lawrence H. Summers, "The Inequality Puzzle," *Democracy Journal* 3 (2014): 91–99; Jennifer Schuessler, "Economist Receives Rock Star Treatment," *New York Times*, April 19, 2014.

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unprecedented levels in the country and that, far from being an accident, this state of affairs was the result of a deep-seated trend and, without a deliberate political strategy, would only get worse. This idea was already in circulation, but to see it validated by the work of an established and recognized economist, founded on a mountain of empirical data, in a text that could be read by an educated general public, made Piketty's book explosive. It shocked disciples of the trickle-down theory—the economic ideology dominant since the Regan administration—who maintained that fostering the exponential accumulation of riches by the wealthiest could only have positive effects on the entire economy, bringing benefits to everyone.[4]

In short, not only does Piketty's work have undeniable qualities in its own right, it also arrived at just the right moment in the United States. For over a decade, the idea that inequality has reached preoccupying—some might say un-American—levels has become increasingly insistent. The signs have multiplied, from articles on "trust-fund kids" (beneficiaries of life-long personal investment funds providing them with large incomes without their ever having to work)[5] to the slogans of the Occupy movement, which oppose the wealthiest 1 percent of the population to the other 99 percent and denounce a plutocracy. Many consider that the United States is experiencing a new Gilded Age, in reference to a period in history synonymous in the American imagination with the sudden acquisition of great fortunes through the most questionable schemes—political corruption, monopolistic practices, financial speculation, and every kind of swindling imaginable—by men deemed "Robber Barons."[6] The gaudy mansions belonging to these *nouveaux riches* that popped up along the great avenues of cities or in the summer resorts, with servants in livery and invented coats-of-arms, were so many symbols of what was happening to American society, just as industrialization was giving rise to an ever-larger urban working class.[7]

The expression "Gilded Age" is drawn from the title of a satirical novel by Mark Twain, a play on words emphasizing the superficiality of this apparent prosperity compared to a true golden age.[8] Ironically, the term has resurfaced in the news at the very moment many historians are trying to do away with it, arguing that this moralistic phrase was an invention by progressives who deliberately painted a bleak picture to contrast with their own age of reform. They emphasize

4. Concerning changes in worldwide economic thinking, see Daniel T. Rodgers, *Age of Fracture* (Cambridge: Harvard University Press, 2012), 41–76.
5. On this privileged youth, see Shamus Rahman Khan, *Privilege: The Making of an Adolescent Elite at St. Paul's School* (Princeton: Princeton University Press, 2011).
6. Matthew Josephson, *The Robber Barons: The Great American Capitalists, 1861–1901* (New York: Harcourt, Brace, and Co., 1934). For the history of this expression, see Richard R. John, "Robber Barons Redux: Antimonopoly Reconsidered," *Enterprise and Society* 13, no. 1 (2012): 1–38.
7. Steve Fraser, *Wall Street: America's Dream Palace* (New Haven: Yale University Press, 2008), 23–38; François Weil, *Family Trees: A History of Genealogy in America* (Cambridge: Harvard University Press, 2013), 143–79.
8. Mark Twain and Charles Dudley Warner, *The Gilded Age: A Tale of Today* (Hartford: American Publishing Company, 1873).

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that the period was also remarkable for its extraordinary economic expansion, the proliferation of inventions, and the social transformations that had made America a world power by the end of the nineteenth century.[9] Piketty does not intervene in this debate, but the reception of his book in the United States suggests that it needs reformulating. The issue is not whether the Gilded Age can be reduced to corruption cases, or even whether the opposition between it and the (falsely) virtuous "progressive era" is artificial. Rather, the question is why, despite developments that may be seen as positive, the problem of corruption, and more widely that of collusion among the elite, has become so central that it is viewed as the main characteristic of the period.[10] This is a question about the Gilded Age but clearly, given the current debates in North America, it also has to do with the present.[11] Piketty should be credited with having identified the *political* problem that causes his work as an economist to have such important repercussions in the public debate: the danger that the extreme aggravation of economic inequality poses to peaceful coexistence in a democratic society.

In a similar fashion, the aim of the following remarks is not so much to discuss the central thesis of *Capital in the Twenty-First Century* as to suggest how Piketty's work might allow for a different understanding of nineteenth-century American history—even though he himself, lacking data, says very little about the United States during this period (in contrast to his study of the twentieth century, where the country features prominently). In turn, this rereading opens up perspectives for taking Piketty's reflections further and revisiting some of his conclusions.

Income inequality as such is rarely used to analyze the political history of the United States in the last third of the nineteenth century. After all, the country was said to be particularly resistant to French-style Jacobin egalitarianism, and the dominant culture supposedly valued risk-taking and admired success. Who could be more symbolic of this period than Andrew Carnegie, the ultimate self-made man and the son of a poor Scottish weaver, who started out as a messenger boy in a telegraph company and became a steel-industry magnate and one of the richest and most influential men in the country?[12] It is not that economic transformations and their political consequences have been forgotten in the historiography, quite the contrary. From labor history to business history, from proletarianization

9. Rebecca Edwards, Richard R. John, and Richard F. Bensel, "Forum: Should We Abolish the 'Gilded Age'?," *Journal of the Gilded Age and Progressive Era* 8, no. 4 (2009): 461–85; Rebecca Edwards, *New Spirits: Americans in the "Gilded Age," 1865–1905* (New York: Oxford University Press, 2006; repr. 2011).

10. Évelyne Payen-Variéras and Nicolas Barreyre, "Revisiting the 'First' Gilded Age: Business and Politics in the Late Nineteenth-Century United States," *Transatlantica* 1 (2013): http://transatlantica.revues.org/6475.

11. Zephyr Teachout, *Corruption in America: From Benjamin Franklin's Snuff Box to Citizens United* (Cambridge: Harvard University Press, 2014); David Cole, "How Corrupt Are Our Politics?," *New York Review of Books*, September 25, 2014, 45–48.

12. A life-story Carnegie delighted in telling himself: Andrew Carnegie, *Autobiography of Andrew Carnegie* (Boston: Houghton Mifflin, 1920). For a recent biography, see David Nasaw, *Andrew Carnegie* (New York: Penguin Press, 2006).

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to the managerial revolution, from struggles for economic regulation to trade-union mobilization, they are addressed in an extensive body of literature. Nevertheless, reformulating the question in terms of the political effects of unprecedented—and very visible—levels of inequality offers a new perspective on a number of developments that took place during the period. It is not hard to understand how the spectacular enrichment of the few, in the midst of the rapid economic changes experienced, or rather endured, by the entire population aroused suspicion: it was easy to view it not as the result of the "normal" workings of the economy, but as the fruit of collusion, illicit practices, and favoritism. The language used was often that inherited from classical Republicanism; it denounced the "aristocracy" of financiers and bankers in the same way it had condemned the slaveholding Southern planters before the Civil War. Attacking the preferential treatment of Treasury bondholders—or "bondocrats" as some called them—was not so very different from the condemnation of rentiers in France.[13] Even though income inequality itself was not censured, it is easy to understand how sudden and extremely large fortunes were viewed by part of the population as illegitimate, and thus necessarily the result of suspicious doings or a perverted system.

From this angle, one might see a convergence of—or rather a common cause for—several political movements often viewed as separate or even antagonistic. The new inequality in incomes might explain the political activism that stirred up a growing section of the country's farmers after the Civil War and culminated in the Populism of the 1890s. A sizeable number of economic historians have presented the discontent of the farmers as unjustified or even irrational, since their standard of living over the period went up in absolute terms.[14] However, the visibility of new millionaires who had built their fortune on the very railroads that subjected these farmers to arbitrary tariffs explains their mobilization against a system that in effect sucked up their income in order to enrich the few.[15] The campaigns against political corruption—obtaining favorable legislation in exchange for advantages in money or in kind—resulted from the same perception. Historians have demonstrated that this movement was made up of members of a certain intellectual and/or old elite, "the best men." Their crusade against party machines and the influence of money over politicians and the workings of the state can be better understood when considered alongside their opposition to protectionism: abolishing all manner of "unearned" advantages enjoyed by rentiers (subsidies to railroad companies, protection from foreign competition at the expense of consumers, manipulation of currency in favor of "interest groups") was a way to eliminate biases in

13. Nicolas Barreyre, *Gold and Freedom: The Political Economy of Reconstruction*, trans. Arthur Goldhammer (Charlottesville: University of Virginia Press, 2016), chap. 2.
14. Robert Higgs, *The Transformation of the American Economy, 1865–1914: An Essay in Interpretation* (New York: Wiley, 1971); Jeremy Atack, Fred Bateman, and William N. Parker, "The Farm, the Farmer, and the Market," in *The Cambridge Economic History of the United States*, ed. Stanley L. Engerman and Robert E. Gallman, vol. 2, *The Long Nineteenth Century* (Cambridge: Cambridge University Press, 2000), 245–84.
15. Richard White, *Railroaded: The Transcontinentals and the Making of Modern America* (New York: W. W. Norton, 2011), 109–18; George H. Miller, *Railroads and the Granger Laws* (Madison: University of Wisconsin Press, 1971).

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the system producing what was seen as illegitimate income.[16] For these campaigners, the existence of unprecedented levels of income inequality was in and of itself the sign of a problem that needed to be solved.

In this light, the antimonopoly movement that developed during the last decades of the nineteenth century,[17] including one of its most famous outcomes, the 1890 Sherman Antitrust Act, can be understood differently. Monopolies subjected customers (and citizens) to arbitrariness, but they also represented unearned income, that is, acquired positions that were self-perpetuating. These positions had similar effects to the income from capital as it is described by Piketty, in the sense that the returns they produced were not the results of labor but merely of capital investment. The attempt to drastically lower the tariff in 1892 proceeded from an explicit desire to do away with what were really rentier incomes. Its replacement by an income tax borne only by the wealthiest was intended to signal a shift in the way that taxes were conceived, but was stopped dead by the Supreme Court. Only a constitutional amendment would see it through, in 1913.[18]

These tribulations demonstrate that Americans had a clear understanding of the redistributive effects of public policies. For the United States, the now famous $r > g$ during this period of sustained economic growth was clearly accentuated by state action. During the last third of the nineteenth century, protectionism was at the source of a redistribution of income amounting to around 8 percent of the gross domestic product. The huge public debt contracted during the Civil War (2.3 billion dollars) also redistributed large amounts of money through generous interest rates reinforced by monetary deflation, so much so that real interest rates in the 1870s were close to 9 percent annually.[19] The political battles surrounding these questions show that everyone was conscious of this massive redistribution, and debates focused on its beneficiaries. Was it bankers and monopolistic industrialists that profited, as some claimed? Or, on the contrary, was it the entire population (protectionism stimulating general growth, or even the Treasury bonds that had

16. Ari Hoogenboom, *Outlawing the Spoils: A History of the Civil Service Reform Movement, 1865–1883* (Urbana: University of Illinois Press, 1961); John G. Sproat, *The "Best Men": Liberal Reformers in the Gilded Age* (Oxford: Oxford University Press, 1968); Andrew L. Slap, *The Doom of Reconstruction: The Liberal Republicans in the Civil War Era* (New York: Fordham University Press, 2006).
17. Gretchen Ritter, *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America, 1865–1896* (Cambridge: Cambridge University Press, 1997).
18. Scott R. Nelson, *A Nation of Deadbeats: An Uncommon History of America's Financial Disasters* (New York: Alfred A. Knopf, 2012); Robert Stanley, *Dimensions of Law in the Service of Order: Origins of the Federal Income Tax, 1861–1913* (New York: Oxford University Press, 1993).
19. Douglas A. Irwin, "Tariff Incidence in America's Gilded Age," *Journal of Economic History* 67, no. 3 (2007): 582–607; Jeffrey G. Williamson, "Watersheds and Turning Points: Conjectures on the Long-Term Impact of Civil War Financing," *Journal of Economic History* 34, no. 3 (1974): 636–61. It must be noted that these figures concern American holders. Since a large part of the debt had been refinanced in Europe after the Civil War, a proportion of the capital was in fact making the annuitants of the "old continent" wealthy.

been purchased by all patriotic Americans)? Though limited for the United States in the nineteenth century, Piketty's data support the idea that these policies helped redistribute income from the bottom to the top, if one is to judge by the concentration of personal wealth. In this sense, the case of the United States is a variation on the more general description of $r > g$ over a long period,[20] and potentially a significant one. Based on his data series, Piketty concludes that the stable historic reality is that returns from capital are markedly greater than growth ($r > g$), and that only exogenous shocks temporarily disrupted this pattern in the twentieth century. The United States at the end of the nineteenth century, however, suggests that there are cases in which $r > g$ is at least in part due to public policies. The question is then whether this is an anomaly in the long term (hidden because it works in the same general direction as the dominant trend), or if, on the contrary, $r > g$ is more often due to a political and social construction that is systematically biased toward capital.

This debate is far from academic. Piketty rightly insists on the role that public policy (primarily fiscal policy as far as he is concerned) must play if the effects of $r > g$ are to be mitigated. These policies are counted among the "exogenous shocks" that the author identifies for the twentieth century, and he cites the very high rates of income tax put in place by Franklin D. Roosevelt in the 1930s by way of example. Yet this policy was possible only because public debate had long recognized the essentially redistributive nature of *all* public policies. The rupture brought about by the crisis of 1929 is not enough in and of itself to explain how the New Deal became politically imaginable—in particular because economic crises very often exacerbate earlier ways of thinking rather than creating new ones, at least at first.[21] The lengthy battle to establish an income tax, the reconfiguration of the debates on protectionism over half a century, and the subsequent transformation of the American tax system, were necessary prerequisites for the New Deal's measures of *downward* redistribution. And these were achieved only at great political price: the mobilization against the new taxation that materialized during this period fed directly into the movement that would obtain its overthrow from the 1970s on—an unraveling that means that Warren Buffett, the wealthiest man in the United States, is notoriously taxed at a lower rate than his secretary.[22]

If this reading is correct, it suggests that public policies are less exogenous than endogenous to $r > g$. This leads us back by another path to the question of the role of inheritance, also central to *Capital in the Twenty-First Century*. American historiography, it seems, has not accorded this concept much of a role as a strong explanatory factor in the history of the United States. The traditional view is that

20. Piketty, *Capital*, 348 *sq*.

21. Nicolas Barreyre, "The Politics of Economic Crises: The Panic of 1873, the End of Reconstruction, and the Realignment of American Politics," *Journal of the Gilded Age and Progressive Era* 10, no. 4 (2011): 403–23.

22. Ajay K. Mehrotra, *Making the Modern American Fiscal State: Law, Politics, and the Rise of Progressive Taxation, 1877–1929* (Cambridge: Cambridge University Press, 2013); Romain D. Huret, *American Tax Resisters* (Cambridge: Harvard University Press, 2014), 78–172.

the country did away with the aristocratic trappings of old Europe during the Revolution, as evidenced by the abolition of the entail and of primogeniture, among other measures. The early Republic is often viewed as a place of opportunity open to upward mobility, and indeed for white men access to property was much less difficult than in Europe.[23] Yet this view can obscure the effects of an unfettered transmission of capital from generation to generation, which no doubt need to be reassessed in not only economic but also political terms. For example, testamentary freedom was total, so that heads of households were entirely at liberty to hand down their property in a very unequal fashion. In the same way, the legal dependency of a wife on her husband (coverture) facilitated the accumulation of personal wealth by marriage.[24] Indeed, Piketty suggests that this phenomenon needs to be studied more closely, and emphasizes how far slave ownership in the southern United States made it possible to build up personal estates as concentrated as those in Europe, transforming this part of the country into a society that was just as unequal as Victorian England or France under the July Monarchy.[25] Yet this Southern model did not exist in isolation, and its influence could be perceived throughout the entire country, most notably in tax systems that were very favorable to the most wealthy.[26] The recurrent political attacks against bankers, speculators who grabbed up public lands, the "slaveholding aristocracy," and so on, were a clear sign that the problem of wealth distribution, or rather of a political economy that stacked the deck when apportioning produced value, was felt particularly acutely in the nineteenth-century United States. Applying Piketty's insights suggests that it would be useful to rethink the history of this period (including the tensions leading up to secession) in terms of the effects that the accumulation of wealth through inheritance had on American society. In short, behind the spectacular façade of the self-made men lay the hereditary core of the American elites.[27]

In return, the American historical experience interrogates the economic analysis that Piketty presents in *Capital in the Twenty-First Century* on a major point: the role of imperialism. The question is absent, one supposes, for methodological reasons: the author builds his data, in part because of his sources, on the basis of

23. Jérôme Bourdieu, Joseph P. Ferrie, and Lionel Kesztenbaum, "Vive la différence? Intergenerational Mobility in France and the United States during the Nineteenth and Twentieth Centuries," *Journal of Interdisciplinary History* 39, no. 4 (2009): 523–57; Clayne Pope, "Inequality in the Nineteenth Century," in Engerman and Gallman, *Cambridge Economic History*, 2:109–42; Jeremy Atack, Fred Bateman, and William N. Parker, "Northern Agriculture and the Westward Movement," *Cambridge Economic History*, 2:285–328.
24. Carole Shammas, Marylynn Salmon, and Michel Dahlin, *Inheritance in America: From Colonial Times to the Present* (New Brunswick: Rutgers University Press, 1987); Shammas, *A History of Household Government in America* (Charlottesville: University of Virginia Press, 2002).
25. Piketty, *Capital*, 158–62.
26. Robin L. Einhorn, *American Taxation, American Slavery* (Chicago: University of Chicago Press, 2006); Edward E. Baptist, *The Half Has Never Been Told: Slavery and the Making of American Capitalism* (New York: Basic Books, 2014).
27. Concerning these elites, see Steve Fraser and Gary Gerstle, eds., *Ruling America: A History of Wealth and Power in a Democracy* (Cambridge: Harvard University Press, 2005).

national accounts. There are many excellent reasons to proceed in this way, yet in the case of the United States this method partially skews comparisons. In the first century of its existence, the country was not so much a "young society" as a society in full and often violent territorial expansion.[28] Contrary to France and Great Britain, whose overseas empires are explicitly treated in Piketty's calculations as "foreign possessions," the United States built itself a continental empire, all of one piece, that therefore forms part of its national account. In terms of comparisons, it makes little sense for Piketty to separate the South from the North without separating the most urbanized and long-settled North-East from the more recently conquered West, where only a few colonists of European origin resided. Distinguishing the states situated on the Atlantic coast from the others would likely show a greater concentration of personal wealth than in the coast-to-coast "North" used in Piketty's book (although it might still be lower than in the South). By combining the most recently conquered and the oldest settled areas, national accounting thus dilutes the phenomenon of the intergenerational accumulation of capital. It also creates another bias, since it does not take into consideration the many Native American populations, the very peoples that were dispossessed of their territories and often exterminated, but who were also indispensable economic agents in the early United States.[29] Given the available sources, it would no doubt have been very difficult, and perhaps impossible, to include these populations in the data series gathered by Piketty. Yet this should not prevent one from wondering about the biases induced by these limits to empirical data—in fact quite the contrary.

In truth, these observations might reinforce Piketty's conclusions rather than weakening them. Indeed, their main aim is to take the inquiry further by integrating imperial dynamics into the analysis. What would happen if, following the example of the United States, the British and French empires were integrated into their national accounts? How would our understanding of these phenomena be affected if we were to include the indigenous populations of their colonies in these calculations? Because imperial practice is based on the exploitation of the periphery to enrich the center, it can be supposed that the very acute inequality observed by Piketty would be even greater if colonial possessions entered into the calculation. Conversely, the inequalities the author describes for the United States in the nineteenth century have no doubt been underestimated. Far from being exceptional, the United States is probably much closer to Europe than was once thought.

By the end of the nineteenth century, the democratic problem posed by inequality was not so much the great fortunes accumulated by financiers and industrialists, even the most unscrupulous, but the advantage gained by their heirs. The

28. Donald W. Meinig, *The Shaping of America: A Geographical Perspective on 500 Years of History*, vol. 2, *Continental America, 1800–1867* (New Haven: Yale University Press, 1993), 3–218; Daniel Walker Howe, *What Hath God Wrought: The Transformation of America, 1815–1848* (Oxford: Oxford University Press, 2007), 701–91.
29. For that matter, this subject is (surprisingly) only rarely studied by historians. Concerning the fur trade, see the classic work by David J. Wishart, *The Fur Trade of the American West, 1807–1840: A Geographical Synthesis* (Lincoln: University of Nebraska Press, 1971; repr. 1992).

self-made man was a figure that could be admired for owing his success to his own talent.[30] His children, on the other hand, could not be ascribed the same merit. It is probably not by chance that the great philanthropic foundations were established at this time. Carnegie, author of one of the most virulent texts justifying extreme wealth,[31] nevertheless spent almost all of his fortune on various works of philanthropy in the final years of his life. Many others also gave large amounts of money to diverse causes and set up institutions bearing their names, often very visibly dedicated to the "improvement of mankind." Whatever their motivation, these actions were nonetheless a way of mitigating the problem that the creation of a class of heirs posed for American democracy at the turn of the twentieth century—even if such foundations rapidly created another problem by challenging that very democracy's political and representative institutions. In terms of Piketty's argument, however, it is interesting to note that those philanthropic organizations, whatever the scope of their contributions, could do little to resolve the problems created by the crisis of 1929. Only the state could make the reforms necessary for economic recovery and set up the mechanisms of redistribution (cited by Piketty) that limited or even reversed the effects of $r > g$.[32]

In the United States today, the influence of large fortunes on the political system is once again at high tide, sometimes operating through the intermediary of foundations—the Bill and Melinda Gates Foundation, for example—and sometimes through direct and massive investment in the electoral process, as in the case of the Koch brothers. If the path from the Gilded Age to the New Deal provides any indication, the political alternatives to growing inequality (which has now reached unprecedented levels) can only be patiently built on the foundation of a shift in the perception of current reality, one capable of gaining widespread recognition. It is this wager that Piketty seems to be winning with his *Capital in the Twenty-First Century*, in the United States at least. In Europe and in France, to date, the signs of such a reception remain tenuous.

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30. Jackson Lears, *Rebirth of a Nation: The Making of Modern America, 1877–1920* (New York: HarperCollins, 2009), 57–71.
31. Andrew Carnegie, *The Gospel of Wealth* (London: F. C. Hagen, 1889).
32. Olivier Zunz, *Philanthropy in America: A History* (Princeton: Princeton University Press, 2011).

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