

Transparency and inequality – Milan Ilnyckyj – 2015-01-24

Throughout *Capital in the Twenty-First Century*, Thomas Piketty highlights issues of access to data. The comprehensiveness and accessibility of French data on estates and incomes provides much of the justification for his overall argument,¹ and he is frequently critical of states that either do not track such information, do so inconsistently across time, or do not provide access to researchers. In making the case for a progressive global tax on wealth, Piketty highlights improved transparency as one of the main justifications.² Indeed, with the rate of such a tax set at a very low level, the main justification would be granting academics, governments, and the public in democratic states a better understanding of the breakdown of wealth domestically and globally.³ Generally speaking, Piketty highlights potential dissatisfaction in the democratic populace as the main political mechanism through which inequality could be combatted.⁴ It is worth examining the logic behind these claims, and their plausibility in the contemporary political context.

A puzzle that arises when we consider the recent Occupy Wall Street movement, with its famous motto of "we are the 99%", is why it didn't lead to a mainstream demand for policy reform. At least two explanatory accounts for why seem plausible. First, despite substantial media attention directed toward the issue of inequality, the general public may be unaware of important features of the distribution of wealth. Some such features discussed at length by Piketty include the precise breakdown of national wealth within the top 10%, 1%, and 0.1%; the share of inherited wealth within the total; the different combination of assets held by people at different social strata; and the use of institutions like trusts and offshore accounts for tax evasion. Critically, the general public lacks awareness of Piketty's convincing argument dismantling the productivity case for very high incomes paid to managers.⁵ When the pay of managers is not aligned with the performance of firms, and when it varies substantially between economically similar countries as a result of policies like top income tax rates, the psychological justification for these incomes is challenged. A second explanation for *status quo* endurance is skepticism about redistribution within the patrimonial middle class, on the basis that they feel that they have earned their own wealth and that redistribution would benefit the idle and unworthy at the expense of the frugal and productive.⁶ This view on redistribution is also challenged by the details of Piketty's argument: including once again the breakdown of assets between people at different levels of wealth, and the differential impact of various policy options and phenomena like inflation. A understanding of how the wealthiest individuals have multiple ways of protecting themselves from policy changes and inflation, while less capable investors may more easily suffer from both, arguably strengthens the case for mandating disclosure of the full extent and structure of fortunes, as well as the development of policies that can have the greatest impact on inequality by effectively targeting the small sub-populations with the most disproportionate levels of capital ownership.

At many points, Piketty refers to the neoconservative revolution of Thatcher and Reagan, in which voters have selected or at least tolerated substantial reductions in the top marginal tax rate and the simultaneous reduction of public services.⁷ If public complacency is indeed largely driven by ignorance about the facts of wealth ownership, Piketty's vision of transparency helping to drive

¹ Piketty p. 402-3, 424

² Ibid. p. 441, 471

³ Ibid. p. 518

⁴ Ibid. p. 70, 263, 287, 349, 358, 422, 439, 460, 497

⁵ Ibid. p. 330-3, 512

⁶ This is part of the "apparatus of justification" which Piketty describes (p. 264), including in terms of a perspective on "just inequality, based on merit, education, and the social utility of elites" (p. 419). See also: p. 422

⁷ Ibid. p. 98, 184, 333, 508, 549

political change may be realistic. Indeed, the possibility that he is right is likely to drive the most affluent to use their extensive influence in politics and the media to resist wealth transparency as energetically as redistributive policies themselves.

References

Piketty, Thomas. *Capital in the Twenty-First Century*. The Belknap Press of Harvard University Press; Cambridge, MA. 2014.