Exploitation, Capitalist Crisis, and Democratic Planning: Problems of Piketty’s Socialism

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Abstract: Thomas Piketty is the most politically and economically important participant in the ongoing debate about the deleterious effects of income and wealth inequality. The article analyses his arguments carefully because they give Marxists an opportunity to intervene in a mainstream political-economic debate in which they are generally not taken seriously. As impressive as Piketty’s argument is, and as willing as he is to embrace a socialist solution to capitalist crisis, a non-dogmatic Marxist examination of his texts reveals that his argument does not grasp at the most systematic level the connections between the driving forces of the capitalist economy and the undemocratic implications of widening inequality. This article will argue that although his critique acknowledges the structural inequality of power between workers and capitalists upon which capitalist society depends, his argument points towards an organic link between the exploitation of labour, the falling rate of profit, capitalist crisis, the shift of investment from the productive economy to the financial sector, and growing inequality that he does not explicitly formulate.

Key words: Piketty; inequality; socialism; democratic planning

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The election of Donald Trump in 2016 and the continuing appeal of right-wing populists elsewhere have lent a new urgency to the historical debates about the pernicious effects of inequality on democratic societies. The current round of debate is novel not because it has drawn some of the leading lights of mainstream economics, but because it has pushed their conclusions far to the left of what is
usual in that discipline. Gone are the technocratic solutions like those offered by Stanley Kuznets, who believed that the diffusion of skills and education would, over time, automatically temper inequality without the need for conscious political efforts at income redistribution (Kuznets 1955, 18). The main participants in the debate today all agree that democratic power must be mobilized to support egalitarian economic policy.

Thomas Piketty is the most visible and politically important participant in this debate. Piketty rose to prominence in 2014 with the publication of *Capital in the Twenty-First Century*. The title of the book was intended to put readers in mind of another famous book with “capital” in the title. While Piketty rejected Marx’s revolutionary prescription for the cure of the disease of inequality, he also argued that widening inequality had its roots in the dynamics of capitalist society itself. He demonstrates that Kuznets’s famous inverted U-shaped curve was an artefact of historically specific conditions: the Long Boom that followed the Second World War (Piketty 2014, 13–14, 25). While contingent neo-liberal policies such as changes to the international monetary system, attacks on workers’ organizations and unions, reductions in public spending, and tax cuts for corporations and the wealthy accelerated the growth of income inequalities, Piketty argued that the root cause is to be found in the growth dynamics of capitalism itself. Since 2014, Piketty has gradually been drawing more and more radical political conclusions from this finding.

Piketty concludes his 2020 sequel to *Capital in the Twenty-First Century* with an invitation to scholars across humanist and social scientific disciplines to engage in a constructive and critical dialogue with his findings (Piketty 2020, 1040). This article is a response to that invitation from a broadly Marxist perspective. Because Piketty anchors his explanation of the growth of inequality in his interpretation of the growth dynamics of capitalism itself, he operates on the same theoretical ground as Marxists. However, there are two crucial differences. Piketty neither traces the origins of inequality to the exploitation of labour at the point of production, nor does he explore the connection between capitalist crisis and the changes to the patterns of investment and that have accelerated inequality since the end of the Long Boom in 1973. I will argue, following Marx, that the exploitation of labour is the root cause of inequality in capitalist societies. I will add, drawing on the work of Michael Roberts and others, that the shift towards financial speculation that Piketty identifies as the proximate cause of the growth of inequality has to be understood as a consequence of lower rates of profit in the real economy. As impressive as Piketty’s argument is, and as willing as he is to imagine “that capitalism and private property can be superseded” (Piketty 2020, 1036), I will argue that he does not fully explain the systematic connections between the driving forces of the capitalist economy and the undemocratic implications of widening
inequality. Although his critique acknowledges the structural inequality of power between workers and capitalists upon which capitalist society depends, his argument points towards without ever fully explaining the organic link between the exploitation of labour, capitalist crisis, the shift of investment from the productive economy to the financial sector, and growing inequality. However, while he rejects Marxist conclusions, he does not dismiss Marxist categories as tendentious anachronisms. Instead, he is willing to engage on the Marxist terrain and that openness creates the conditions for the productive critical dialogue I hope to construct here.

I will develop this argument in three steps. In the first, I will examine Piketty’s explanation of the causes of capitalist inequality and how his differs from the Marxist account. In the second, I will turn to Marx’s understanding of capitalist crisis and its contemporary application to the 2008 crisis to argue that it provides the foundation for a systematic understanding of the links between low growth in the real economy, the shift towards financial speculation, and accelerating inequality. In the concluding section, I will examine Piketty’s “democratic, ecological, and multicultural socialism,” lauding it for its willingness to entertain the need for a systematic alternative to capitalism but arguing that it leaves open the fundamental question of whether market forces or democratic planning will play the primary allocative role (Piketty 2022, 226).

**Inequality in the Twenty-First Century**

The current political conjuncture is marked by low growth rates in the real economy, high inflation, rising inequality, greater climate instability, and a festering war in Ukraine. The depth and extent of the multidimensional crisis has led to a growing split in the Western ruling class. A detailed political analysis of this split would take me beyond the scope of the article, but I should note the basic contours. While all political factions of the ruling class agree that capitalism is unsurpassable, the liberal faction favours Keynesian fiscal policies, progressive taxation, a green energy transition, and relatively open borders.3 The conservative side favours austerity, regressive taxation, letting market forces shape energy choices, and atavistic nationalisms.4 The debate on inequality must be interpreted within this context of crisis and ruling class political factionalization. From the perspective of Piketty and other egalitarian critics, the increasing political polarization evident in the ruling class is symptomatic of deeper social fissures that threaten liberal-democratic society itself.

I do not need to repeat the detailed picture that Piketty paints of rising inequality because he and his colleagues maintain an easily accessible database that readers can consult at their leisure.5 I will restrict myself to noting the figures that indicate the trend that has developed over the past 40 years. Since 1980, the top
10% of American households have increased their share of wealth from roughly 60% to roughly 70% and the top 1% from approximately 25% to approximately 35% (Piketty 2020, 671). The accelerating pace of inequality tracks the stagnation of workers’ real income and changes to taxation policy. According to Reich,

Since 1979 the nation’s productivity has risen 65%, but workers’ median compensation has increased by just 8%. Almost all the gains from productivity growth have gone to the top . . . the average worker today is no better off than his equivalent thirty years ago. (Reich 2016, 123)

In Marx’s terms, the rate of exploitation of labour has increased. The roots of inequality in the exploitation of labour have been exacerbated by attacks on progressive taxation. In 1960, the top income tax rate in the United States was 90%; today it is below 40% (Piketty 2020, 32). Both Piketty and American egalitarian economists worry that divergent economic horizons will undermine the foundations of democratic cohesion. If the very wealthy do not depend upon the public services, public schools, public health care, and public pensions, upon which the majority rely, they will not care if those services disappear. While destroying them would destroy much of the social substance from which workers draw to satisfy their needs, it would also further lower the tax burden on the ruling class, allowing them to augment their income further. As Stiglitz concludes,

the pattern of growing inequality in the United States may be bad for our democracy. There is a widespread understanding that the middle class is the backbone of our democracy. The poor are often so alienated that getting them to vote proves especially hard. The rich don’t need a rule of law; they can and do shape the economic and political processes to work for themselves. (Stiglitz 2013, 167)

Quite clearly, income has been re-distributed upwards. The question is: can the capitalist form of inequality be explained exclusively in terms of the exercise of ruling class political power to cut taxes and change laws?

The Americans tend to answer “yes.” Reich maintains that “the essential challenge is political rather than economic. It is impossible to reform our economic system whose basic rules are under the control of an economic elite without altering the allocation of political power that lies behind that control” (Reich 2016, 168). This control allows the ruling class to “redistribute wealth upwards” (193). Reich’s description of the dynamics of neo-liberal policy is correct, but he does not explain the structures that give rise to class power in the first place. Those reasons are neither “economic” nor “political,” but political-economic. Ruling class wealth and power derive from social control over the universal requirements of human life. Their
control over basic social institutions follows from the material dependence of the
majority on wage labour, and the availability of wage labour on conditions of profit-
ability in the real economy. Piketty comes much closer to grasping the political-
economic (social) foundations of ruling class power and the structural inequality of
power over the conditions of life at the heart of capitalism.

Piketty’s argument has developed over the course of three major works written
between 2014 and 2022. His core claim is that accelerating inequality is not sim-
ply a function of neo-liberal public policy, but that neo-liberal public policy is a
function of structural changes in the capitalist economy. He rejects a standard
feature of capitalist ideology: that technological development and better education
promotes forms of economic growth which benefit everyone and flatten income
differences. What he has found is that levels of inequality track patterns of growth
in the real economy. When the rate of growth in the real economy is high, workers
have more bargaining power and can increase their real incomes. When the rate of
growth in the real economy slows, the owners of capital gain social and political
power and use it to roll back wages and shift the tax burden to workers. Growth
rates have been low since the end of the Long Boom in 1973 and income and
wealth inequality has skyrocketed as a result.

Piketty views the trend towards levels of inequality not seen since the late
nineteenth century as the function of a ruling class political project made possi-
ble by structural features of the capitalist economy. Unlike most mainstream
economists, Piketty is not reticent to use the term “class,” but his views have
shifted between 2014 and 2022. In Capital in the Twenty-First Century, he
tended to abstract from the social relations between the working and capital-
owning classes and the way in which sex and race influence the relative wealth
and power within both in favour of picturing inequality in terms of income per-
centiles. By 2022, he had become much more open to accepting the argument
that ownership and control of the means of production (life-support and devel-
opment) is one essential dimension of class power (Piketty 2022, 36–37).
However, he fails to systematically integrate his account of class power with the
dynamics of capitalist crisis and the exploitation of labour. While he agrees with
Marx that any group that depends for its livelihood on a wage is liable to system-
atic domination, he does not provide any detailed analysis of the rate of exploita-
tion or correlation between these rates, patterns of economic growth, and rising
inequality.6 He demonstrates that since the 1980s the rate of real economic
growth has slowed while the top 10% and top 1% of earners have increased their
share of the national wealth, but he does not examine the causes for this slow-
down and how it has affected the balance of class power. Thus, while he claims,
like Marx, that there are structural factors behind the rise of inequality, he ulti-
mately rejects Marx’s analysis.
Piketty defines “capital” as “the sum total of non-human assets that can be exchanged on some market” and “capitalism as a historical movement that seeks to constantly expand the limits of private property” (Piketty 2014, 46, 154). Capitalists derive income not only from the sale of the commodities that their firms produce but also from their holdings of capital stocks: they can rent their property, sell it at a profit, earn interest on their investments, and so on. Therefore, they do not re-invest all their profits in their businesses (as Marx and classical economists assumed). If the rates of return in the real economy are low, investment will shift away from the production and sale of commodities towards rent-seeking and speculation. Low rates of return in the real economy also generate an incentive to monetize and privatize formerly public wealth. This incentive has given rise to “a quite general phenomenon that has affected all eight leading developed economies: a gradual decrease in the ratio of public capital to national income . . . accompanied by an increase in the ratio of private capital to national income” (Piketty 2014, 184). Privatization is not just a policy option but a response to the changing growth dynamics in the real economy.

Some of Piketty’s supporters present Piketty’s analysis as an alternative to Marx which definitively proves the incoherence of Marx’s crisis theory (see Rockmore 2017, 146–152). I believe that rather than be defensive, Marxists should look at his work as grounds for productive dialogue. His willingness to critique the capitalist economy as a system makes Piketty an important interlocutor for Marxists. His “first fundamental law of capitalism” not only explains the relationship between capital’s share of the national income and the general conditions that prevail in the economy as a whole, but it also reveals a potentially self-destructive pattern at the heart of contemporary capitalism. Piketty expresses the law in the equation $\alpha = r \cdot \beta$, where $\alpha$ = capital’s share of the national income, $r$ = the rate of return on capital, and $\beta$ = the capital income ratio (Piketty 2014, 52). He argues that, other things being equal, if $r$ is increasing then the total share of national income that goes to the owners of capital will increase by the rate of return multiplied by the capital income ratio. The higher that ratio is skewed towards capital, the higher the proportion of national wealth that will automatically accrue to the class that owns and controls capital.

The central thesis of this book is . . . that an apparently small gap between return on capital . . . and the rate of growth can in the long run have powerful and destabilizing effects on the structure and dynamics of social equality. (Piketty 2014, 77)

While his algebraic expression of this law obfuscates the class relationship that underlies it, Piketty goes beyond other mainstream analyses of capitalism in so far
as he shows that the production of inequality has structural foundations in the dynamics of the economy and is not the product of contingent public policies. Under certain conditions at least, Piketty argues, capitalist economic dynamics cumulatively advantage the owners of capital.

Piketty’s equation shows that when the rate of return on capital is higher than the rate of growth in the real economy, the owners of capital will automatically increase their share of the national income (unless political correctives are undertaken). Over the last 40 years the rate of return on capital has exceeded the rate of real economic growth and inequality has grown both within and between nation-states (Piketty 2014, 174–175). The high growth rates and ideological competition with the Soviet bloc that characterized the post-Second World War period funded and justified the increase in real wages that reduced inequality during that period (96–99). The low growth rates relative to the rate of return on capital in the period beginning with the crisis of the 1970s define the structural economic conditions that explain the acceleration of income and wealth inequality. Piketty does not analyze the reasons why productivity growth has stalled over the past 40 years or the economic causes of this long period of relative economic stagnation. He rejects Marx’s explanation that over the long term the substitution of technology for labour causes the rate of profit to fall. For Piketty, Marx’s view was “apocalyptic” and failed to take account of the role of population and productivity growth as countervailing tendencies that could off-set the purported tendency of the rate of profit to fall (228–229).8

Nevertheless, while he rejects Marx’s conclusions, Piketty agrees that there is a fundamental contradiction at the heart of capitalism. By acknowledging the reality of a contradiction, Piketty accepts the fact that, under certain conditions, left to its own dynamics, capitalism will undermine the democratic social structures that its defenders claim it is uniquely capable of supporting. When r (the rate of return on capital) is greater than g (the rate of economic growth) then those whose incomes are primarily a function of their capital holdings will necessarily increase their income at a faster rate than everyone else. If wages are limited by slow economic growth in the real economy, then workers who depend exclusively on wages for their income will see it stagnate or fall. By contrast, those who live on their accumulated wealth will see their incomes rise disproportionally.

The overall conclusion of this study is that a market economy based on private property, if left to itself, contains powerful forces of convergence, associated in particular with the diffusion of knowledge and skills; but it also contains powerful forces of divergence, which are potentially threatening to democratic societies . . . The principal de-stabilizing force has to do with the fact that the private rate of return on capital, r, can be significantly higher . . . than the rate of growth of income
and output, $g$. The inequality of $r > g$ implies that wealth accumulated in the past grows more rapidly than output and wages. This inequality expresses a fundamental logical contradiction. The entrepreneur inevitably tends to become a rentier, more and more dominant over those who own nothing but their labour. (Piketty 2014, 571)

If this scenario continues to play out without corrective action being taken by the state, then at some future point capitalist societies will collapse into oligarchic structures where a small minority own almost everything and the rest try to survive on whatever meagre wages the ruling class decides to pay them.

As global growth slows and international competition for capital heats up, there is every reason to believe that $r$ will be greater than $g$ in the decades ahead. If we add to this the fact that the return on capital increases with the size of the initial endowment . . . then clearly all the ingredients are in place for the top centile . . . to pull further and further ahead of the rest. (Piketty 2014, 463)

Piketty thus concludes that the gravedigger of democratic capitalism might well be the ruling, and not the working, class.

The political secession of the capital-owning class has already begun. As I noted at the beginning of this section, Piketty argues that the rise in inequality is a political and economic phenomenon. Economic forces generate the growing wealth and income gap. Those who benefit from these forces of divergence then use their political power to skew public policy in their economic interests. Over the past 40 years a vicious cycle has emerged that is most pronounced in the United States but is manifest globally. High earners use part of their increased wealth to support political parties that promise further tax cuts. Those tax cuts shift more income upwards, some of which is funnelled back to political parties who implement further tax cuts, and so on. As Reich argues, the effect of corporate lobbying and political donations

is often direct and immediate . . . The mechanism thereby creates and perpetuates a vicious cycle: economic dominance feeds political power, and political power further enlarges economic dominance. To an ever-growing extent, large corporations and the wealthy influence the political institutions whose decisions organize the market, and they benefit most from these decisions. (Reich 2016, 82–83)

Their political tactics have enabled the rich to get even richer than they would have been had they simply surfed the wave of the $r > g$ contradiction.

Despite the fact that Piketty locates the driver of inequality in the dynamics of capitalism, his prescriptions for reform stress the power of politics to counteract
the forces of oligarchic secession. I will examine his political project in the concluding section. I will argue that while the programme contains many policies that are worth fighting for, in abstraction from an account of how democratic planning will replace market forces as the primary allocative mechanism in his version of socialism, he leaves a crucial question unaddressed. This silence on the crucial question is organically linked to his superficial treatment of labour exploitation and his failure to examine the dynamics of capitalist crisis and low growth. Piketty does not see these limitations in his own political programme, I will argue, because he does not extend his critique of the contradictions of capitalism into its fundamental structure: the exploitation of labour at the root of value production.

Class, Exploitation, and Inequality

Piketty’s argument that capitalism is a contradictory system which, if not consciously steered by egalitarian public policy, tends towards oligarchy is an extraordinary claim for a mainstream political economist to make. However, unlike Marx, Piketty does not try to explain the cyclical crises to which the capitalist economy is subject as functions of the nature of capitalist production. As Roberts notes in his supportive but critical assessment,

it is one thing to note that inequality has increased in the past thirty years and could have damaged growth . . . It is quite another to claim that this explains the credit crunch and Great Recession. What is wrong theoretically with this argument is that it assumes, as the Keynesians do, that the fundamental weakness of capitalism lies on the demand side of the economy. (Roberts 2016, 87)

As Marx was perhaps the first to demonstrate, production and consumption are dialectically linked: workers’ power to consume is a function of their income, and whether or not they have an income depends, ultimately, on whether and to what extent, and at what wage, they are employed. Since capitalists do not employ labour for the sake of enabling workers to satisfy their needs but only because it produces the surplus value from which profits derive, they feel constant pressure to increase the rate of surplus value production. They increase the rate of surplus value by lowering socially average labour time by substituting technology for labour, this substitution reduces the number of workers employed while increasing the productivity of those that remain. Those productivity gains are not passed on to workers as higher wages but, other things being equal, are captured by capitalists as higher profits, but only up to a point.

Marx’s labour theory of value maintains that profit is a function of surplus value, which is in turn a function of the exploitation of labour. Marx does not use
the term “exploitation” in a moralistic sense but as a technical term that refers to the unpaid portion of the working day for wage labourers (Zafirovsky 2003, 465). According to Marx, the paid portion of the working day corresponds to the socially average amount of time that it takes labourers to create value equal to the costs of the reproduction of their labour power. However, the working day continues beyond this socially average necessary labour time. The amount of time by which the working day exceeds socially average necessary labour time is surplus labour time. The value that workers produce during surplus labour time is surplus value (Marx 1986a, 181–192). Profits are the amount of surplus value that remains after the commodities have been sold and all costs have been deducted.

Unlike earlier forms of economic organization, capitalism is characterized by independent firms competing for market share. Marx argued that competition drives capitalists to replace labour (variable capital) with technology (constant capital).

That part of capital, represented by labour power, does, in the process of production, undergo an alteration. It both reproduces the equivalent of its own value, and also produces an excess, a surplus value, which . . . may be more or less according to circumstances. (Marx 1986a, 202)

He reasoned that since surplus value is a function of the exploitation of labour, as technology replaces labour and the organic composition of capital rises, the rate of profit must, (abstracting from the countervailing forces noted above) go down over time.

If . . . this gradual change in the organic composition of capital is not confined only to individual spheres of production but . . . involves changes in the organic composition of the total capital of a certain society, then the gradual growth of constant in relation to variable capital must necessarily lead to a gradual fall in the rate of profit, so long as the rate of surplus value, or the intensity of the exploitation of labour by capital, remains the same. (Marx 1986b, 212)

Mainstream economics has rejected Marx’s labour theory of value and the law of the tendency of the rate of profit to fall, but this rejection leaves open the question of why, if labour is not the source of value, firms are driven to increase the productivity of labour?99

The answer is that the firms that are the first to innovate can capture higher profits. However, in Marx’s view, once an innovation has spread throughout the economy, raising the organic composition of capital overall, profit rates will tend to flatten and decline. One of the main arguments against Marx’s claim that the
rate of profit tends to decline, Okishio’s maintained that, contrary to Marx, innovation actually raises the rate of profit (Okishio 1961). According to Kliman’s Marxist rejoinder, if one adopts a longer-term view, Marx’s argument is consistent and empirically adequate. Initially, “an innovating firm’s own rate of profit does rise” but “once competitors adopt the new technology, however, the product’s cost of production falls generally, and thus its value and price as well. This causes the rate of profit to fall throughout the industry” (Kliman 2007, 116–117). Roberts’s analysis of profit and investment patterns in the lead-up to the Great Recession provides empirical support for this general connection. He argues that the depth cause of crises is the falling rate of profit and that the fall is ultimately a function of the rising organic composition of capital (Roberts 2016, 41–43).

Over the forty-five years to 2008, the US rate of profit fell . . . by 21 per cent because the organic composition of capital rose by 51 per cent, while the rate of surplus value rose just 5 per cent. (Roberts 2016, 24; italics in the original)

Capitalists have thus reduced investment in the real economy and shifted towards financial speculation. The crisis was caused, therefore, not by falling rates of consumption as Keynesians argued, but by the fall in profits.

If profits fall, then capitalists would stop investing and lay off workers, wages would drop, and consumption would fall. Then there would be a lack of effective demand, but this would not be due to a drop in animal spirits or a lack of confidence . . . or even too high interest rates, but because profits are down. The problem lies in the nature of capitalist production, not finance. (Roberts 2016, 94)

That does not mean that a falling rate of profit is the unique cause of any particular crisis. Those who defend the tendency of the rate of profit to fall can agree with a critic like Sweezy, who maintains that “an understanding of the accumulation process tells us why crises are possible . . .” but that “a great deal more” must be understood “if we are to understand particular crises” (Sweezy 1981, 27). Even if one objects on technical grounds to the argument about the connection between the organic composition of capital and falling profit, the more general connection between low rates of profit in the real economy and the shift of funds to speculative investments with higher rates of return still holds. Roberts agrees with Piketty that the astronomical levels of remuneration paid to top executives in the financial sector account statistically for the spikes in inequality, but he supplies the missing political-economic foundation for the shift in investment patterns: fewer opportunities for profitable investment in the real economy (Roberts 2016, 89).
Capitalists do not willingly go out of business. They adopt strategies to mitigate the effects of the falling rate of profit. Two of the most important in the contemporary period are the shift of investments from the real economy to the financial sector and the construction of elaborate international supply chains along which expensive manufacturing labour can be exported to lower-cost countries.

Financial derivatives were another dimension [of the 2008 crisis]. The role of derivatives was to help extend the speculative boom and, in that sense, they made the crisis worse... However, derivatives did not cause the crisis, they merely helped to give it a peculiar intensity and financial form. Low growth and low profitability were the reasons for the boom in derivative trading. (Norfeld 2018, 375)

While financial speculation involves unimaginable sums of money today, the 2008 crisis proved that it is not ultimately a safe harbour. Since the value of the derivatives ultimately “derives” from materially real resources and products, the financial sector cannot offer a permanent shelter from low profitability in the real economy (Giacché 2011, 26–27). Since the value of all investments ultimately depends on the real economy, there are no purely financial crises but all ultimately trace back to the profitability of the real economy. The inequalities generated by absurd levels of compensation in this sector are therefore effects, not causes, of the structure of the productive system.

To fully understand the dynamics of the labour-capital relationship today, we must also look at the way in which manufacturing industries have become elaborated along incredibly complex international supply and value chains. One of the main responses to the crisis of the 1970s was to shift manufacturing from relatively high-wage, high-union density, thickly legally regulated jurisdictions to low-wage, non-union, underregulated jurisdictions. A detailed empirical analysis of global supply and value chains by Suwani, Jonna, and Foster revealed that the globalization of production is built around a vast chasm in unit labor costs between center and periphery economies, reflecting much higher rates of exploitation in the periphery. This reflects the fact that the difference in wages is greater than the difference in productivity between the global North and the global South. Our data shows that the gap in unit labor costs in manufacturing between key core states (United States, United Kingdom, Germany, and Japan) and key periphery emerging states (China, India, Indonesia, and Mexico) has been on the order of 40–60 percent during most of the last three decades. This enormous gulf between global North and global South arises from a system that...
allows for the free international mobility of capital, while tightly restricting the
international mobility of labor. (Suwandi, Jonna, and Foster 2019, 5–6)

Piketty acknowledges the historical legacy of colonialism in shaping the dynamics
of global inequality, but he does not examine the structure of labour on a global
scale, and so misses the crucial role that the gap between wages and profits plays
as the ultimate source of the inequality that he wants to explain and understand
(Piketty 2022, 203–225). As Reitz notes, Piketty ignores the “system of appropriation
embedded within the relationship of wage labor to capital” (Reitz 2016, 317).

Still, Piketty is correct to insist on political-economic as opposed to economistic
explanations. Financialization, regressive taxation, outright elimination of certain
taxes on capital, privatization of formerly public assets, corporate executives
who treat their companies as tools to increase the value of the stocks in which they
are paid all must be factored into an account of the growth of inequality between
the top 10% and 1% and everyone else. If the explanation of rising inequality is the
structural crisis of the capitalist economy, then the solution must address the
causes of structural crisis. Piketty has moved from abstract policy recommenda-
tions to an outright embrace of the need for a systematic, socialist alternative to
capitalism. This shift coheres with his analytic focus on the structural causes of
inequality, but like that analysis, stops just short of the level of comprehensiveness
required to solve the problem that he diagnoses.

Socialism and Democratic Planning

As I noted in the introduction, Piketty’s politics have been on a steady left-ward
trajectory since the publication of Capital in the Twenty-First Century. His explicit
goal is to transform society from its current “hypercapitalist” form towards a
“democratic and participatory socialism” (Piketty 2020, 967–990).

The model of participatory socialism proposed here rests on two key pillars: first,
social ownership and shared voting rights in firms, and second, temporary
ownership and circulation of capital. These are the essential tools of transcending
the current system of private ownership. (989)

While his policy proposals should be welcomed, I am sceptical as to whether they will
generate the sort of virtuous circle outside of the orbit of capital that Piketty theorizes
unless they are connected to an equally explicit commitment to democratic planning.
While his reference to “social ownership” might imply something like the need for
democratic planning, his sketch of “democratic, ecological, and multicultural socialism”
does not explicitly address the need to supplant the anarchic competitive dynamics
of capitalism with the democratically planned allocation and use of resources. While I cannot provide a complete defence of such an alternative here, I can examine Piketty’s outline and indicate the likely problems its implementation would encounter in the absence of explicit efforts to develop a democratically planned economy.

Just as his analysis of the socio-economic causes of material inequality uncovers but does not completely explain its structural causes, Piketty’s solution walks right up to the door of democratic planning but does not go through. Unlike his American colleagues, Piketty realizes that redistribution of wealth without redistribution of power in the form of changes to the ownership structure of capitalist firms will leave the cause of oligarchic degeneration intact. To accomplish the task of re-distributing power, Piketty argues in favour of guaranteed worker representation on boards, a Universal Basic Income (UBI), and the provision of what he calls a “universal capital endowment” (UCE). Upon turning 25, each citizen would receive a universal capital endowment of sufficient size to ensure that they would not begin adulthood in debt to finance capital (Piketty 2020, 979–981). He also argues that every capitalist nation should adopt the German model of co-management, in which a fixed number of seats are reserved for workers (972–975). The universal capital endowment will be paid for by steeply progressive taxes on income, wealth, and inheritance (975–979).

The UCE will be combined with a UBI. The goal of the UBI is to achieve what he calls “a just remuneration of labor, in other words, a just wage” (Piketty 2020, 1003). However, he does not further explain what constitutes a just wage. Capitalists would argue that wage rates set by labour market forces and contractually agreed to by workers are just. Marxists would argue that the commodification of labour is itself the source of injustice because it is rooted in the structural inequalities of power discussed in Section 2 “Class, Exploitation and Inequality.” Wages could be higher or lower, but never, in a comprehensive sense, just. However, since we are far from a society in which wage labour has been abolished, discussion of just wages remains practically relevant. One can assume that Piketty means that a just wage is one that provides sufficient income to ensure that workers are able to provide for the natural and social necessities of life as well as save to eventually be able to exit the labour force. A UBI may indeed help achieve that goal, but there are problems that Piketty does not discuss.

Piketty’s focus on living or just wages follows from his realistic commitment to maintaining money as the universal means of exchange:

Money is an indispensable tool of economic, social, and climate policy, on the condition, however, that it is not made sacred and is put back in its place in a coherent institutional framework based especially on the welfare state, progressive taxation, parliamentary deliberation, and democratic supervision. (Piketty 2022, 240)
However, the problem is that if firms are left to make decisions based on the highest monetary returns to themselves, they will be incentivized to try to recapture the additional taxes that they pay on profits to fund the welfare state. The UBI and UCE can reduce the coercive power that labour markets exert over the life-horizons of workers, but if consumer markets continue to function as they currently do, wages will still be channelled back to the owners of capital (Piketty does not call for their expropriation). People would not be able to live on their basic income and capital endowment alone, because both are funded by taxation and there must be a pool of wealth to tax. There is nothing in Piketty’s plan that prevents capitalist firms from recouping the taxes they pay to support the UBI and UCE by convincing workers to recycle the money back into industries they control by convincing them that the money is better spent on consumer goods rather than pooled and invested.

Piketty would respond by reminding the critic that the effects of the UCE and UBI cannot be understood in a vacuum but are connected to his proposals to establish workers’ control and ownership of firms. He points towards the German model of workers’ representation on corporate boards of directors and the Swedish Meidner Plan as concrete examples that support the viability of his ideas. However, there are reasons to doubt that new versions of these policies will be successful in achieving Piketty’s goals unless they are combined with internal and external democratic coordination of economic activity.

The German model of co-management has ensured that executive pay does not exceed the wages of ordinary workers by the 300% factor one finds in America. At the same time, it has not led to workers’ control of production or production for the sake of need-satisfaction and not private profit (Reich 2016, 127–128). Moreover, so long as there is competition between firms for market share there will be market forces that compel boards, no matter who sits on them, to produce more efficiently (i.e. increase the rate of labour exploitation). That is not to say that the economy is a world apart from politics and culture impervious to any attempt at regulation or reform. Nevertheless, one does not need to be a Marxist to understand that inefficient firms are at a competitive disadvantage in relation to more efficient firms. Their products become uncompetitive because they are relatively more expensive. Boards of directors will be constrained by market forces to either become more competitive (cut labour costs) or go under. If that means shifting production to low-wage zones in the Global South, that is what they ultimately are forced to do.

Piketty also discusses the Swedish “Meidner Plan” but he does not explain why it failed (Piketty 2022, 165–166). In the 1970s the Swedish Federation of Labour came up with a plan to overcome private ownership of the means of production through a scheme whereby taxes on profits would be funnelled to workers’ groups
who would use them to attain control of the majority of shares of major corporations. This scheme was a more radical version of co-management, but it was scuppered by Swedish capitalists (Wright 2010, 232–233). Piketty’s co-management scheme would likely face the same resistance, but even if it succeeded it would have to face the problem of dealing with market forces on the global level. The only way to overcome that hurdle once and for all would be to replace profit-driven investment decisions with democratic economic planning.

That is not an argument against the UCE, the UBI, co-management, or workers trying to gain control of firms by financial means. Still less is it an anachronistic call for a vanguard party to violently seize the means of production and impose a dictatorship of the proletariat. Rather, it is a call for extending the external democratic supervision of the economy that Piketty calls for into the inner functioning of firms and the day-to-day coordination of economic activity as a whole. There are various models of democratic planning, but I think that the model of “negotiated coordination” theorized by Pat Devine and later developed with Fikret Adaman best coheres, indeed, almost follows as the logical completion of, Piketty’s argument. Piketty discusses in generic terms the democratic supervision of the economy by the state. While the state would certainly have an important role to play in a democratic socialist economy as the body which sets overall economic goals, formulates public policy, and enforces laws and regulations, day-to-day economic interactions will be left under the control of firms. If those firms are still forced by competitive pressures to seek the highest returns, then the competition for profits will generate the same market forces and these forces will compromise the egalitarian and democratic goals of Piketty’s reforms. The solution therefore must involve the creation of new democratic planning bodies that complete the reforms proposed by Piketty by extending a democratic, egalitarian, and life-value logic into the heart of economic activity.

Devine distinguishes his model of “negotiated coordination” from both the central planning of the Soviet type and the “market socialism” of thinkers like Alex Nove (Devine 1988, 100–110). His intention in developing the model was to work out, in the context of widespread pessimism in the West about the possibility of a socialist alternative to capitalism, an institutional structure with one foot in existing democratic institutions and the other stepping towards a future in which social control over the means of production and collectively produced wealth would be achieved. Devine’s model is therefore an attempt to develop an institutional model, adequate to the historical and social conditions of late twentieth-century/early twenty-first-century liberal-democratic societies, that would realize the core values of Marx’s conception of socialism. While Marx did not work out an alternative institutional model for a socialist or communist society, he insisted that the fundamental social conditions of the transition were not state regulation of the economy.
but social ownership of the means of production and the development of democratic planning procedures to determine the development and use of productive power and the distribution of collectively produced wealth. As Marx makes clear in *Critique of the Gotha Programme*, the development of those new democratic planning bodies must be gradual. Society cannot move straightaway from the use of capitalist market forces to allocate resources to democratic planning. The “narrow horizon of bourgeois right,” he argues, can only be transcended

> after the enslaving subordination of the individual to the division of labor, and therewith also the antithesis between mental and physical labor, has vanished; after labor has become not only a means of life but life’s prime want; after the productive forces have also increased with the all-around development of the individual, and all the springs of co-operative wealth flow more abundantly. (Marx 2023)

Devine’s model is fully in keeping with this spirit of gradual evolutionary development of the new institutions. Seeing no reasonable prospects for revolution like those that shaped the twentieth century, but agreeing with Marx that unless citizens as a whole collectively control the means of production and collective wealth, Devine’s negotiated coordination economy conceives of the socialization of the means of production as a process, not an event. “However, once the socialization of the ownership is conceived of as a process, the process can be identified as already at work within capitalism, as Marx recognized” (Devine 1988, 127).

Devine agrees with mainstream economists that the Soviet central planning model cannot overcome the problem of information deficits. Planning time lags caused the inefficiencies and failures to innovate that ultimately undermined the Soviet Union. Nevertheless, he rejects their belief that price signals and market forces are the only way to cope with the information problem. His solution mediates the extremes between unregulated capitalist markets and bureaucratic planning. Against vanguardist projects of once for all conquest of society, Devine anchors his model in actual planning processes and pressures towards the socialization of production that already operates in capitalist societies. He argues for a step-by-step deepening and broadening of these planning and socialization processes that move from public and state ownership of productive wealth and firms towards full social control (Devine 1988, 125–129). This incremental approach clearly aligns with Piketty’s, but Devine posits an end point much closer to Marx’s understanding of the socialization of control over the means of production and created wealth.

The key institutional innovation is a series of nested negotiated coordination bodies that extend downward from the state, to region, to firm, to neighbourhood,
to interest group and up from the interest group, neighbourhood, firm, region, to
the state. Allocative information is gathered at lower levels and passed up the
chain of institutions. The national-level body is responsible for overall economic
goals with worker-controlled firms responsible for implementing the plan. All
plans are flexible and responsive to new information coming from any level. The
plans are thus supple and formed through an ongoing iterative, democratic pro-
cess. Devine’s model

faces squarely the fact that conflicts of interest cannot be disposed of merely by
invoking a general . . . interest. Different interests need to be involved from the
beginning in the process of working out a broader set of priorities. (Devine
1988, 148)13

Over time, economic priorities, economic institutions, and individual self-
understandings will gradually transform. Production for need will replace produc-
tion for profit, democratic deliberation will replace market forces and top-down
management, and the desire to contribute to social well-being will replace the
desire to maximize individual consumption (158–161).

The organic fit between Piketty’s “multicultural, ecological, and democratic
socialism” and this model of democratic planning is rooted in the iterative and
open-ended approach to the emergence of socialism that both adopt. Devine’s
model can be thought of as the necessary final step in the transformative process
that Piketty envisages. Piketty’s goals presuppose that democratic planning
replaces market forces as the primary means of allocating resources and wealth.
Piketty might agree, but he does not make that goal explicit and does not offer an
account of the new political-economic institutions that would be required to real-
ize the goal. Devine’s model still allows individual firms to make their own deci-
sions about what and how to produce, but these decisions would be shaped by the
parameters iteratively worked through the multi-layered planning process and be
governed by the value of need-satisfaction, not private profit.

The model makes a distinction between “market exchange,” which involves the
sale and purchase of the output of existing capacity, and “market forces,” which
bring about changes in the structure of capacity through the atomistic decisions
economic actors make on investment and disinvestment. It keeps market
exchange as an integral part but replaces market forces with a process of
negotiated coordination. At the operational level, the main features of the overall
economic plan are determined by setting “primary input prices” (for wages and
natural resources) and deciding on the broad composition of public goods,
through a process of deliberative democracy. (Adaman and Devine 2022, 174)
Market forces would gradually be overcome by conscious, iterative, democratic determination of how to most efficiently use resources to satisfy needs and enable the full and free development of life-capacities all the while respecting the limits to economic activity set by the carrying capacity of the natural environment. The aim of the process is to give institutional form to Marx’s distributive principle of mature communist society: “From each according to their abilities, to each according to their needs” (Marx 2023). Although they do not use the term, the overall effect of these changes would ultimately result in a democratic socialist society that prioritizes the production of life-value.14

Piketty is clearly motivated to use economic resources in the service of life-valuable goals. Piketty should be credited for walking right up to the door of recognizing that class structure is not a function of income but social position vis-a-vis the universal means of life-support but he does not walk through. He is correct to insist that the day-to-day dynamics of political struggle are not mechanically determined by “the economy.” Policy changes make a difference to people’s lives. Indeed, Marx was the first to argue that the laws of motion of capitalist society are not eternal natural laws but functions of specific social relationships and political policies (Marx 1986a, 668–670). Marx would agree that a society with steeply progressive taxation and well-funded public services is better than a society without them because more citizens’ fundamental needs (for health care, housing, quality education, etc.) are met. Nevertheless, so long as the class relationship is not overcome through collective, democratic control over universally required life-resources, society will remain a battleground on which the ruling class always controls the heights because they control that which everyone else needs to survive.

Notes

1. In the US, the problem of inequality first came to the attention of mainstream economists in 1918, when Irving Fisher, then president of the American Economic Association, warned that wide income inequality was a threat to democracy (Fisher 1919, 9–12). The contemporary debate began in the 1992 election campaign as Bill Clinton tried to position himself as the champion of income equality in response to the tax cuts and redistribution of income upward that defined the Reagan and George Bush Snr. years (Krugman 2020, 271). The political debate was mirrored by the so-called “equality of what” debate among British and American philosophers. While this debate brought liberals and socialists into dialogue and was insightful in many respects, it unfortunately kept itself aloof from detailed analysis of the political-economic forces that generated the inequalities whose legitimacy they were debating. The one exception was Alex Callinicos’s late intervention (see Callinicos 2006, 68).

2. I focus on Piketty because his three volumes provide the most systematic critique of the dynamics of capitalist inequality. Because he sees inequality as a function of the dynamics of contemporary capitalism, he argues explicitly in favour of a socialist solution. The key American analysts—Paul...
Krugman, Robert Reich, Jeffrey Sachs, and Joseph Stiglitz—are hardly footnotes to the conversation. However, their interventions do not have the same historical and geographical sweep of Piketty’s analyses and their solutions are confined to traditional Keynesian policies. Nevertheless, all agree that there is a contradiction between inequality and democracy and that the future of democratic societies depends upon the emergence of new political movements that can seize and employ state power against the narrow ruling class interests that have hitherto prevailed.

3. I use “liberal” and “conservative” in their American connotations. “Liberal” in this sense embraces centrist and social democratic parties. Conservative includes classical conservative parties, the European “Christian democratic” tradition, right-wing populist movements, and the neo-fascist parties that have re-emerged across Europe.

4. There is a significant difference between Piketty and his American counterparts on the question of internationalism. Piketty expends considerable space explaining the historical connection between colonialism and inequality between the Global North and South. The Americans are more focused on domestic policy in abstraction from the question of what rich countries owe the poor. I will not focus on this aspect of Piketty’s argument. See Piketty (2020, 258–295; 2022, 203–225).

5. See the World Inequality database for continuing updates across multiple metrics of the scale, scope, dimensions of, and trends in inequality, both within nations and globally available at https://wid.world.

6. Piketty also integrates the effects of race and sex on income and social power by noting the relevance of social reproduction theory, but he treats social reproduction theory as an alternative to Marxism rather than the development of Marxism that its main theorists take it to be (see Piketty 2022, 37n7). On social reproduction theory see Bhattacharya (2017).

7. Piketty defines capital as that which Marx treated as the accumulation of capital. For Marx, capital itself is the process of value expansion through circulation: “The circulation of money as capital is . . . an end in itself, for the expansion of value takes place only within this constantly renewed movement. The circulation of capital has therefore no limits” (Marx 1986a, 150, 153). For a discussion of the differences between Piketty and Marx on the definition of capital, see Harvey (2014).

8. The labour theory of value and the “law of the tendency of the rate of profit to fall” are both controversial even within Marxist economics. The labour theory of value was the key target of the Austrian school critique of Marx (see Bohm-Bawerk 1966). For a contemporary Marxist response that explains and responds to Bohm-Bawerk’s critique, see Gagnani (2018, 618–642). The controversy over the falling rate of profit is connected to but distinct from the issues surrounding the labour theory of value. I cannot provide a complete overview of the technical economic literature here, much less resolve the controversy. The law of the tendency of the rate of profit to fall has been rejected as theoretically undeveloped in Marx’s own works (see Heinrich 2013) and logically inconsistent (see Okishio 1961). For a historical overview of the range of criticisms, see Laibman (2004, 1–34) and Padhi (2021, 220–224). Defenders of Marx’s “law” argue that while Marx’s own formulations were incomplete, they can be made consistent and employed to provide both cogent and empirically justifiable explanations of capitalist crisis. For responses to the critics see Kliman (2007, 113–137), Martinez (2004, 67–84) and Smith (1994, 164–183). Piketty’s criticism fails to note that immediately after his attempt to explain the tendency, Marx details six countervailing forces that could counteract it, including intensifying the exploitation of labour, expanding the surplus labouring population, and foreign trade (Marx 1986a, 233–240). Whether the argument is theoretically sound or empirically confirmed or not, Marx was not being apocalyptic. He concludes not that capitalism must inevitably collapse because of the tendency, but that “there must be some counteracting influences at work, which cross and annul the effect of the general law, and which give it merely the character of a tendency” (Marx 1986a, 232).
9. A related question, but one which I cannot discuss here, concerns the reasons why the advance of digital technologies has not solved the problem of slowing labour productivity. For explorations of this problem see Roberts (2016, 239–242), Gordon (2016, 523–531) and Benanav (2020, 16–22).

10. Roberts’s argument is empirically well-supported but not technical. If one is sceptical of his evidence one can compare his conclusions to a highly technical analysis of the 2008 crisis in the British economy. Alexiou not only supplies his empirical evidence but also the equations that he devised to model the events in the real economy and the statistical tests that he ran on them to formally determine the confidence level. He finds, as Roberts did, a correlation between the falling rate of profit and the onset of crisis. Non-economists (like me) will be hard-pressed to follow the mathematics, but he does a reasonably good job explaining the technicalities (see Alexiou 2022).

Global evidence in support of the connection between the rising organic composition of capital and falling profit rates can also be found in Carchedi and Roberts (2018). However, as I noted above, I believe that for purposes of criticizing Piketty, one can remain agnostic on the technical analysis of the causes of falling profit rates. The key point for purposes of understanding the political-economic causes of the rise of inequality is the effects of falling profit rates on workers. The effects of capitalist competition tend towards crisis and in crises, workers suffer loss of income and employment while capitalists can shift investment to alternatives.


12. Piketty is rightly critical of the recent history of social democracy, accusing it of abandoning its historical commitment to material equality and largely ignoring the interests of the working class so as to better appeal to educated urban professionals (see Piketty 2020, 807–861).

13. While there are more important similarities than differences between Devine’s negotiated coordination economy and Michael Albert’s participatory economics (Parecon), I think that one important difference is that Parecon represents the interests of people as workers and consumers but does not represent other fundamental social interests. Devine’s model gives central voice to people as workers, but also includes formal representation for any social interest (women, environmental groups, etc.) that can demonstrate to the whole that they have distinct concerns that require formal representation. See Albert (2003).

14. Devine and Adaman do not use the term “life-value.” It was developed by the philosopher John McMurtry to distinguish that which is ultimately valuable to human beings—resources that satisfy our needs and institutions and relationships that enable the free development of our intellectual, practical, creative, and relational capacities—from that which is valuable in capitalism—money-value, typically produced by instrumentalizing life-capacities and destroying the natural world upon which all life depends. A further discussion would take me too far afield. See McMurtry (2011, 212–257) for a complete discussion. For an application of this idea to the future of the socialist project, see Noonan (2022, 344–361).

References


