Chapter 10

Accounting for Inequality: Questioning Piketty on National Income Accounts and the Capital-Labor Split

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Thanks in part to Occupy Wall Street, and in part to the media attention bestowed upon Thomas Piketty’s new book, *Capital in the Twenty-First Century*, the “distribution of wealth is one of today’s most widely discussed and controversial issues” [1]. A big problem with this important discussion, says Piketty, is that it’s a “debate without data” [2]. The introduction and analysis of large data sets on inequality would seem to be his forte. Furthermore, he wants to look at data diachronically as its patterns evolve over time. These are clearly methodological strengths that encourage confidence in his work. Theoretical questions, however, also inevitably arise in the debates and controversies surrounding the meaning of the data.

The distribution of wealth has been given short shrift in most conventional economics textbooks, yet it is arguably the most basic element in our economic system. The topics such as where wealth comes from, how it is accumulated, what is its relationship to income flows and income inequality are usually absent in discussions among conventional economists. Piketty rightly counters this tendency, and advocates “putting the distributional question back at the heart of economic analysis” [15].

The high profile emergence of Piketty’s work raises our hopes and is to be welcomed. Furthermore, his heart seems to be in the right place: “There is little evidence that labor’s share in national income has increased significantly in a very long time” [22]. Also from 1980 to about 2000, he points out, the top 10% of income earners in the U.S. increased its share such that it is now about 50% percent of the national income [23]. These are weighty matters in terms of the wide-spread fairness and justice concerns given the pattern of intensifying inequality here and labor’s nearly total dependency on market-based

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1 Page numbers in brackets refer to Thomas Piketty, *Capital in the Twenty-First Century*. (Cambridge: Harvard University Press, 2014). This essay has been strengthened through critical comments from Victor D. Lippit, David Barkin, Christopher Gunn, Stephen Spartan, Mehdi Shariati, and Morteza Ardebili. Weaknesses that remain are my own.
access to necessities of life. Some interpretations of globalization have questioned whether intensifying inequalities are self-evidently tied to fairness and justice issues. It is suggested that globalization together with technological change might mean that income that would otherwise go the U.S. middle class might instead accrue to emerging middle classes and the poor in developing countries, and that it is not necessarily unjust that they catch up while middle-class incomes in the U.S. stagnate. Scott Sernau has argued to the contrary, and Piketty would seem to agree, that globalization has led paradoxically to “worlds apart,” both within and between nations. Austerity policies, centering on forms of structural adjustment, have reduced social-needs-oriented government spending while subsidizing banking and investment institutions. Increasing exploitation is occurring today through the “race to the bottom” as global capitalism scours the world for the lowest wage labor markets and presses domestic labor for steep cuts. Policies of the World Bank, the International Monetary Fund, and NAFTA (North American Free Trade Agreement) have led to structural adjustments that exemplify policies of domination that hurt the poor and middle classes.

Most U.S. adults typically have little awareness of the nature of wealth or the pattern of its distribution in society. This generally also means lack insight into the connection of income flows to relations of capitalist property (i.e. wealth) ownership and the commodification of labor and life. The distinction between an income flow from wealth, and how the economic assets owned by a person or family (rent, interest, dividends, and profit) differ from the income flow from labor (i.e. salary and wages) is key to critical understanding and its impacts will soon be elaborated below. An examination of these kinds of social dynamics is a vital part of a critical or radical pedagogy. A widely-used sociology text, Social Problems, by Macionis stands out in this regard, pointing out that inequalities of wealth are linked to inequalities of life chances. “Life chances” is a technical term used to indicate the relative access a household has to the society’s economic resources: decent housing, health care, education, employment, etc. The greater the wealth in one’s household, the greater one’s life chances. Life chances (including access to jobs and income) are today being transferred

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3 Piketty writes of the “Inequality of Total Income: Two Worlds” [263] and his chapter 8 is entitled “Two Worlds” [271–303], yet close examination shall reveal below significant areas of divergence from both Sernau’s analysis and my own. Thomas Piketty, Capital in the Twenty-First Century. (Cambridge: Harvard University Press, 2014)