

“Interview on Piketty”

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interviewed by Tomasz Wróblewski

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Wróblewski: Thomas Piketty’s *Capital in the Twenty-First Century* became a new Marxist bible for European intellectual elites, more and more concerned with inequality. Regardless of our views on economy and politics, should not we all be worried?

McCloskey: No. Piketty’s own statistics show that inequality has in fact increased recently *only* in the USA, the UK, and Canada. Not, for example, in France. But he says it *will* increase, everywhere, always, as a tendency in capitalism. He’s wrong. Equality moves up and down in long waves, and the key point is that it actually *never moves up or down very much*. For example, in the USA recently the share of labor in national income did fall. How much? From 62 percent to 60 percent. Big deal! And now it’s on its way up again.

If you look closely at the statistics, furthermore, you notice that one of the main sources of inequality is the low incomes of *young* people. When they are unemployed their incomes are of course zero. That *is* something to worry about, worldwide, and especially in Europe. But the problem has nothing to do with Evil Capitalists. It has to do with Evil Middle-Aged and Ordinary People voting to protect their own jobs with labor-market restrictions *of just the sort the New Egalitarians think are good*.

Wróblewski: There is ongoing discussion in the US and Europe about special regulations to limit disparities between the high earners in financial system and average workers. Do you see it as small but healthy movement towards equality?

McCloskey: I do think its stupid for corporate “compensation committees” to give such high rewards to their good friends. It’s bad publicity. It annoys people for no real gain in efficiency. It undermines the confidence people have in capitalism. So I wouldn’t mind some symbolic moves to shame it, such as were just instituted in the USA: requiring corporations to report the ratio of CEO compensation to averages in the company. (True, there are some problems with such reporting.) But the effect of super salaries of big bankers and CEOs on inequality is trivial – there are just too few of them to affect the statistics very much. And the crazy money they get in, say, the USA is taken not from the workers but from the *stockholders* – other capitalists!

The more important source of inequality is among workers themselves – that is, employees earning a salary – because there are a lot of them. If people with high

skills are earning high salaries it matters for the national numbers. But no one argues that workers do not *earn* their incomes. Do we really want to restrict the earnings of people who are getting them because their customers voluntarily pay them a lot? A somewhat silly case – but it makes the point – is the salary of football stars. Would you think it a good idea to restrict the salaries of the Polish stars Robert Lewandowski or Zbigniew Boniek, a restriction that would *not* reduce ticket prices but would in fact merely increase the incomes of the owners of the teams? When you pay to see Lewandowski and Boniek play, are you being cheated? No: you do it voluntarily, and delight when you can shout goal, goal, goal!

Wróblewski: How about obligatory publication of wage difference between those in the corporation who earn the most, and those on the bottom of the ladder?

McCloskey: Yes, as I said, it seems to me harmless and a little helpful, shaming the dopes. But actually stockholders mainly do already get such information, and yet go on approving high compensation for their CEOs, by very big majorities in voting. They must think it is good for the value of their stocks. And the “problems with reporting” I mentioned include, for example, deciding what “average” salary to take – for an international company such as PKN Orlen should the average include its workers in the Czech Republic, or only those in Poland? It’s worse for Siemens, say.

Wróblewski: Piketty worries about capital: “Money tends to reproduce itself.” He argues that the rich can live off their fortunes better than any man can live off his or her work. Financial feudalism?

McCloskey: It has always been so that there are people who live off their lands or their bonds or their government sinecures. But it was much *worse* before the Great Enrichment, after 1800. “Capitalism” (an unfortunate word, by the way) has *improved* equality. Why?

(1.) Because owning *land*, under real feudalism, was much more stable and much, much bigger in share. Piketty confines his attention to the minor ups and downs of inequality in the “capitalist” era, and therefore does not acknowledge the point. The rents on land in Poland before 1800 – and in truth up to 1900 and beyond – were *half* of Polish national income. *Half* was going to the truly rich big landlords, or to the less-rich *szlachta*. The same was true in Japan, with the *samurai* in place of the *szlachta*. “Capitalist” Poland and Japan have had much *more* equal income, not less. And I don’t need to inform your older readers that communist Poland was not in fact a paradise of equality!

(2.) Trade-tested betterment such as we have had since 1800 in Europe – with breaks for thrilling experiments suggested by the intelligentsia in nationalism, socialism, and, if you liked these, national socialism – is also better for equality

because “creative destruction” erodes the fortunes of the old rich. Look at what has happened to the old fortunes earned from owning old-fashioned department stores. Mail-order selling and discount stores have dramatically cut into their business.

Piketty downplays the main reason that we are so much better off than our ancestors – the ingenuity encouraged by letting people run their farms or their factories the way they want, taking the risk of failure and the rewards of success. We all agree that creative destruction is good in science and art and journalism and football, yes? Why not also in the economy?!

3.) And Piketty is mistaken about “money reproducing itself.” His technical argument is wrong, but let’s not get into the technicalities. Think of it this way: if he were correct, *then all of national income would end up in the hands of rentiers*. Well, it hasn’t. There’s no logical limit to Piketty’s “logic.”

Wróblewski: In your book *The Bourgeois Virtues* (2006) you talk about liberal bourgeois values that enriched our humanity and gave us prosperity, but according to Piketty we are in danger. The gap between rich and poor and this bourgeois attitude can lead to catastrophic wars.

McCloskey: Wars? It hasn’t yet. Contrary to Leninist fairy tales about “capitalist” or “imperialist” wars fought for profits, the actual source of wars – after they stopped being in Europe about maintaining the glory of the upper classes or about killing Protestants and Catholics and Jews (think of the Great Deluge in Poland in the 1700s) – has been those terrible ideas I mentioned, dreamed up in the nineteenth century by the intelligentsia, namely, nationalism and socialism, and their their spawn of the early twentieth century, national socialism. The bourgeoisie wants peace and McDonald’s, not *Blitzkrieg*. Which do you want?

Wróblewski: You wrote that Piketty’s book is an opportunity to “understand the latest of the leftish worries about capitalism,” but aren’t those traditional worries, almost 200 hundred years old. Things that keep haunting our civilization and most of the time get resolve only by wars and revolutions?

McCloskey: Yes, the leftish *and rightish* “worries” have been precisely the cause of wars and of revolutions and of counterproductive regulation, uniformly disastrous. We “worried” about resource scarcity (which worry by the way is bad economics) and so we (Germans) conquered Poland or we (Japanese) conquered Manchuria. We (Americans and Europeans) “worried” about monopolies, and so we came to favor gathering all enterprises under one giant monopoly called the state, or we introduced anti-trust regulators who were immediately captured by the industries they were supposed to regulate. We (Americans) “worried” about how very uncultivated and European the workers were in their consumption of, say, beer, and so we introduced Prohibition, with disastrous results. After not learning from that disaster, we (white, Anglo Americans again) worried that African-Americans and Hispanics were going

to rape white women after taking drugs, and introduced the War on Drugs, disastrously. And on and on. The only correct and non-worrisome and non-disastrous discovery of social science in the nineteenth century was “Let ordinary people run their economic lives the way they want and, as a result, everyone becomes vastly better off.” The other “discoveries” – racist history, for example, or eugenics or tests of statistical significance – turned out to be mistaken, and usually disastrous in application.

Wróblewski; Since rich, bourgeois is so influential, and in a way responsible for our civilization should not they limit themselves – put a cap on their own affluence?

McCloskey: No, because entry of competitors into the market – the creative destruction – keeps the rich bourgeoisie on a leash. True, they can influence politics. But that has *always* been true. The old joke is that, unhappily, societies follow the Gold Rule – those who have the gold, rule. We must work against such rule, mainly by vigorously defending free speech and a free press. If we go the way of Putin’s Russia, we are doomed: the rich take over, and the powerful become *through the state* rich.

Real monopoly is not native to market-tested betterment. It is caused by the state, not prevented by it. The Blessed Adam Smith wrote in 1776, “to found a great empire for the sole purpose of raising up a people of customers may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers; but extremely fit for a nation whose government is *influenced* by shopkeepers.”

On the other hand, I do approve of charity, such as John D. Rockefeller did early and late in his long life, and am irritated as we all are by silly excesses in consumption by the super rich. Here I agree with Piketty, who detests Liliane Bettencourt, the lazy heiress to the L’Oreal fortune. Her “charitable” foundation is endowed with *one-and-a-half* percent of her enormous wealth. Contrast this with the Carnegie Foundation, which the American steelmaker endowed with *one-hundred percent* of his. The admirable “gospel of wealth” is much less practiced in Europe than in the USA or Japan.

But understand: such charity cannot *much* change the distribution of income. It turns out in the numbers that if we expropriated all the rich people the ordinary people would be benefited only a little. By contrast, ordinary people like you and me are benefited immensely by creative destruction and the Bourgeois Deal: “Let me test my proposed betterment in free trade within and outside Poland, and let me keep the profits that accrue (until those irritating competitors get in to spoil the fun), and in the long run – and not so long, as you can see in Poland’s recent history – I’ll

make *you all* rich, compared with what you got under the Aristocratic Deal or the Communist Deal.”

Wróblewski: In your publications you devoted quite some space discussing the source of richness. But does this really matter to the average, let's say Pole, how his or her boss got his millions, since he/she would never live to see this kind of money?

McCloskey: Most of us are not going to be Bill Gates. But we need to let the Bill Gates-types flourish, or else we will all be poor. The envy that causes us to cut down the tall poppies keeps us poor – and equal! I heard a folk tale about it first in the Czech Republic, but I'll bet the tale has a parallel in Poland: Jesus and St. Peter travel in disguise, asking peasant families for food and shelter for the night. At last a generous peasant couple provides. The next morning the travelers reveal their identities, and Jesus says, “To reward your charity, you may receive anything you want.” The husband and wife consult in whispers for a moment, and the husband turns to Jesus, saying, “Our neighbor has a goat, which provides milk for his family . . .” Jesus anticipates: “And so you want a goat for yourselves?” “No. We want you to kill the neighbor's goat.” Envy is a great sin. And an economic disaster.

And making the trade-tested betterers – the entrepreneurs, the creative destroyers – into our heroes *is* a model for our much more modest betterments. It inspires us. If our only heroes are kings and football players, we do not give honor to the people who are in fact improving our economy, and we have less interest in doing it ourselves.

Wróblewski: When you compare the US and the European Bourgeois, you will see big difference. New technology fortune in the US and old money in Europe – inheritance. Does it make any difference for an economy and for equality?

McCloskey: I don't think you're right about the contrast. There are both sorts in both places, and the differences that people imagine are big are in fact small. Take Sweden, for example, which I know pretty well. People say that Sweden is “socialist.” Poles know that this is silly, having experienced real socialism until 1989, and during communism going over to Sweden to make money in a capitalist way. “Socialist” Sweden even nowadays is bourgeois and “capitalist,” and not much less so than the United States. Sweden allows property and profits. It allocates most goods by unregulated prices. The Swedish government, though busybody by historical standards – as are most governments nowadays – does not own much of the means of production. Unlike socialistic Americans, both Democrats and Republicans, who intervened to save General Motors and Chrysler during their post-2007 troubles, the Swedish government refused to bail out Saab Motors (sold in 2010 by that same GM) when it went bankrupt. Nor did the Swedes object when the

Chinese bought both bankrupt Saab and solvent Volvo. All “Swedish” cars are now Chinese. Occupational choice in Sweden is free, though encumbered as it is in the United States and Poland by cartels of doctors and electricians. Trade-tested betterment is honored, though heavily regulated, as it is also in the United States and Poland. Corruption is low, much lower than in most states of the United States, or in Poland, though with a correspondingly high level of intrusive “transparency” from government looking into private matters. Inheritance in Sweden is not the admired path to social status, as it also is not in the United States or Poland. Like most Americans, most Swedish people live in big towns, though decamping to red-painted shacks in the woods for their long summer vacations. Swedes are honest and bourgeois. And they are, conservatively measured, thirty times richer than their ancestors were in what was in 1800 almost as poor as Russia (then recently supplemented by occupying Poland).

Wróblewski: Polish bourgeois, or just Polish rich, most of them being first generation millionaires, face all the same problems – envy, hate. They are asked to share and pay more to their workers. Very few admire them for what they did. They are rather concerned why they did not do more for them. How should they communicate their wealth?

McCloskey: To rise into the top rank of rich countries, Poland needs to change its ideology. A change in ideology, first in Holland and then in Britain and especially in what became the United States, is what caused the Great Enrichment – increases in real comfort since 1800 by factors of ten or thirty or one hundred, depending on where you look: adequate food, excellent medicine, amazing transportation, much longer lives. First the intelligentsia (Voltaire and Smith, for example) and then ordinary people started to *admire* the bourgeoisie. The result was the success of the Bourgeois Deal. Remember killing the goat.

Wróblewski: When you look around, listen to intellectual debates in media or universities you get a feeling that Piketty’s ideas reflect the popular mood. Are we, as the western civilization, turning toward socialism?

McCloskey: We’re always turning towards socialism, and need to turn away. The problem is that people think of the government the way the tsar was thought about by Russians. The “good tsar” was supposed to be the father of the nation, and to arrange matters to work out well. The Chinese have a similar tradition. People think that government “policy” (the very word in this meaning is a nineteenth-century coinage) as what makes people rich. Minimum wage laws. Worker and foreign trade “protection.” It doesn’t. Most governmental interventions make the average person worse off, not better off – remember the Evil Middle-Aged and Ordinary People voting in effect to prevent young people from getting jobs. We are collectively well off because of our own efforts and because we trade with other

people making their efforts – not because the tsar or the emperor or the government subsidized our activity (look at the disgraceful Common Agricultural Policy, with parallels in the USA). When we are collectively poor it is because we have voted for bad policies, or because a band of robbers have taken over the government. Unhappily, often both. People *think* that subsidies, quotas, minimum wages, licensing, and all the other ways governments restrict the Bourgeois Deal will make them rich. Don't believe it. Don't be fooled.