Rawls, Piketty, and the Critique of Welfare-State Capitalism

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Political philosophers have renewed their attempts to justify John Rawls's preferred economic regime, property-owning democracy. They have followed Rawls in criticizing welfare-state capitalism because it permits unjustifiably large economic inequalities. Simultaneously, Thomas Piketty has argued that capitalism has an inherent tendency to create very high degrees of wealth and income inequality. I argue that introducing Piketty's work into a Rawlsian framework strengthens Rawls's critique of the welfare state and his case for property-owning democracy. Piketty's work, if correct, shows that welfare-state capitalism not only permits unjust economic inequalities but causes and compounds them, despite the presence of various forms of redistribution. I then argue that Piketty's solution to inequality, a global progressive tax on capital, can contribute to the aims of a property-owning democracy. This synthesis of Rawls and Piketty yields a potentially powerful left-wing yet nonsocialist critique of welfare-state capitalism.

Over the last several years, political philosophers have renewed their attempts to justify John Rawls's preferred economic regime, property-owning democracy.[1] They have also followed Rawls in criticizing welfare-state capitalism because it permits unjustifiably large economic inequalities. Martin O'Neill and Thad Williamson have led this effort.

Simultaneously, Thomas Piketty's (2014) book, *Capital in the Twenty-First Century*, has caught fire in intellectual circles across the Western world, especially in the United States and Britain, where Piketty's work was less well known than in his native France.[2] Piketty argues that capitalism has an inherent tendency to create very high degrees of wealth and income inequality because, in capitalist economies, the rate of return on capital (r) is greater than the general growth rate (g). Because of this "$r > g$" dynamic, we can expect capitalism, unchecked, to hand most economic and political power to the richest classes, and the super-rich in particular. This is true even for welfare-state capitalism. The welfare state merely provides social insurance; it has no built-in mechanism for compressing the inequalities of wealth required to stymie the dangerous power of $r > g$.

We thereby encounter two recent attempts by philosophers and economists on the Left to develop a nonsocialist critique of the welfare state. This article combines these critiques. I argue that the introduction of Piketty's empirical data and formal models into a Rawlsian framework strengthens Rawls's critique of the welfare state and the case for property-owning democracy. In particular, Piketty's work, if correct, shows the welfare state to be more unjust than otherwise and makes the case for moving to property-owning democracy more urgent.[3] However, Piketty's solution to inequality, a global progressive tax on capital, raises some complications for institutionalizing property-owning democracy that will require further work.

I begin by reviewing the Rawlsian critique of the welfare state in the next section, followed by the Rawlsian case for property-owning democracy. I next explain Piketty's account of growing inequality under welfare-state capitalism. I then explain how Piketty's account strengthens the Rawlsian case against the welfare state. The last two sections discuss challenges in converting the Rawls-Piketty critique of the welfare state into a practical program of social reform. I conclude with a brief restatement of the Rawls-Piketty critique.

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1. For numerous articles defending property-owning democracy, see O'Neill and Williamson (2012b). Many of the defenses of property-owning democracy draw on Meade (1965), as well as Rawls.
2. For a discussion of Piketty's relatively greater impact in the United States, see Cowen and de Rugy (2014).
3. This article was accepted for publication the same year as Thomas (2017), so I do not address Thomas's discussion of Piketty and property-owning democracy here, but the thesis of this piece is complementary with Thomas's discussion. See Thomas (2017, 166–68, 174–77). For another recent philosophical work engaging Piketty, see O'Neill (2017).

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AGAINST WELFARE-STATE CAPITALISM

The term "welfare state" means many things, so we should begin by defining it as Rawlsians typically understand it. Rawls describes a welfare state as an ideal regime type known as "welfare-state capitalism," where the means of production may be privately owned, but there is an explicit governmental aim "that none should fall below a decent standard of life, and that all should receive certain protections against accident and misfortune—for example, unemployment compensation and medical care" (Rawls [1971] 1999, xv). The welfare state only redistributes income to help those in need, not to compress inequality. That is, the welfare state permits "large and inheritable inequities of wealth." There are limited attempts to "secure fair equality of opportunity" as well, and the scheme of basic liberal liberties is fully protected. Importantly, "welfare provisions may be quite generous and guarantee a decent social minimum covering the basic needs" of persons (Rawls 2001, 138). It is also clear that the welfare state makes use of a powerful state apparatus to regulate the economy, implement countercyclical policy, and guarantee full employment (Rawls [1971] 1999, 244). O'Neill and Williamson (2012a) point out that to ensure fair equality of opportunity, welfare states may also provide a right to equal public education, a system of public campaign financing, and limitations on corporate political activity.

Rawls's critique of welfare-state capitalism is that it fails to adequately realize (*a*) the fair value of the political liberties, (*b*) fair equality of opportunity, and (*c*) the difference principle.[4] Rawls's claim that a reasonable liberal regime must guarantee item *a* is most explicit in *Political Liberalism*, although it is important in both *A Theory of Justice* and *Justice as Fairness* (Rawls 2005, 356–62). In *A Theory of Justice*, Rawls says that the welfare state "may allow large and inheritable inequities of wealth incompatible with the fair value of the political liberties . . . as well as large disparities of income that violate the difference principle." Rawls also claims that in a welfare state "some effort is made to secure fair equality of opportunity," but "it is either insufficient or else ineffective given the disparities of wealth and the political influence they permit" (Rawls [1971] 1999, xv). In *Justice as Fairness*, Rawls says that the welfare state rejects "the fair value of the political liberties, and while it has some concern for equality of opportunity, the policies necessary to achieve that are not followed" (2001, 137–38). Further, "it permits very large inequalities in the ownership of real property (productive assets and natural resources) so that the control of the economy and much of political life rests in a few hands" (138). Again, "welfare-state capitalism permits a small class to have a near monopoly of the means of production." The welfare state only produces social insurance, so with "the lack of background justice and inequalities in income and wealth, there may develop a discouraged and depressed underclass many of whose members are chronically dependent on welfare." As a result, "this underclass feels left out and does not participate in public political culture" (140).

To properly understand his critique, we should recognize that, for Rawls, these dangers are present in ideal theory, which assumes full compliance with the principles of justice by all members of society, citizens and political officials. In ideal theory, citizens comply with institutional rules that realize the deliberate aims of the regime type that attempts to institutionalize the two principles. So in analyzing a regime type, we consider "how it works when it is working well, that is, in accordance with its public aims and principles of design" (Rawls 2001, 137). As a corollary, then, "if a regime does not aim at certain political values and has no arrangements intended to provide for them, then those values will not be realized." Rawls admits that even if a regime designs the institutions to realize certain values "it still may fail to do so" because "its basic structure may generate social interests that make it work very differently than its ideal description." Nonetheless, Rawls claims that "it seems safe to assume that if a regime does not try to realize certain political values, it will not in fact do so" (137). While, in principle, the institutions characteristic of a particular regime type may not realize its aims, Rawls's approach to ideal theory assumes those institutions will tend to carry out the regime type's aims. I have concerns about this assumption, but I will take it for granted throughout the rest of the article.

In sum, Rawls's critique of welfare-state capitalism is that even in ideal theory it fails to realize the fair value of the political liberties, fair equality of opportunity, and the difference principle because it allows for large inequalities of wealth and income. The welfare state does not aim to disperse these inequalities despite the threats they pose, so these institutions may fall under the control of the rich, even when citizens and officials act in the public interest.

FOR PROPERTY-OWNING DEMOCRACY

A property-owning democracy (POD) has an aim that welfare-state capitalism lacks: the dispersion of large concentrations of capital. As Rawls ([1971] 1999, xv) claims, "basic institutions must from the outset put in the hands of citizens generally, and not only of a few, the productive means to be fully cooperating members of a society." PODs steadily

4. The difference principle holds that social and economic inequalities are to be the greatest benefit of the least-advantaged members of society. See Rawls ([1971] 1999, 43).

disperse the ownership of capital over time by restricting inheritance and bequest and promoting "fair equality of opportunity . . . by provisions for education and training" (Rawls [1971] 1999, xv). The "full force of the difference principle" in a POD "is a principle of reciprocity, or mutuality, for society seen as a fair system of cooperation among free and equal citizens from one generation to the next" (xv). This means that PODs attempt to integrate all members of society into the productive parts of the economy, so there is no economic underclass. As Rawls claims in *Justice as Fairness*, "the background institutions of property-owning democracy work to disperse the ownership of wealth and capital and thus to prevent a small part of society from controlling the economy and, indirectly, political life as well." PODs ensure "the widespread ownership of productive assets and human capital (that is, education and trained skills) at the beginning of each period, all this against a background of fair equality of opportunity" (Rawls 2001, 139). POD goes beyond the welfare state because its intention is not just to help those who "lose out" but rather "to put all citizens in a position to manage their own affairs on a footing of a suitable degree of social and economic equality." The result "if all goes well" is that the unfortunate will no longer be objects of "charity and compassion" or "pity" but people "to whom reciprocity is owed as a matter of political justice." Even if the poor control less capital, they are still "doing their fair share on terms recognized by all as mutually advantageous and consistent with everyone's self-respect" (139).

O'Neill and Williamson (2012a) have argued that PODs "predistribute" capital because they insist that "income returns from capital are broadly rather than narrowly distributed" in order to generate "a more equitable pretax distribution." Rather than redistributing wealth, PODs set pretax incomes at a more equal level. And PODs realize this goal by institutionalizing (i) an individual right to share a society's productive capital or wealth and (ii) a collective right to sufficient productive capital to sustain viable democratic communities at the local level. PODs recognize and enforce *individual capital rights* and *collective capital rights*; the former concerns an individual's right to hold capital, whereas the latter concerns the ability of groups to jointly own capital, such as workers owning their firm.

Capital rights are secured through two subsidiary aims: a capital ceiling and a capital floor. Institutionally, PODs pursue policies that prevent some people from holding too many resources and preventing the poor from holding too few. To bring this about, Rawls argued that PODs must have four branches of government: an allocation branch, a stabilization branch, a transfer branch, and a distribution branch. Rawls ([1971] 1999) understands the function of these branches as follows:

a) The *allocation branch* keeps prices competitive; prevents formation of "unreasonable" market power; and identifies and corrects market inefficiencies through taxes, subsidies, and the redefinition of property rights (244).
b) The *stabilization branch* brings about full employment and protects free choice of occupation along with deploying financial resources to increase aggregate demand when necessary.
c) The *transfer branch* generates and distributes the social minimum by taking all needs into account and giving them the right weight with respect to other claims. A competitive price system gives no consideration to needs, and "therefore it cannot be the sole device of distribution" (264).
d) The *distribution branch* preserves approximate justice in distributive shares through taxes and redefining property titles. It imposes great inheritance and gift taxes, along with restricting rights of bequest. It taxes to achieve a certain distribution of wealth and to raise the revenue required to impose justice (264).

Rawls ([1971] 1999, 278) claims that these branches must regularly insist that "social resources . . . be released to the government," in contrast to a welfare state that merely redistributes to promote social insurance and equality of opportunity.

Importantly, the welfare state has many of these branches but restricts their functions. The allocation branch in a welfare state does not stop "unreasonable" market power from forming. It simply corrects market inefficiencies. The distribution and transfer branches sustain social safety nets through redistribution taxation. Welfare states tend to realize stabilization through standard fiscal and monetary stimulus, forgoing capital distribution ("re-" or "pre-").

PODs, however, go much further. Williamson has also argued that PODs should provide three distinct forms of capital to all members of society: residential capital, cash, and stock. To guarantee that real estate is widely held, Williamson (2009, 443) claims that states must subsidize home mortgages and use grants to help people make down payments. Governments should also guarantee that everyone has savings and perhaps provide everyone with free financial advice before they could invest. In this way, governments provide people with a kind of capital safety net—a free bundle of capital assets to ensure that all households have at least $100,000 in wealth.[5]

5. Also see the proposals in Ackerman and Alstott (2008).

To implement collective capital rights, we will need more worker government of firms, perhaps sustained by giving citizens nontradable coupons for fixed stock ownership. Alternatively, government could hold the stock for them. Implementing collective capital rights also requires that the workplace become more democratic than it is under the welfare state (O'Neill 2009, 33–42).[6] Workers should not merely control the terms of their employment but should have a share in monitoring and enforcing workplace regulations. Thus, by protecting worker control of the workplace, POD is committed to both political and economic democracy.

For Rawlsians, welfare-state capitalism allows the rich to have unequal political power, which undermines the public's sense that they are engaged in a common project (O'Neill and Williamson 2012a). In particular, the welfare state, by only engaging in redistribution, can create a permanent economic underclass who feel as though they do not contribute to their economy. Predistribution is superior because it can help secure the social bases of self-respect and avoid giving the impression that the recipients of redistribution are somehow leeches on society.

The main argument for POD is that it corrects these problems by dispersing inequalities of wealth, capital, and income that violate the fair value of the political liberties, fair equality of opportunity, and the difference principle. I have rejected these three arguments for POD elsewhere (Vallier 2015), but I will not review them here. What matters for our purposes is that all of these arguments depend on the claim that the welfare state, even under ideal conditions, allows for large inequalities of wealth, capital, and income that violate Rawls's principles of justice. To correct these inequalities, we need collective and individual capital rights realized through the predistribution of income and capital via vast government bureaucracies that produce a sufficiently low capital ceiling and a sufficiently high capital floor.

PIKETTY'S CRITIQUE OF CAPITALISM

There is an important incompleteness in Rawls's argument against welfare-state capitalism and for POD.[7] Rawls's argument is that welfare-state capitalism is unjust simply because it allows for inequalities of wealth and income. But this is an odd reason to reject a regime type as unjust; imagine that the welfare state allowed for inequalities of wealth and income simply because there is a tiny chance that these inequalities will materialize. That would not be a good reason to conclude that welfare-state capitalism is unjust, for the injustice of excessive inequalities is exceedingly unlikely. We can provide a stronger criticism of the welfare state if we can show that the injustice-causing inequalities are not merely possible but probable. If we have reason to think that such inequalities will tend to form even in ideal welfare-state capitalism, then we can advance a stronger argument that POD is the right remedy. Piketty's work, if accurate, provides us with reason to think that welfare-state capitalism will tend to generate the wealth inequalities that make it unjust. That is why Piketty's work provides such an important supplement to the Rawlsian case for POD.

Piketty has many critics, and he has replied to them in detail.[8] Generalizing, we can say that Piketty's critics largely agree on the importance of the data that Piketty has gathered on growing inequalities of income and wealth in developed nations like the United States and Britain.[9] However, Piketty's fellow economists (Furman and Orszag 2015; Ray 2014; Rognlie 2015, Rogoff 2014; Summers 2014) have heavily criticized his model of growing inequalities of wealth and income, so much so that we may have good grounds to reject it entirely. I will set these serious criticisms aside for three reasons. First, the point of this article is to examine how Piketty's critique of capitalism interacts with the Rawlsian critique of the welfare state and so to address how the combined critique will run if it rests on good empirical work and plausible economic modeling. Second, Piketty's model may survive the sustained criticisms of other economists; if so, then it may play a pivotal role in a potentially successful critique of the welfare state from the Left. Third, even if we abandon Piketty's formal model, his data collection has been hailed widely enough that we may be able to use the data to predict that inequalities of wealth and capital have a tendency to increase. And a reasonable prediction of increasing inequalities of wealth and capital is enough to strengthen the Rawlsian case against welfare-state capitalism and for POD.

6. For further discussion of justice in the workplace and the case for POD, see Hsieh (2009). I assume here that workplace democracy does not necessitate state ownership of the means of production, as it would under a socialist regime. For further discussion of the Rawlsian case for liberal socialism, see Edmundson (2017).

7. Throughout *Capital*, Piketty entertains different normative reasons to worry about inequality, including merit-based reasons (see 2014, 1, 26). I do not believe that there is a coherent normative theory in *Capital*, nor do I think Piketty meant to provide one, so I do not address his normative arguments in this essay.

8. O'Neill (2017, 343n3) provides an extensive catalog of replies from scholars outside of economics. O'Neill (2017, 343n4) catalogs Piketty's replies to most of his critics.

9. But see Sutch (2017) for a challenge to some of Piketty's data.

Let us begin our discussion of Piketty by reviewing his core descriptive claims: (1) the ratio of wealth to income is rising in most developed, democratic countries; (2) absent extraordinary interventions, we should expect that trend to continue; (3) if it continues, the future will look like the nineteenth century, where economic elites have predominantly inherited their wealth rather than working for it; and (4) the most effective policy solution would be a globally coordinated effort to tax wealth.[10] We can also understand Piketty (2014) as making two central nonnormative claims: an empirical claim and a modeling assumption. The empirical claim is that Western democratic capitalist nations have historically high levels of inequality, and with the exception of several major events in the twentieth century, they are seeing a return to form due to the accumulation of capital at the top of the wealth distribution (Piketty 2014, 356). The modeling assumption involves appealing to two fundamental laws of capitalism (66, 70) and a third generalization—$r > g$—drawn from these two laws and Piketty's empirical work (33).

Piketty's argument is based on several definitions. Capital is defined as "the sum total of nonhuman assets that can be owned and exchanged on some market.[11] Capital includes all forms of real property (including residential real estate) as well as financial and professional capital (plants, infrastructure, machinery, patents, and so on) used by firms and government agencies" (Piketty 2014, 46).[12] Piketty then offers a standard definition of the "capital/income ratio." Income "is a flow. It corresponds to the quantity of goods produced and distributed in a given period (which we generally take to be a year)" (50). Capital, however, is a "stock" that "corresponds to the total wealth owned at a given point in time. This stock comes from the wealth appropriated or accumulated in all prior years combined." Following standard practice, Piketty represents the capital-income ratio as β. Piketty defines the rate of return on capital as r and the share of income from capital in national income as α. The first fundamental law of capitalism is $\alpha = r \times \beta$. This means that "if national wealth represents the equivalent of six years of national income, and if the rate of return on capital is 5% per year, then capital's share in national income is 30%" (52).

The first fundamental law of capitalism is a "pure accounting identity" that represents simple relations between "the three most important concepts for analyzing the capitalist system" (Piketty 2014, 52).The second fundamental law of capitalism is $\beta = s/g$, where s is a society's savings rate and g is its growth rate. If the law holds, then "a country that saves a lot and grows slowly will over the long run accumulate an enormous stock of capital (relative to its income), which in turn can have a significant effect on the social structure and distribution of wealth" (166). The second law is not an accounting identity, unless one adopts the strict assumption that the capital-output ratio is constant or evolves in accord with a production function (Ray 2014, 3). Thus, the second fundamental law is supposed to be empirically valid, rather than stipulative, since it is asymptotic in the long run (Piketty 2014, 168).[13] Piketty claims that "if a country saves a proportion of s of its income indefinitely, and if the rate of growth of its national income is g permanently, then its capital/income ratio will tend closer and closer to $\beta = s/g$ and stabilize at that level" (168). The second fundamental law then describes a dynamic process that "represents a state of equilibrium toward which an economy will tend if the savings rate is s and the growth rate g, but that equilibrium state is never perfectly realized in practice" (169).

The final piece of Piketty's work is the empirical claim that, across most developed capitalist societies, $r > g$, that is, the general rate of growth has typically been lower than the rate of return on capital. Save during the Great Depression and the two world wars, which destroyed large capital stocks held by global economic elites, r has been greater than g. On this basis, Piketty believes that capital holdings are in the process of returning to their nineteenth-century levels, producing larger and larger fortunes for the few rich and in turn lowering relative capital holdings for the large majority of human beings who rely primarily on income to meet their needs. To demonstrate, Piketty appeals to data sets from the United States, France, Britain, and Sweden and more limited data sets from other developed nations. According to Piketty (2014, 350), nearly all the data show high capital/income ratios in the nineteenth century, a major setback in the first half of the twentieth century, and a gradual reassertion in the latter half of the twentieth century and the twenty-first century. Consequently, if the past is a guide to the future, we should expect capital inequalities to continually rise.

To be clear, inequality will grow due to two interrelated factors: (i) the capital/income ratio and (ii) the unequal holdings of capital; if capital were evenly distributed, a lopsided capital/income ratio would not generate inequality. As Piketty

10. Yglesias (2014) provides a succinct summary; for a much more detailed summary, see O'Neill (2017, 344–51).

11. Rawls does not ignore human capital, so it may seem that combining Rawls and Piketty on capital requires comparing apples to oranges, but for my purposes, I can treat Rawls as though he excludes human capital. Thanks to an anonymous referee for this point.

12. This is a controversial definition of capital. See Wright (2015, 59).

13. The second law specifies an equilibrium toward which economies gravitate, rather than a description of a constant process that is the same at any one time.

notes, the capital/income ratio alone "tells us nothing about inequalities within the country" (2014, 51). Thus, Piketty's story must combine the inequality of capital holdings with a lopsided capital/income ratio.

Piketty is not sure why *r* has historically exceeded *g*; he thinks many factors are at work (2014, 361). But whatever explanatory factors are relevant, Piketty nonetheless insists that we should expect to return to the patrimonial capitalism of the nineteenth century.

Piketty's solution to rising inequality is a global progressive tax on capital holdings. We need a governmental mechanism that will lower the rate of return on capital without decreasing the growth rate. A national tax will not work because of the threat of capital flight. Global tax rate competition between nations will encourage capital to move to countries with lower capital tax rates. This means that we need a globally coordinated effort to compress the distribution of capital and wealth. I explore the case for and against the capital tax in the next two sections.

A STRONGER CASE AGAINST WELFARE-STATE CAPITALISM

For Rawls, welfare-state capitalism is unjust because it fails to realize the fair value of the political liberties, fair equality of opportunity, and the difference principle. All three failures stem from the fact that welfare-state capitalism allows for large inequalities of wealth and income. The welfare state does not aim to disperse these inequalities. Thus, the welfare state can be co-opted by powerful economic interests even if citizens are prepared to act in the common interest and officials promote the common good.

But note again that the welfare state is problematic merely because it permits large inequalities of wealth and income. Rawls says little about the general causes of wealth creation and accumulation, nor does he argue that these inequalities will usually materialize. For Rawls, it does not much matter; whatever the cause of high inequalities of wealth and income, and however likely they are to come about, just institutions guarantee that they cannot occur. In contrast, Piketty argues that capitalism has an inherent tendency toward general inequalities of wealth, such that we can expect that the welfare state will generate unjust inequalities. Furthermore, capitalism tends to naturally compound inequalities of wealth, such that Rawls's principles of justice are more likely to be violated.

Piketty's work therefore strengthens Rawls's critique of the welfare state in two ways. First, it suggests that welfare-state capitalism will create unjust inequalities, rather than just allow for them, and so helps Rawlsian critics of the welfare state who condemn it as unjust merely because it permits an exceedingly improbable state of affairs. Again, for Rawls, a regime type can become unacceptably unjust simply in virtue of the dynamics it permits, however improbable. But if the regime type can be regularly expected to generate injustice, that strengthens the argument that the regime type is unjust. If Piketty is correct, we have evidence that this expectation is rationally justified.

Second, insofar as the welfare state generates compounding inequalities, welfare-state capitalism constantly threatens to violate them to an increasing degree. So the welfare state will not only tend to violate Rawls's principles of justice but threatens to do it in an especially worrisome fashion. The case for reforming the welfare state therefore becomes more urgent, since reforming a regime becomes more urgent as its injustice increases, so long as there are feasible alternatives in the offing. The case is more urgent in two ways. First, if Piketty is correct, there is more injustice in welfare-state capitalism. Second, because larger injustices can only be countered by greater political effort, we will want to stop the growth of inequality in the welfare state before it gets out of control. Eventually, these probable inequalities might allow the rich to wholly coopt democratic government, in which case reform will become impossible.

All three parts of Rawls's conception of economic justice confirm my claim that the welfare state becomes more unjust and the case for reform more urgent.[14] The difference principle will plainly be violated by a basic structure that is intrinsically likely to generate massive capital inequalities, unless those inequalities are necessary to maximize the position of the least advantaged. There may be empirical arguments that this barreling force of capital inequality is necessary to maximize the position of the least advantaged, but it is easy to see how the condition of the least advantaged could be improved by an alternative to ideal welfare-state capitalism.[15] The principle of fair equality of opportunity will arguably be violated as well, as the richest members of their society will be able to use their capital holdings to capture the greater "*r*" growth of capital rather than the weaker "*g*" growth of income. Those who manage to acquire large capital holdings will not merely have more economic opportunities; they can expect to have increasingly unequal access to all the privileges of holding huge amounts of capital. It is not clear how, without correction, economic opportunities will be even remotely equally distributed. Finally, Piketty argues that the constant threat of rising inequality will hand the rich an increasing share of po-

14. Piketty condemns contemporary welfare-state capitalism, but his principles are too vague to constitute a deep theoretical difference with Rawls.

15. The assumption of ideal theory is critical, as the role of inequalities in maximizing the position of the least advantaged could differ in nonideal theory, where compliance assumptions are relaxed.

litical power in virtue of assigning them an increasing share of economic power. And it is hard to deny that societies with high wealth and income inequality fail to guarantee the fair value of equal political liberties.

ARGUMENTS FOR PIKETTY'S CAPITAL TAX

If the foregoing is correct, Rawls's argument for POD is strengthened. PODs address Piketty's worry about barreling capital inequalities.[16] Since PODs by definition attempt to disperse unjustifiably inegalitarian concentrations of capital, PODs can correct the problem that Piketty outlines.

Before I continue, however, I should offer two caveats about the connection between the case against welfare-state capitalism and the case for POD. (1) The arguments for POD are only strengthened by arguments against the welfare state if we can restrict the comparison class of economic regimes to the welfare state and POD. But Rawls (2001, 138–39) thought that there was another just alternative to the welfare state—liberal socialism—which adds public ownership of much of society's productive capital to POD institutions.[17] Liberal socialism adds to POD the public ownership of much of society's productive capital. I set liberal socialism aside for two reasons. First, liberal socialism will arguably face the same severe inefficiencies as centrally planned economies in the real world and so arguably violate the difference principle. Second, few Rawlsians have even tried to develop an account of liberal socialism or a defense of it, so it is hard to include liberal socialism into the comparison class of economic regimes discussed in this article. (2) Many contemporary defenders of POD are not as negative in tone about the welfare state as Rawls was. They argue that the welfare state has a great deal of policy flexibility in realizing Rawls's principles of justice. Does this imply that Rawls's case against the welfare state differs from his followers' case? I do not think so. Rawls arguably stressed the injustice of the welfare state in order to convey to readers of *Justice as Fairness* that *A Theory of Justice* was not intended as a defense of the welfare state, which quickly became a common misreading of *A Theory of Justice* following its publication. So I think any enthusiasm gap between Rawls and contemporary property-owning democrats about the welfare state is primarily rhetorical.

Returning to our main line of argument, if we are to synthesize Rawls's conception of justice with Piketty's empirical work, we must also consider how to implement justice through public policy. On policy, property-owning democrats and Piketty differ in emphasis, since Piketty stresses a global capital tax and raises concerns about purely national approaches, while property-owning democrats have tended to stress national policies. There is no direct conflict between their respective recommendations, but their difference in emphasis is important, since they illuminate the different ways in which wealth and income inequality might be compressed.

For this reason, I would like to assess whether Piketty's proposal for a global capital tax is a viable policy proposal for a POD. By reviewing the advantages and disadvantages of the tax, we will be able to see how combining the two approaches to compressing economic inequality might look in practice. I begin with considerations that favor the capital tax. In the next section, I focus on arguments against the tax.

The main points in favor of Piketty's proposal are as follows: the capital tax would be (*a*) more effective at reducing inequalities of wealth and income than national POD policies, while being (*b*) simpler and (*c*) less coercive than many of the policies proposed to realize POD.[18]

(*a*) First, the capital tax would regularly disperse the capital holdings of the super rich, preventing capital from becoming concentrated in too few hands by creating a capital ceiling. Furthermore, once the tax revenues are collected, they could be used to create a capital safety net for the least advantaged, so that everyone has a capital floor below which he or she cannot fall, much as national progressive taxes could be used to fund a basic income guarantee (BIG). Someone committed to Rawlsian principles could add a basic capital guarantee to her advocacy of a BIG and fund the capital guarantee with the revenue from the global capital tax.[19] Given a reasonably high *r*, spreading assets among the public in this direct way could help close the gap between the growing wealth and income of the poor and that of rich without changing the capital/income ratio.

Piketty's proposal may be superior to the policies proposed by property-owning democrats because of its international focus. Realizing POD in the real world, or even in an ideal world with a global economy, requires analyzing policy solutions in light of the dynamics of globalization.

16. Rawls ([1971] 1999, 242) recognizes that there are "many intermediate forms" of economic regime between capitalism and socialism, although he does not follow up on this remark.

17. Edmundson (2017) defends the controversial claim that Rawls was a "reticent socialist."

18. Piketty has expressed sympathy to some of the policies suggested by property-owning democrats and, in particular, by Meade, who inspired Rawls's work on POD and that of his followers. See O'Neill and Pearce (2014).

19. For a discussion of a one-time basic capital guarantee and the related idea of a citizens' trust of capital-based income, see White (2015). White argues that both policies should be placed in the "egalitarian toolkit" used to correct the injustice of welfare-state capitalism. Ackerman and Alstott (2008) discuss proposals like this one.

Once we focus on the global economy, we can see that many POD institutions may be insufficient to correct the $r > g$ dynamic. A unilateral move toward national PODs could run afoul of Piketty's worry about capital flight.[20] Given the fluidity of global capital markets, moving capital around the world is relatively straightforward.

The property-owning democrat could reply by arguing that PODs should adopt capital controls to trap capital inside of a country and then adopt property-owning democratic policies to disperse capital holdings (Williamson 2012, 228). But there are practical ways around capital controls even in ideal theory: capitalists can move to other countries, they can pay the penalty to move their capital (assuming the penalties are not extremely high), or they can simply decide to start their own businesses in other countries in the first place.[21] Capital controls high enough to obviate the need for a global capital tax must be significant and so would likely push large capital holders to find ways around them. We also know that the very rich are quite good at finding loopholes in high progressive tax rates, through political lobbying and tax havens, many of which are possible in ideal theory. A global capital tax would not be unavoidable, but it might be harder to avoid than national capital controls, depending on how the global capital tax is enforced.

And yet there is empirical evidence that capital controls can be effective at preventing capital flight (Epstein, Grabel, and Jomo 2004). Given that capital controls exist and sometimes work, and nothing like Piketty's capital tax has ever existed, Piketty's capital tax might be less effective at controlling capital inequalities than capital controls. Our evidence for this claim is that nation-states have often engaged in successful capital controls, whereas international bodies have many well-known coordination problems. And in ideal theory we can expect corporations to comply with capital controls as well as the capital tax. Furthermore, enforcing the capital tax might prove more difficult for an international body (or a national body appointed to enforce the tax) than for a nation-state to employ national capital controls to reduce inequalities.

(*b*) A second potential advantage for Piketty's capital tax is that it is a relatively simple method of spreading capital and so negating the dangers of $r > g$. The POD policies I have reviewed require substantial and even heavy-handed control of the economy by large, powerful bureaucracies. Relying on a simple capital tax appears to require much less by way of institutional development. Further, the capital tax would be set at a clear rate, easily calculable by both the taxed and tax-collecting officials. However, implementing the capital tax will require the creation of new branches of international government required to ensure international cooperation in the imposition of the tax in order to coordinate enforcing and collecting the tax between nation-states. And managing international bureaucracy may prove every bit as difficult as nation-state-level management of the economy.

(*c*) Finally, the capital tax appears to be less coercive than POD policies, since it employs a simple redistributive rule rather than the complex bureaucratic structures proposed by property-owning democrats. A capital tax is coercive but does not regulate or control firm behavior; POD institutions restructure capital holdings and control many dimensions of the workplace. The limited coerciveness of Piketty's capital tax should be normatively significant for Rawlsians, as Rawls (2001, 44, 112) adopts a presumption against coercion in *Justice as Fairness*, where he gives his strongest defense of POD. The presumption arguably requires that we realize the demands of justice as noncoercively as we can. Thus, if the global capital tax is sufficient to realize POD, then we lack good Rawlsian reasons to attempt a more radical coercive restructuring of the economy. So if Piketty's capital tax can correct the inequalities of wealth and income present in the global economy, then we should do without other policies.

But there are a few problems here as well. First, the property-owning democrat can reply that the large bureaucracies endorsed by Rawls can be replaced with a national capital tax combined with strict capital controls. The only way in which Piketty's capital tax is less coercive than the nationalist approach is that there are no capital controls. But capital controls might involve a relatively small amount of coercion, so Piketty's proposal would not be importantly less coercive. Second, implementing the capital tax would arguably require new layers of international government that would presumably have their own coercive power, and that coercive power might start to be directed to other purposes.[22] So the institutions required for the capital tax might prove more coercive in various ways.

The property-owning democrat might resist the idea that Piketty's capital tax is less coercive than other POD policies on the grounds that the only way to demonstrate that the tax is less coercive is by presuming that people have pretax en-

20. Dietsch (2015) addresses the ethical problems posed by capital flight in detail.

21. This assumes that the full compliance condition does not wholly forbid capital flight, although the full compliance condition could forbid capital flight for the express reason that capital flight would frustrate POD. Real-world capital controls typically are not bans on moving capital. They are just taxes that capital owners can choose to pay.

22. These are not necessarily malicious or inappropriate purposes.

titlement to their holdings, since otherwise taxation does not count as coercive.[23] I think this is a mistake; even if someone lacks entitlement to her holdings, removing those holdings is backed by a coercive threat that penalties will be applied for noncompliance. So the better approach to this issue is to simply argue that Piketty's capital tax is not clearly less coercive or, if it is less coercive, that the degree of difference in coercion is relatively small or unclear.

ARGUMENTS AGAINST PIKETTY'S CAPITAL TAX

Now I turn to arguments against Piketty's capital tax. I first consider the claim that the capital tax cannot protect collective capital rights, then the claim that the global capital tax is infeasible, and finally the claim that Rawls's theory of global justice undermines the justification for the institutional framework necessary to implement and enforce the global capital tax.

First, POD advocates are bound to argue that the global capital tax requires supplementation on the grounds that the global capital tax cannot adequately realize collective capital rights. After all, the tax does not restructure capital ownership in the workplace. However, the proceeds from the capital tax could be used to create a capital safety net that would give workers other opportunities for employment, making it easier to start a business of one's own. So if workers want to have a share in the capital they use, they have the option to quit their wage-based jobs, which could incentivize capital sharing arrangements. In general, a capital safety net would also increase the relative bargaining power workers have for control in the workplace. This change in bargaining power could well lead to a change in business structures.

I admit, nonetheless, that Piketty's global capital tax does not guarantee collective capital rights. But I see little reason to believe that collective capital rights are necessary to realize Rawls's principles of justice.[24] With a sufficiently high global capital tax and a basic capital guarantee, an economic regime could perhaps satisfy the difference principle, increase fair equality of opportunity, and establish the fair value of the political liberties.

Second, the most common criticism of Piketty's proposal is that it is politically unrealistic. This claim is usually supported with two arguments. First, it is claimed that Piketty's proposal is politically unrealistic because it has almost no support and that the world presently lacks the institutional capacity to establish and enforce the tax. While he is not focused on Piketty, Dietsch (2015, 66) worries that proposals for a global capital tax are unrealistic insofar as they involve redistribution from rich to poor countries, as a global capital tax probably would.[25] Second, some claim that Piketty's proposal runs afoul of "credibility and enforcement problems," given the incentive of nations to cheat on their tax reports, especially when pressured by large corporate powers within those nations (Rogoff 2014).

The Rawlsian can reply that Piketty's global capital tax is at least appropriate for ideal theory, where we can assume national compliance with the global capital tax. But the feasibility concern has great power in nonideal theory since the global capital tax might not be enforceable under conditions of partial compliance.[26] It is certainly not enforceable in our present circumstances. But this seems to be because the officials in charge of national governments are not convinced that such taxes are necessary or morally required, not because of any insurmountable institutional hurdle. Global capital tax advocates may not be able to convince people that these taxes can be justified, but persuading people of the wisdom of a policy proposal is a difficulty for any unpopular or unknown policy proposal; it should not undermine the case for a global wealth tax any more than any other proposal.

Another major concern about the capital tax is it can only be justified on the basis of a theory of global justice that is more cosmopolitan than Rawls's theory of global justice. I cannot adequately review all the issues this criticism raises, so I will follow a common narrative about how to understand the Rawlsian case for international distributive justice. Blake and Smith (2013) note that Rawlsian theories of distributive justice must be "triggered" by a shared basic structure among persons to whom justice is owed. But philosophers differ on how to understand the international basic structure and the sort of international distributive justice appropriate to that understanding. Rawls's account of international justice is "two-tiered" with different accounts of national and international distributive justice. One group, which Blake and Smith call Right institutionalists, embraces the two-tiered account and argues that we should "sharply distinguish between the international and domestic" levels of justice and that egalitarian distributive justice only applies to nation-states. The second group, Left institutionalists, holds that international politics

23. I thank an anonymous referee for raising this point.

24. Unless one argues that democratic control of one's own workplace is itself a primary good that cannot be transferred or waived. See O'Neill (2009, 48). I hope to address this argument elsewhere, but one concern is that having a right of decision making in one's workplace does not meet the conditions required to be a primary good. It is not generally required to realize a wide range of rational plans of life.

25. For principles of global tax justice that apply in ideal circumstances, see Dietsch (2015, 80).

26. Dietsch argues that thick principles of global tax justice only apply against the background of such institutions, although some principles apply under conditions of partial compliance. See Dietsch (2015, 191–94).

is already "characterized by a sufficiently robust set of institutions" to trigger more robust principles of international distributive justice. The Right institutionalists follow Freeman (2006, 38–39) in arguing that we lack enough common legal norms and political systems to trigger distributive justice, such that "nothing comparable to the basic structure of society exists on the global level."[27] The central claim of the Right institutionalist is that the international order is insufficiently coercive to trigger international distributive justice. Similarly, Dietsch (2015, 80) argues that principles of global tax justice only apply with full force in the presence of just global governance institutions. Left institutionalists can argue either that the international political system is more coercive than Right institutionalists believe (Cavallero 2010; Cohen and Sabel 2006) or that coercion is not what triggers the requirement of international distributive justice (Sangiovanni 2007).

Left institutionalist Rawlsians are unlikely to have a problem with Piketty's global annual tax on capital, or at least they are unlikely to complain that the justification for such a tax is incompatible with a coherent and attractive Rawlsian approach to global justice. I suspect that they would argue that the international system of governance is sufficiently coercive that a global capital tax could potentially be justified to correct for national capital inequalities and avoid the threat of capital flight.

The Right institutionalist poses a real problem, as she may argue that the case for the global capital tax is undermined by the absence of shared coercive institutions among various nation-states. I cannot address Right institutionalist concerns in detail, but I can offer a tentative response. Without rejecting Right institutionalism, I think we can argue that capital flight creates genuine threats to justice, as capital flight can shrink tax bases and enable corporations and individuals to maintain extremely large holdings that enable them to disrupt the fair value of the political liberties, equality of opportunity, and so forth. The Right institutionalist ground for the global capital tax, then, is that the tax is an excellent way of correcting problems of distributive justice at the national level. Second, the Right institutionalist could still support capital taxes across nations that have close economic ties, such as the trade connections between Mexico, Canada, and the United States. The member states of the European Union (EU) now have enough common institutions that one could probably justify a capital tax across for EU member nations even on Right institutionalist grounds. Finally, as international trade networks and trade organizations grow, the Right institutionalist position must gradually expand the basis for international distributive justice, and so the basis for justifying a global capital tax.

The point of this and the previous section is to use Piketty's proposal for a capital tax to illustrate the complications in determining which policies should be used to realize Rawlsian POD. I have raised six issues that Rawlsians must address in order to justify using a capital tax: (1) capital flight risk; (2) the simplicity and enforceability of the capital tax; (3) the relative coerciveness of different tax policies; (4) whether economic justice requires protecting collective capital rights and, if so, which policies best protect those rights; (5) the relative political feasibility of Piketty's capital tax and alternative policies meant to realize the same principles of justice; and (6) how different Rawlsian accounts of global justice bear on the justification of the tax.

THE RAWLS-PIKETTY CRITIQUE OF THE WELFARE STATE

In the last few decades, the primary challenge to welfare-state capitalism has come from the Right on the grounds that the level of redistribution and regulation characteristic of the welfare state is unjust and ineffective. But the synthesis of Rawls and Piketty provides a powerful nonsocialist yet still thoroughly left-wing critique of welfare-state capitalism. Since some maintain that capitalism has an inherent tendency to generate ever-increasing inequalities of wealth and income, welfare-state capitalism will violate the difference principle, undermine fair equality of opportunity, and threaten the fair value of equal political liberties to an increasing degree. The case for POD becomes stronger and more urgent because it is no longer grounded solely in the mere possibility of unequal wealth and income in the welfare-state but on their eventuality.

But Piketty's global capital tax raises the question of how to institutionalize Rawlsian justice. Piketty argues that a global capital tax is necessary to solve the problems he raises, but there are reasons to worry about the tax, including some specifically Rawlsian reasons. While property-owning democrats have worked on formulating a public policy agenda (Williamson 2012), there is much more work to be done to turn the Rawls-Piketty critique of the welfare state into a systematic program of social reform.

I end by noting that I have serious concerns about Rawls's and Piketty's work. Nonetheless, their influence is sufficiently great that it is important to determine how their arguments interact.

27. Blake and Smith describe Freeman as "moderate" in contrast with Nagel (2005).

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