www.ceejme.eu
ww.wsb.pl/wroclaw/ceejme

ISSN electronic version 2353 - 9119
Central and Eastern European Journal
of Management and Economics
Vol. 3, No. 1, 85-95, March 2015

Thomas Piketty's 'patrimonial capitalism' of the twenty-first century: political economy rediscovered or how to tame the beast?

Izabela JĘDRZEJOWSKA-SCHIFFAUER

Wrocław School of Banking, Poland

Abstract: The core of market economy is misconceived when it is construed purely in economic terms (cf. Breuer 1999: 8). The purpose of this article is to hint at some possible alternative paths of deliberating the concept of capitalism which would not be dominated by classical economic paradigm. While recognising the multiple faces of capitalism stemming amongst others from historical, geo-political, ideological and even economic variables, the author conceives of contemporary capitalism in terms of a sum total of certain macro-features which differentiate this economic model from centrally-planned economies. The point of departure for the developed argumentation is the main trend recognisable in the recent decades (end of the 20th and the beginning of the 21st century) which consists in accumulation of primarily hereditary capital in the hands of the few, which phenomenon is referred to by Thomas Piketty as "patrimonial" capitalism. Since that development results in a limited or no opportunity of the majority of the world population to accrue wealth through their work, a question arises whether such economic system may be regarded as legitimate. In this context the author attempts to shed some light on the potentials and limits of the role of national, transnational and /or international governance to mitigate the negative impact of the unabashed divergence forces observable in the contemporary economy. The overall conclusion of the paper is that, however reluctant the national authorities may be to see further intervention of transnational and international entities in the organisation of global economy, it is necessary if the healthy foundations of the global market are ever to be achieved and as long as long as the states remain idle themselves.

Keywords: patrimonial capitalism, market economy, legitimacy, political economy, regulatory measures
JEL: P11, P16, P17

1. Introduction

Amongst contemporary economic state-models, capitalism is beyond doubt the most flexible and adaptive system, able to survive worldwide catastrophes such as the Great

Correspondence Address: Izabela Jędrzejowska-Schiffauer, Wrocław School of Banking, ul. Fabryczna 29-31, 53-609, Wrocław, Poland. E-mail: izabela.jedrzejowska@wsb.wroclaw.pl.

Depression of 1930s and economic, financial and institutional crises experienced after 2008. It is due to the fact that capitalism may function under different forms of government (not only democratic ones, but also those considered to be regimes) and cultural-societal conditions (therefore its impressive spread not only in the Western world, but also the developing countries). Above all, it is a question of a tempting offer that capitalism makes to an individual, namely: private property, free and competitive markets, accumulation of capital.

Putting the capitalist system in the opposition to the centrally planned economy allows to perceive the fundamental principle of capitalism which is the freedom of economic activity. However, this sharp distinction may also be deceptive, as numerous national economies should rather be categorised as mixed systems combining elements of capitalist rules and centrally planned economy. Furthermore, putting a clear demarcation line between reasonable regulation of the market and central planning may also prove challenging, given that the degree of tolerance for regulation and state intervention may differ depending on economy (or nation-) specific conditions. The said degree of tolerance is much lower in the modern Liberal Market Economies (LME, e.g. the UK or the USA) as opposed to the social market economies (German *Soziale Marktwirtschaft*[1]) combining market economy with a clear-cut social policy commitment (Germany and Scandinavian countries may count as good examples here). This phenomenon of mixed economy allowing for certain regulation of the market is now commonly accepted under the umbrella term the Coordinated Market Economy (CME), with the concept of "coordinated" being more politically-correct and acceptable in view of the historic developments in Central and Eastern European states after 1989 than "centrally planned".

As has been highlighted earlier, the capitalist economy may be organised in a variety of ways, depending on its political and socio-cultural anchoring. The conventional polarized view of state versus private ownership has been challenged by contemporary Western market economies (see e.g. Musacchio *et al.* 2015). At the same time, the Europeanisation and Globalisation processes have led to a far-reaching intertwining of economic systems. The global economy has emerged as an ever increasing volume of international exchange of goods and services under free market mechanisms. It is a natural phenomenon that thus interconnected national economies follow some major developments and trends. Under such conditions, in particular economic

[1] Germany is frequently considered as a role model of social and democratic economy (cf. Article 20 of the German Basic Law which defines the Federal Republic of Germany as a democratic and social federal state).

downturn tends have a contagious effect on other countries, immediately transforming into the global economic crisis.

However, the point of interest of this paper is a different observable trend in the world economy (or at least in the richest countries) which consists in the accumulation of private property and capital primarily through inheritance, which phenomenon is conceived of by Thomas Piketty as "patrimonial capitalism" (2013: 273).

2. Thomas Piketty's 'patrimonial capitalism' of the twenty-first century

Picketty (2013: 273-274) explains this general evolution since 1970 of a strong accumulation of private capital in the rich countries by three sets of complement and mutually reinforcing factors:

- slower growth, notably in terms of demographics, which, when combined with a high rate of saving, automatically translates into a structural upward trend in capital/income ratio, with this mechanism being in the long run the domineering force;
- gradual privatization and transfer of public wealth into private hands in the 1970s and 1980s, which substantially reinforced its effects over the last few decades (in Central and Eastern Europe first after 1990 following the collapse of the Soviet Union);
- a long-term gain on real estate and stock market prices, which further accelerated in the 1980s and 1990s given the favourable to private wealth political context.

What may be seen as particularly noteworthy in Piketty's contribution is not so much the ascertainment regarding the process of substantial concentration of wealth fostered by weak growth and high return on capital, but rather the fact that the author confutes any "déterminisme économique" (2013: 47) in regard to inequalities relating to wealth and income. The author points to the fact that the history of distribution of wealth has always had political entanglements and may not be attributed to purely economic mechanisms. Just as the reduction of inequality which took place in the developed countries between 1900-1910 and 1950-1960 was primarily a consequence of policies adopted to compensate the citizenry for the trauma of the wars, so is the resurgence of inequality after 1970-1980 by and large the result of to the political reversals of the recent decades, notably regarding taxation and finance. As the author states, "[t]he history of inequality is shaped by the way economic, social, and political actors view what is just and what is not, as well as by the relative power of those actors and the collective choices that result. It is the joint product of all relevant actors combined" (Picketty 2014: 21).[2]

3. The demarcation line between politics and economy

Piketty's *Capital in the XXI century* constitutes a salient perspective on current debates on comparative capitalism, perhaps in particular because of the author's not quite popular in economic circles stance on the active role of the state (or transnational governing authorities) in determining the economic system. Incidentally, Piketty advocates for morally responsible research in economy which would neither attempt to define itself by means of immoderate use of « les méthodes empiriques à base d'expérimentations contrôlées » (2013: 946-947), nor would it distance itself from debating the ideal role of the state in the economic and social organization of a country. In more concrete terms, he opposes viewing economy as an independent science and places it among other social sciences, with the only exception being made for the concept of "political economy", the distinct character of which relies on political, normative, and moral purposes of this discipline.[3]

Others believe that political economy should not be confused with the lack of "healthy detachment" between the political and economic stakeholders. The sharp distancing of politics from economy is by them considered, and quite rightly, as a condition *sine qua non* of a properly functioning market economy. A co-location of interest and expertise in the political process, when accompanied by diffuse public interest, would that be due to limited individual impact of the issue at hand on each member of the public or the very conviction of the public itself of such limited impact, leads to a problem qualified as "thin political markets", thus eroding the legitimacy of modern capitalist system (Ramanna, 2015).

[2] The quote after English edition of the book: Thomas Piketty, 2014, *Capital in the twenty-first century*, translated by Arthur Goldhammer, the Belknap Press of Harvard University Press. The quoted passage in French may be consulted at: Picketty 2013: 47.

[3] « Je préfère nettement l'expression «économie politique», peut-être un peu vieillotte, mais qui a le mérite d'illustrer ce qui me paraît être la seule spécificité acceptable de l'économie au sein des sciences sociales, à savoir la visée politique, normative et morale » Picketty 2013 : 945.

The essence of the above distinction could also be conveyed in more radical terms, namely: whilst political economy should seek to delimit and promote social justice principles, thin political markets emerge through political endorsing of corrupt interests of the economic establishment. Therefore, by opposing economic determinism in matters related to inequalities of wealth and income, Picketty may be placed amongst the authors who contribute to disambiguating the concept of a "*laisser-faire*" in relation to market economy mechanisms.

The relevant question may be posed in the following way: is *laisser-faire* policy a condition sine qua non of a free market economy? Dworkin (2014: 598) expresses his reservations as to the possibility of no government influence on the rules of transaction within an economic system in the following way:

> "Zu behaupten, dass eine Regierung im Rahmen einer *Laisser-faire*-Politik keinerlei Entsheidungen trifft, obwohl es sich dabei einfach um die Entscheidung für bestimmte Gesetze und gegen andere handelt, ist eine recht unbedarfte Ausflucht."
>
> ("It is a clumsy evasion to say that a laisser-faire policy, which simply means one set of laws rather than another, is not the act of government.")

Indeed, in the modern economic systems one may hardly imagine a completely "deregulated" financial sector where no tax, financial and monetary policy laws or rules would apply. Thus the government's position not to act in a particular case, namely through an initiative to change defunct and/ or not equitable laws which allow to exploit certain opportunities only by the very few, is by no means a neutral policy. The central question, therefore, is how to properly balance freedom of economic activity and market regulation to the effect that security and fair-play of economic transaction is sufficiently safeguarded.

4. Coordinated or centrally-planned economy?

Given that market economy is based on the freedom of economic activity, any attempt of political-normative interventionism in this area may by dogmatically arguing doctrines be considered as an illegitimate move to curb this freedom. Whereas this approach would be justified if a market economy spontaneously led to an equilibrium, the statistical data collected by Piketty covering a period of two centuries show that unregulated capitalist economy in the long run produces significant imbalances. Moreover one should not forget the fact that, even when acting with best intentions and precaution, the national (or transnational) legislator may overlook certain legally relevant aspects which first emerge when regulations are being applied in praxis. The legislator may naturally feel inclined to ex-post regulation with a view to filling up the loophole in the law or introducing corrective measures to eliminate or at least mitigate the negative consequences of the badly devised law. No matter whether, under such conditions, we are more prone to conceive of the state's role (i.e. that of the national government or of the legislator) as intervention or regulatory-corrective activity, it is arguable that such political intervention in an economic system by means of legal instruments is justified when aimed at public good (e.g. eliminating fraudulent or unfair practices, preventing abuse of dominant positions, compensating social imbalances), while not obstructing free competition laws.

In order to give the "bewitched" in the economic context concept of *intervention* a more comprehensive semantics, it is noteworthy to look at some instances when it clearly relates to corrective activity of the relevant authorities.

The recently adopted French "loi Florange" may serve as the first example. It attributes a double voting right in the company's general assembly to those amongst the shareholders who are holding their shares for already more than two years, thus diminishing the influence on the company's policy of those shareholders who mainly pursue speculative interests.[4]

Following the outbreak of the crisis, the transnational level has taken the lead in interventionist measures, notably in regard to budgetary and fiscal surveillance of the Eurozone countries. Interestingly, the activity of European regulators targeted also bonuses paid to bankers imposing a cap forcing banks to limit bonuses to 100% of the salary, with an option to increase it to 200% with shareholders' approval.[5] The UK had tried to block the EU bonus cap rules by means of a lawsuit to the European Court of Justice, which was ultimately withdrawn in November 2014 in the light of the country's limited perspectives to win the case. Still, some banks have been trying to find a workaround e.g. by introducing concepts such as "allowances"

---

[4] Cf. « L'Etat réussit à imposer les droits de vote doubles à l'Assemblée générale », *Libération*, AFP 30 April 2015.
[5] See Article 94(1)(g of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, OJ L 176, p. 338.

or "role-based pay" and classifying them as fixed pay, which practices were immediately defined by the European Banking Authority as breaking the EU bonus rules.[6]

Finally, the intervention may also consist in implementing penal measures against entities which are in breach of law, including cases of tax evasion. The European Commission is currently reviewing the case of McDonald's which has avoided the payment of taxes amounting to approximately one billion euros between 2009 and 2013 by exploiting its franchise model to the effect that bulk of the royalties is transferred to foreign subsidiaries located in tax havens.[7]

To sum up, there are circumstances under which intervention construed as a regulatory-corrective activity proves a necessity, also in order to safeguard the respect of law and minimum coordination of global market rules, while respecting the country-level contingencies. Incidentally, concerns are being voiced as to whether the far-reaching centralisation of decision making at transnational (EU) level is the appropriate solution and what the limits of it are. Whilst putting equation between the EU's reform package in the face of the crisis and centrally planned economy mechanisms (cf. Dieter 2012: 8) is clearly an overstatement, reservations as to the democratic legitimacy of the decisions taken under newly-claimed competences by the ECB are not quite misplaced. However, since the raised issue is beyond the scope of this paper, suffice it to say here that aspects of democratic legitimacy may not be disregarded when decisions on the foundations of an economic system are at stake.

5. Economic systems and their legitimacy

It is perhaps correct to speak of self-regulatory forces of the market economy in so far as the stakeholders orient themselves on easily predictable rules. As aptly formulated by Habermas,

[6] "European Bankers Earned Big Bonuses In 2013 While Regulators Worked To Cap Compensation", International Business Times 23 May 2015.

[7] See Agence Europe : « L'ingénierie fiscale de McDonald's à nouveau pointée du doigt », publication date: 22/05/2015. "Intitulé « Subterfuges dorés: comment l'entreprise McDonald's s'y prend-elle pour éviter d'acquitter sa juste part de l'impôt », le rapport publié récemment émane d'une coalition de syndicats formée par l'Internationale des services publics, l'Union internationale des travailleurs de l'alimentation et de l'Union internationale des employés des services. […] sur cette période, ce serait 1,8 milliard de dollars d'impôt que McDonald's aurait évité de payer au niveau mondial, dont 497 millions de dollars australiens en Australie et 1 milliard d'euros en Europe. Le rapport appelle les gouvernements à enquêter, à échanger leurs conclusions et à mieux doter leurs administrations fiscales.

> "… die relative Entkopplung des ökonomischen Systems vom politischen lässt in der bürgerlichen Gesellschaft einen Bereich entstehen, der von traditionelen Bindungen freigesetzt ist und den strategisch-utilitaristischen Handlungsorientierungen der Marktteilnehmer überlassen wird. Die konkurrierenden Unternehmer fällen ihre Entscheidungen nach Maximen des gewinnorientierten Wettbewerbs und ersetzen wertorientiertes durch interessengeleitetes Handeln" (1973: 37).
> ("… the relative distancing of the economic system from the political system allows for the emergence of a sphere in the civil society, which is freed from traditional bonds and is subjected to strategic-utilitarian action orientations of market participants. The competing entrepreneurs make their decisions according to maxims of profit-oriented competition and replace value-oriented action with the interest-driven one.") (translation by the author, IJ-Sch).

Given the interest-oriented imperative force behind the economic transaction, the said "self-regulatory" market mechanism is deprived of any self-corrective capacity, which may only be supplemented by well-devised positive law and rational public administration, providing they are anchored in socio-culturally developed distributive morality and ethics (cf. partly in this sense Habermas 1973: 38). In other words, everybody may benefit from the capitalist economy providing the profits are appropriately distributed (Hösle 1997: 865) and excessive power curbed by human rights, including those of socio-economic nature.[8]

Given the deficiency of key performance indicators whereby social justice principles could be measured according to purely economic variables, it comes as no surprise that contemporary economic science is reluctant to position itself towards this socio-cultural element, which nevertheless constitutes the basis of any functioning system, perhaps in particular an economic one.

The problem lies in the contradiction between an idealistic projection of what the "free" market should be vis-à-vis the real-life macro-conditions (or framework requirements) which are indispensable if the market is to function according to equal opportunities and fair-play principles. The disappointing reality is that market forces may be considered as self-destructive if

[8] On the means of limitation of abusive power see e.g. Breuer (1999: 8) who states that "Letzlich sind sowohl die bürgerlichen wie die wirtschaftlichen Grundrechte ein Instrument der Begrenzung übermässiger Macht, sei sie nun staatlich oder privat, politisch oder ökonomisch." ("After all both citizens' basic rights as well as economic basic rights are instruments of limiting excessive power, state's (public) or private, political or economic.") (ranslation by the author, IJ-Sch).

the criteria for assessing it are set by sustainability. What we are left with is advocating a clearly unpopular stance that the markets need a constant watchdog intervening and correcting whenever "the beast" tries to outplay the rules of the game.

Referring to the principles of public morality is by no means an instrument of experimental economics, but allows to formulate some basic criteria which a legitimate economic system should fulfil. Following Hösle (1997: 864) it could be argued that:

> "[e]ine moralisch zu bejahende Wirtschaftsordnung hat sich nach folgenden Prinzipien zu richten: Sie muss die *Grundbedürfnisse* aller befriedigen, den einzelnen weitgehende *Handlungs- und Wahlfreiheit* gewähren, schliesslich das *Leistungsprinzip* anerkennen."
> („an economic system which were to be morally justified should be based on the following principles: it must satisfy the basic needs of all, safeguard to a large extent the freedom of economic activity and freedom of choice of individuals; finally, it must take account of individual commitment and performance.") (Translation by the author, IJ-Sch).

Therefore, it is defensible that in the context of an economic system, the output legitimacy which rests on the ability to deliver results and solve problems is much more relevant than the input legitimacy where the modalities of election of (here economic) decision-makers are decisive (cf. Alcidi *et al.* 2014:76). In short, the relevant question is *whether and how* social justice principles, including socio-economic rights, are materialised.

6. Concluding remarks

As an economic system, capitalism is beyond doubt capable of providing opportunities for sustainable development both for individuals and their respective communities, albeit under specific conditions and as long as its foundations are built on a structure which itself is not functioning according to market mechanisms (cf. Hösle 1997: 867).[9] A question arises whether speculative activity of financial institutions entrusted with private funds is still defendable as an open and free competition risk factor or perhaps already a game of deception. This question is

[9] Hösle (1997: 867) rightly argues that "[a]lle Vorteile des Marktes verschwänden, wenn auch im Rechtssystem Urteile und in Geldpolitik Entscheidungen zugunsten des Meistbietenden ausfielen". ("All advantages of the market would disappear if judgements by the judiciary and monetary policy decisions were also to favour those who offer the highest price.") (Translation by the author, IJ-Sch).

pertinent in particular in the face of the current trend of privatising gains of TBTF[10] (e.g. in a form of bonuses paid to shareholders) while socialising losses (they are to be borne by taxpayers) thus increasing the social cost of bank failure. Indeed, the majority of financial institutions in Europe that received state aid had excessive ratios of (more risky) trading income to total revenue. Therefore, it seems rational to expect from the political leaders, notably in their capacity as the Legislator, to tame the presently uncontrolled "Casino-Finanzkapitalismus" (Bullmann *et al.* 2012: 4) and render those who contributed to the crisis to be also financially liable for its costs. However, domestication of the beast may prove impossible as long as the global implementation of tax rules is nowhere near on the horizon.

Bibliography

Alcidi C., Giovannini A., Piedrafita S. (2014), Enhancing the Legitimacy of EMU Governance, "Centre for European Policy Studies Special Report", no. 98, http://www.ceps.eu [22.02.2015].

Breuer R.-E. (1999), Offene Bürgergesellschaft in der globalisierten Weltwirtschaft, "Frankfurter Allgemeine Zeitung", 4 January 1999, No. 2, pp. 8-9.

Bullmann U., Roth M., Schäfer-Gümbel Th. (2012), Von der Krisenunion zur Solidaritätsunion, Friedrich Ebert Stiftung.

Dieter H. (2012", Maastricht 2.0, "SWP-Aktuell", no. 54, September 2012.

Dworkin R. (2014), Gerechtigkeit für Igel, Suhrkamp Taschenbuch Wissenschaft, Berlin.

Habermas J. (1973), Legitimationsprobleme im Spätkapitalismus, Frankfurt a.M..

Hösle V. (1997), Moral und Politik. Grundlagen einer politischen Ethik für das 21. Jahrhundert, C.H. Beck, München.

Piketty Th. (2013), Le capital au XXIe siècle, Seuil, Paris.

Piketty Th. (2014), Capital in the twenty-first century, translated by Arthur Goldhammer, the Belknap Press of Harvard University Press.

Ramanna K. (2015), Thin political markets: the soft underbelly of capitalism, "California Management Review", vol. 57 no. 2, pp. 1-16.

Musacchio A., Lazzarini S.G., Aguilera R.V. (2015), New varieties of state capitalism: strategic and governance implications, "The Academy of Management Perspectives", vol. 29 no. 1, pp. 115–131.

[10] The so called "too big to fail" financial institutions which de facto benefit of the state's guarantee of existence.

Kapitalizm w XXI wieku Thomasa Pikettyego – powrót do ekonomii politycznej czy oswajanie bestii?

Streszczenie:

Pojmowanie gospodarki rynkowej wyłącznie w kategoriach ekonomicznych skutkuje błędną interpretacją jej fundamentów (por. Breuer 1999: 8). Celem niniejszego artykułu jest wskazanie na kilka możliwych alternatywnych ujęć kapitalizmu, które nie są zdominowane przez klasyczny paradygmat ekonomiczny. Autorka ujmuje współczesny kapitalizm w kategoriach ogółu wybranych makro-cech, które odróżniają ten model gospodarki od gospodarki centralnie planowanej, mając jednocześnie na uwadze wielość i różnorodność modeli kapitalizmu wynikających między innymi z uwarunkowań historycznych, geopolitycznych, ideologicznych, a nawet gospodarczych. Punktem wyjścia do przedstawionej argumentacji jest dominujący trend w ostatnich dziesięcioleciach (koniec XX i na początek XXI wieku), który przejawia się poprzez akumulację przede wszystkim dziedziczonego kapitału w rękach niewielu, które to zjawisko Thomas Piketty określa mianem kapitalizmu "patrymonialnego". Taki stan rzeczy oznacza ograniczony lub zupełny brak możliwości większości ludności świata do gromadzenia kapitału w efekcie wykonywanej pracy, co rodzi pytanie co do legitymacji demokratycznej tak skonstruowanego systemu gospodarczego. W tym kontekście autorka rozważa rolę, jaką może odgrywać sprawowanie rządów na płaszczyznach narodowej, ponadnarodowej oraz międzynarodowej w ograniczaniu negatywnego wpływu sił dywergencji obserwowanych we współczesnej gospodarce. Autorka konkluduje, iż jakkolwiek władze krajowe są z założenia niechętne dalszej ingerencji podmiotów ponadnarodowych i międzynarodowych w funkcjonowanie gospodarki światowej, jest ona konieczna jeśli rynek światowy ma kiedykolwiek osiągnąć zdrowe fundamenty i jak długo państwa narodowe same nie podejmują działań korygujących..

Słowa kluczowe: kapitalizm „patrymonialny”, gospodarka rynkowa, legitymizacja demokratyczna, ekonomia polityczna, regulacyjne prawne.
JEL: P11, P16, P17