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Fighting Inequality: Rule Of Law Vs. Legal Plunder

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The release of Thomas Piketty's new book "Capital in the Twenty-First Century" by Harvard University Press has caused a rush of media attention for the 42-year-old professor who teaches at the Paris School of Economics.

He advocates a steeply progressive income tax with a top rate of 80% along with a wealth tax to reduce inequality, which he finds to be on the rise globally.

If his scheme were implemented, "legal plunder" (a term coined by the 19th century French liberal Frederic Bastiat) would undermine the rule of law, which is meant to safeguard persons and property, and turn the concept of justice on its head — from meaning the prevention of injustice to the use of force to dictate some politically favored distribution of income and wealth.

Piketty claims he is not a Marxist but rather a socialist with a belief in private property. Yet, the contradiction should be apparent: One cannot defend private property and at the same time call for a massive taking of property.

Piketty reveals his preferences when he states: "Capitalism and markets should be the slave of democracy and not the opposite."

In his view, property is not a natural right prior to the law; it is a creation of the state. Hence, the majority should be able to use the power of government/legislation to heavily tax the rich and near-rich. The purpose would be to rid the world of inequality. This is his moral imperative.

The likely result of this utopian scheme would be to drive creative people out of high-tax countries, slow economic growth, and make societies poorer in the long run.

More important, as the size and scope of government grew, there would be a consequent loss of personal and economic freedom. Rent-seeking, corruption and the demise of individual responsibility — as property rights were attenuated — would destroy the fabric of civil society.

The U.S. was designed as a government of limited powers, as a constitutional republic, whose primary function is to safeguard persons and property so that liberty and justice reign; it was not meant to be a redistributive state.

Piketty is by no means alone in his quest for greater income equality. Nobel laureate economist and Yale Professor Robert Shiller would use an indicator of inequality to determine the progressivity of income taxes: the higher the measure of inequality, the higher the marginal income rates would be. In a recent interview with David Wessel in WSJ.Money, Shiller stated: "If billionaires turn into multibillionaires, we don't let that happen. If you want to make $10 billion and spend it on yourself, we won't let you. We will take a good fraction of it, and you'll still be a billionaire, so what?"

The presumption is that the rich don't need any more money and that others have a claim to their wealth.

In other words, the state has the right to take a person's income after a certain point and redistribute it.

This is democratic socialism pure and simple, and it violates the principle of freedom/nonintervention. It also assumes that entrepreneurs are not responsive to incentives and that economic exchanges are zero sum — at is, the rich producers gain at the expense of others.

Shiller goes on to say that if the rich wish to give their money away, then they should get a big tax break.

But for "selfish people at the top who don't want to give it away," we should just take it. He ignores the fact that when the money is reinvested in the owner's business or elsewhere, new jobs and wealth are created, which benefit society.

And if the rich wish to consume their incomes, they should have the freedom to do so.

Piketty and Shiller are praised for being concerned about the evils of income inequality without recognizing that their own plans for equality would violate the very principles of property and freedom that are the hallmarks of America's greatness.

Only voluntary redistribution meets the criterion of justice. As Bastiat noted, the function of government is to prevent injustice — that is, the taking of property — not to promote some ideal of distributive justice.

The great Scottish Enlightenment thinker Adam Smith, a moral philosopher who is sometimes referred to as the "father of modern economics," wrote in 1762: "The first and chief design of every system of government is to maintain justice; to prevent the members of a society from encroaching on one another's property, or seizing what is not their own."

True morality and justice require the protection, not the taking, of property. Following the policy prescriptions of Piketty and Shiller would not lead to social harmony and prosperity, but rather to injustice and the loss of liberty.

What America and other countries need are institutions that protect property rights and lower taxes so that all people can prosper under a stable and just rule of law.

In drawing the line between the individual and the state, one needs to return to first principles, not to "rock star" economists.

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