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Economic Inequality from an Institutional Perspective: A New Institutional Economics and Public Choice Analysis of Piketty's Redistributive Architecture*

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Abstract

This paper examines Thomas Piketty's proposals for reducing economic inequality through the lens of New Institutional Economics (NIE) as the primary analytical framework, complemented by Public Choice Theory as a secondary explanatory layer addressing political constraints. Inequality is conceptualized as an institutional outcome embedded in historically evolved rules, enforcement mechanisms, and political equilibria rather than as a purely market-driven phenomenon. The study evaluates Piketty's reform agenda, including progressive taxation, social ownership, and universal capital endowments, using an institutional feasibility framework based on incentive compatibility, enforcement capacity, and political sustainability. The analysis demonstrates that although institutions are central in shaping inequality, Piketty's proposals face structural constraints arising from transaction costs (Coase, 1937, pp. 386-392), institutional path dependence (North, 1990, pp. 80-92), and political economy distortions (Olson, 1965, pp. 53-65; Buchanan & Tullock, 1962, pp. 19-35). The findings suggest that his framework is normatively coherent but institutionally constrained within contemporary capitalist systems characterized by global capital mobility and fragmented governance.

Keywords: Piketty, economic inequality, New Institutional Economics, public choice.

Introduction

Economic inequality has become one of the central themes of contemporary political economy and is increasingly interpreted as an outcome of institutional design rather than purely market-based mechanisms (North, 1990, pp. 3-7; Acemoglu & Robinson, 2012, pp. 73-92). From the perspective of New Institutional Economics, institutions are defined as humanly devised constraints that structure political, economic, and social interaction, shaping incentives and determining long-run economic outcomes (Coase, 1937, pp. 386-392; Williamson, 2000, pp. 595-600).

Thomas Piketty's work is particularly relevant in this context because it explicitly links inequality dynamics to institutional structures and political power. In Capital in the Twenty First Century, Piketty demonstrates that long-run inequality is driven by the structural relationship between the rate of return on capital and economic growth, leading to persistent wealth concentration (Piketty, 2014, pp. 25-27; 356-360). In Capital and Ideology, he further develops this argument by introducing the concept of inequality regimes, defined as historically

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specific institutional systems that shape ownership structures, taxation regimes, and distributive legitimacy (Piketty, 2019, pp. 3-15).

From a New Institutional Economics perspective, this interpretation is consistent with the view that inequality is endogenous to institutional arrangements rather than determined solely by productivity differences (North, 1990, pp. 80-92). At the same time, institutional theory emphasizes that institutional change is constrained by path dependence, transaction costs, and enforcement limitations, which restrict the feasibility of deliberate institutional redesign (Eggertsson, 1990, pp. 7-15; Greif, 2006, pp. 19-25). This tension defines the central research question of the paper, which is whether Piketty's redistributive proposals are institutionally feasible under real-world constraints.

Analytical Framework

The analytical framework is grounded in New Institutional Economics as the primary theoretical perspective, with Public Choice Theory incorporated to account for political constraints and collective action problems. Institutions are defined as formal and informal rules that structure incentives and reduce uncertainty in human interaction (North, 1990, pp. 3-4).

Williamson's (2000, pp. 597-603) multi-level framework of institutional analysis is used to distinguish between institutional environments, governance structures, and allocation mechanisms. Within this structure, policy design is interpreted as endogenous to institutional equilibrium rather than externally imposed.

The institutional feasibility framework evaluates policy proposals along three dimensions: incentive compatibility, enforcement capacity, and political feasibility. Incentive compatibility refers to whether economic agents have incentives to comply with institutional arrangements (North, 1990, pp. 80-92). Enforcement capacity refers to the ability of institutions to implement and monitor rules effectively (Coase, 1937, pp. 388-392). Political feasibility refers to whether reforms can survive competition among political actors, interest groups, and electoral constraints (Olson, 1965, pp. 53-65; Buchanan & Tullock, 1962, pp. 19-35).

Table 1. Institutional Feasibility Framework

Dimension	Theoretical foundation	Key literature	Analytical question
Incentive compatibility	New Institutional Economics	North (1990, pp. 80–92); Williamson (2000, pp. 598–603)	Do agents have incentives to comply with the institutional arrangement?
Enforcement capacity	Transaction cost economics	Coase (1937, pp. 388–392); Ménard (2010)	Can institutions effectively implement and monitor rules?
Political feasibility	Public Choice Theory	Olson (1965, pp. 53–65); Buchanan & Tullock (1962, pp. 19–35)	Can reforms survive political competition and interest group pressure?

Source: Own study.

This framework treats redistribution not as an exogenous policy instrument but as an endogenous outcome of institutional equilibria shaped by constraints on behavior, enforcement, and political competition.

Literature Review

New Institutional Economics emphasizes that economic outcomes are determined by institutional structures that shape transaction costs and property rights enforcement. Coase (1937, pp. 386-392) argues that institutions exist to reduce transaction costs in economic exchange. North (1990, pp. 3-7; 80-92) shows that institutions evolve through path dependent processes that constrain future institutional choices. Williamson (2000, pp. 595-603) develops a multi-level framework of governance structures that determine economic performance. Eggertsson (1990, pp. 7-15) and Greif (2006, pp. 19-25) further emphasize that institutions are self-reinforcing systems embedded in beliefs and enforcement mechanisms. Acemoglu and Robinson (2012, pp. 120-135) distinguish

between inclusive and extractive institutions, linking inequality to political power structures embedded in institutions.

Public Choice Theory complements this framework by modeling political actors as self-interested agents operating under institutional constraints. Buchanan and Tullock (1962, pp. 19-35) demonstrate that political decision-making is subject to incentive distortions similar to markets. Olson (1965, pp. 53-65) highlights collective action problems that hinder redistribution. Downs (1957, pp. 137-150) emphasizes electoral incentives and information asymmetries, while Tullock (1967) introduces rent-seeking as a systematic distortion in political processes.

Piketty (2014, pp. 471-480) identifies inequality as driven by the long-run relationship between capital returns and growth. In Capital and Ideology, he develops the concept of inequality regimes and argues that distributive structures are historically constructed institutional systems (Piketty, 2019, pp. 3-15; 460-470). His normative proposal of participatory socialism includes progressive taxation, democratization of capital ownership, and universal capital endowments (Piketty, 2019, pp. 467-470). However, NIE highlights constraints arising from transaction costs and governance complexity, while Public Choice emphasizes political feasibility constraints.

Results: Institutional Assessment of Piketty's Proposals

Progressive taxation is identified by Piketty as the central redistributive instrument (Piketty, 2014, pp. 471-480). However, its effectiveness is constrained by enforcement difficulties in global financial systems, tax competition between jurisdictions, and valuation problems associated with complex assets. These constraints reflect limitations in enforcement capacity and transaction cost reduction in decentralized institutional environments (Williamson, 2000, pp. 604-607).

The expansion of social ownership and democratization of capital aims to reduce inequality by redistributing control over productive assets. However, Coase (1937, pp. 388-392) suggests that diffuse property rights increase coordination costs, while Williamson (2000, pp. 598-603) highlights inefficiencies in complex governance structures. Olson (1965, pp. 53-65) further predicts that such systems are vulnerable to capture by organized interest groups.

The universal capital endowment is designed to equalize economic opportunity at the beginning of life (Piketty, 2019, pp. 467-470). While normatively compelling, it imposes significant fiscal burdens and may distort savings and investment behavior (Stiglitz, 2012, pp. 98-110; Atkinson, 2015, pp. 120-135). Its feasibility depends on administrative capacity and political legitimacy.

The concept of time-limited property rights represents the most radical institutional reform in Piketty's framework. It fundamentally alters ownership structures by introducing temporal constraints on capital accumulation. However, North (1990, pp. 61-70) predicts increased uncertainty in investment behavior, Coase (1937) implies weakened property rights enforcement, and Olson (1965) highlights extremely low political feasibility under existing institutional arrangements.

Discussion

The analysis demonstrates that Piketty's framework provides a powerful institutional interpretation of inequality but overestimates the degree of institutional malleability achievable through democratic coordination. While Piketty assumes that institutions can be deliberately redesigned, New Institutional Economics emphasizes that institutions are path dependent equilibria shaped by transaction costs, enforcement limitations, and historical trajectories (North, 1990, pp. 80-92; Williamson, 2000, pp. 595-603).

Public Choice Theory reinforces this constraint by showing that political processes generate systematic distortions due to self-interested behavior and collective action problems (Olson, 1965, pp. 53-65). This creates a fundamental tension between normative institutional design and positive institutional feasibility. Redistribution policies are therefore embedded in complex institutional equilibria rather than functioning as autonomous policy instruments.

Conclusion

This paper has evaluated Thomas Piketty's inequality reduction framework from a New Institutional Economics perspective complemented by Public Choice Theory. The analysis confirms that inequality is fundamentally shaped by institutional structures, including property rights systems, taxation regimes, and governance

mechanisms. However, it also demonstrates that the scope for deliberate institutional redesign is constrained by transaction costs, enforcement limitations, and political economy dynamics.

The study concludes that while Piketty provides a coherent and influential institutional account of inequality, his reform proposals face structural constraints inherent in contemporary institutional systems. Inequality is therefore best understood as an institutional outcome that is resistant to large-scale redesign due to endogenous constraints identified in New Institutional Economics.

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