Thomas Piketty's *Capital in the Twenty-First Century*

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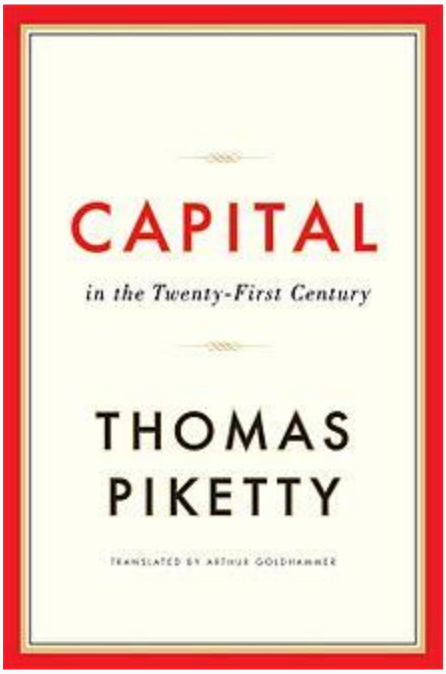

Author	Thomas Piketty
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Capital in the Twenty-First Century is a book by French economist Thomas Piketty. It focuses on wealth and income inequality in Europe and the US since the 18th century. It was initially published in French in 2013, with an English translation released in April 2014. The central thesis is that wealth will accumulate if the rate of return on capital is greater than the rate of economic growth. Over the long term, Piketty argues, this will lead to the concentration of wealth and economic instability. Piketty proposes a global system of progressive tax and transfer to help create greater equality and avoid the vast majority of wealth coming under the control of a tiny minority.

The book has been compared to Marx's *Das Kapital*, for further developing an analysis on capital through the use of modern economic data.[1] The French version has sold over 50,000 copies while the English version as of 24 April 2014 has sold approximately 80,000 printed copies and over 13,000 digital copies; Harvard University Press expects to sell an additional 200,000 copies.[2]

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The central thesis of the book is that inequality is not an accident, but rather a feature of capitalism, and can only be reversed through state intervention.[3] The book thus argues that unless capitalism is reformed, the very democratic order will be threatened.[3]

The trend towards higher inequality was reversed between 1930 and 1975 due to some rather unique circumstances: the two World Wars, the Great Depression and a debt-fueled recession destroyed much wealth, particularly that owned by the elite.[1] These events prompted governments to undertake steps towards redistributing income and the fast economic growth meant that inherited wealth had its importance reduced.[1]

The book argues that the world is returning towards "patrimonial capitalism", in which much of the economy is dominated by inherited wealth and that their power is increasing, creating an oligarchy.[4] In order to illustrate a society that has a rigid class structure based on accumulated capital, Piketty uses examples from the novels of Honoré de Balzac, Jane Austen and Henry James.[1]

Piketty predicts a world of low economic growth, dismissing the idea that bursts of technological advances will bring the growth back to the levels of the 20th century, arguing that we should not base ourselves on the "caprices of technology."[1]

As a solution to extreme inequality, Piketty proposes an annual global wealth tax of up to 2%, combined with a progressive income tax reaching as high as 80%.[1]

Reception[edit]

Paul Krugman called it a "magnificent, sweeping meditation on inequality"[5] and "the most important economics book of the year — and maybe of the decade."[4] He distinguishes the book from other bestsellers on economics as it constitutes "serious, discourse-changing scholarship."[6]

Clive Crook, while being strongly critical of the book, acknowledged that "it's hard to think of another book on economics published in the past several decades that's been praised as lavishly".[7]

Steven Pearlstein called it a "triumph of economic history over the theoretical, mathematical modeling that has come to dominate the economics profession in recent years", but also added, "Piketty's analysis of the past is more impressive than his predictions for the future are convincing."[1]

Branko Milanovic, a former senior economist at the World Bank, called the book "one of the watershed books in economic thinking."[8][9]

British historian Andrew Hussey called the book "epic" and "groundbreaking" and argues that it proves "scientifically" the Occupy movement was correct in its assertion that "capitalism isn't working."[10]

Ryan Cooper writing in *The Week* described the book as a "brilliant, surprisingly readable work that synthesizes a staggering amount of careful research to make the case that income inequality is no accident." He also notes that "If Piketty is correct, he has laid the intellectual groundwork for a resurgence of American socialism."[3]

The book has been described as "a political and theoretical bulldozer" in the French press.[11]

The Economist writes "a modern surge in inequality has new economists wondering, as Marx and Ricardo did, which forces may be stopping the fruits of capitalism from being more widely distributed. 'Capital in the Twenty-First Century' ... is an authoritative guide to the question."[12]

James K. Galbraith criticized Piketty's book by saying, "Despite its great ambitions, his book is not the accomplished work of high theory that its title, length, and reception (so far) suggest."[13]

In a supportive review, Paul Krugman wrote:

At a time when the concentration of wealth and income in the hands of a few has resurfaced as a central political issue, Piketty doesn't just offer invaluable documentation of what is happening, with unmatched historical depth. He also offers what amounts to a unified field theory of inequality, one that integrates economic growth, the distribution of income between capital and labor, and the distribution of wealth and income among individuals into a single frame. . . . *Capital in the Twenty-First Century* is an extremely important book on all fronts. Piketty has transformed our economic discourse; we'll never talk about wealth and inequality the same way we used to.[5]

In another supportive review, Will Hutton wrote:

Like Friedman, Piketty is a man for the times. For 1970s anxieties about inflation substitute today's concerns about the emergence of the plutocratic rich and their impact on economy and society. Piketty is in no doubt . . . that the current level of rising wealth inequality, set to grow still further, now imperils the very future of capitalism. He has proved it.[14]

Critiques[edit]

Two main substantive critiques have been leveled against the book. The first faults Piketty for placing inequality at the center of analysis without any reflection on why it matters. He merely assumes that inequality matters, but never explains why, only demonstrates that it exists and how it worsens.[15] As one reviewer put it, "Aside from its other flaws, "Capital in the 21st Century" invites readers to believe not just that inequality is important but that nothing else matters. This book wants you to worry about low growth in the coming decades not because that would mean a slower rise in living standards, but because it might . . . worsen inequality."[7] The problem, critics complain, is that Piketty sees inequality as a given evil that must be addressed in and of itself. Roberto Mangabeira Unger argues that the problem of inequality should focus not only on the relative savings or purchasing power of individuals or classes but more so on the educational and economic opportunities available to them. The issue then is not to address inequality through redistribution of capital in a never endings process and tax and transfer, but rather to change the institutional arrangements of the market to create more value in the economy and further enable more people to have more access to more markets.[16][17][18]

The second critique is that Piketty has no theory of growth. He does not explain where capital comes from, how it is accumulated, or how it might be further generated in the economy. When growth does appear in his analysis it does as a deus ex machina. James K. Galbraith faults him for using "an empirical measure that is unrelated to productive physical capital and whose dollar value depends, in part, on the return on capital. Where does the rate of return come from? Piketty never says."[13] This lack points to a deficiency in both analysis and solution, for if capital is postulated as self generating then the only means of addressing imbalance is by forced redistribution. But this is not how economies work: growth occurs through innovation and production. The goal, therefore, as Unger argues over Piketty, is not handouts, but rather to enable people to have access to the means of innovation and production, which entails education and access to investment capital.[*citation needed*]

Thomas Piketty's Capital: everything you need to know about the surprise bestseller

The radical economist's book Capital in the Twenty-First Century has angered the right with its powerful argument about wealth, democracy and why capitalism will always create inequality. Not read it yet? Here's what it means

That capitalism is unfair has been said before. But it is the way Thomas Piketty says it – subtly but with relentless logic – that has sent rightwing economics into a frenzy, both here and in the US.

His book, Capital in the Twenty-First Century, has shot to the top of the Amazon bestseller list. Carrying it under your arm has, in certain latitudes of Manhattan, become the newest tool for making a social connection among young progressives. Meanwhile, he is been condemned as neo-Marxist by rightwing commentators. So why the fuss?

Piketty's argument is that, in an economy where the rate of return on capital outstrips the rate of growth, inherited wealth will always grow faster than earned wealth. So the fact that rich kids can swan aimlessly from gap year to internship to a job at father's bank/ministry/TV network – while the poor kids sweat into their barista uniforms – is not an accident: it is the system working normally.

If you get slow growth alongside better financial returns, then inherited wealth will, on average, "dominate wealth amassed from a lifetime's labour by a wide margin", says Piketty. Wealth will concentrate to levels incompatible with democracy, let alone social justice. Capitalism, in short, automatically creates levels of inequality that are unsustainable. The rising wealth of the 1% is neither a blip, nor rhetoric.

To understand why the mainstream finds this proposition so annoying, you have to understand that "distribution" – the polite name for inequality – was thought to be a closed subject. Simon Kuznets, the Belarussian émigré who became a major figure in American economics, used the available data to show that, while societies become more unequal in the first stages of industrialisation, inequality subsides as they achieve maturity. This "Kuznets Curve" had been accepted by most parts of the economics profession until Piketty and his collaborators produced the evidence that it is false.

In fact, the curve goes in exactly the opposite direction: capitalism started out unequal, flattened inequality for much of the 20th century, but is now headed back towards Dickensian levels of inequality worldwide.

Piketty accepts that the fruits of economic maturity – skills, training and education of the workforce – do promote greater equality. But they can be offset by a more fundamental tendency towards inequality, which is unleashed wherever demographics or low taxation or weak labour organisation allows it. Many of the book's 700 pages are spent marshalling the evidence that 21st-century capitalism is on a one-way journey towards inequality – unless we do something.

Thomas Piketty in his office in Paris. Photograph: Ed Alcock for the Guardian

If Piketty is right, there are big political implications, and the beauty of the book is that he never refrains from drawing them. Piketty's call for a "confiscatory" global tax on inherited wealth makes other supposedly radical economists look positively house-trained. He calls for an 80% tax on incomes above $500,000 a year in the US, assuring his readers there would be neither a flight of top execs to Canada nor a slowdown in growth, since the outcome would simply be to suppress such incomes.

While bestriding the macro-economic agenda, the book's sideswipes against trendy micro-economics, often in footnotes, read like a sustained in-joke against the generation for whom all problems seemed solved, except the street price of cocaine in Georgetown.

The book has, in addition, mesmerised the economics profession because of the way Piketty creates his own world, theoretically. He defines the two basic categories, wealth and income, broadly and confidently but in a way nobody had really bothered to before. The book's terms and explanations are utterly simple; with a myriad of historical data, Piketty reduces the story of capitalism to a clear narrative arc. To challenge his argument you have to reject the premises of it, not the working out.

From page one he illustrates with visceral reminders of the unfair world we live in: he begins with the Marikana mining massacre and he never lets up. He marshals not just 18th-century interest rates as evidence but also the work of Jane Austen and Honoré de Balzac. He uses both authors to illustrate how, by the early 19th century, it was logical to disdain work in favour of marrying into wealth. That it has become so again busts the central myth of, and moral justification for, capitalism: that wealth is generated by effort, ingenuity, work, wise investment, risk taking etc.

For Piketty, the long, mid-20th century period of rising equality was a blip, produced by the exigencies of war, the power of organised labour, the need for high taxation, and by demographics and technical innovation.

The Bank of England, standing in the heart of the City. Photograph: Bloomberg via Getty Images

Put crudely, if growth is high and the returns on capital can be suppressed, you can have a more equal capitalism. But, says Piketty, a repeat of the Keynesian era is unlikely: labour is too weak, technological innovation too slow, the global power of capital too great. In addition, the legitimacy of this unequal system is high: because it has found ways to spread the wealth down to the managerial class in a way the early 19th century did not.

If he is right, the implications for capitalism are utterly negative: we face a low-growth capitalism, combined with high levels of inequality and low levels of social mobility. If you are not born into wealth to start with, life, for even for the best educated, will be like Jane Eyre without Mr Rochester.

Is Piketty the new Karl Marx? Anybody who has read the latter will know he is not. Marx's critique of capitalism was not about distribution but production: for Marx it was not rising inequality but a breakdown in the profit mechanism that drove the system towards its end. Where Marx saw social relationships – between labour and managers, factory owners and the landed aristocracy – Piketty sees only social categories: wealth and income. Marxist economics lives in a world where the inner tendencies of capitalism are belied by its surface experience. Piketty's world is of concrete historical data only. So the charges of soft Marxism are completely misplaced.

Piketty has, more accurately, placed an unexploded bomb within mainstream, classical economics. If the underlying cause of the 2008 bank catastrophe was falling incomes alongside rising financial wealth then, says Piketty, these were no accident: no product of lax regulation or simple greed. The crisis is the product of the system working normally, and we should expect more.

One of the most compelling chapters is Piketty's discussion of the near-universal rise of what he calls the "social state". The relentless growth in the proportion of national income consumed by the state, spent on universal services, pensions and benefits, he argues, is an irreversible feature of modern capitalism. He notes that redistribution has become a question of "rights to" things – healthcare and pensions – rather than simply a problem of taxation rates. His solution is a specific, progressive tax on private wealth: an exceptional tax on capital, possibly combined with the overt use of inflation.

The policy logic for the left is clear. For much of the 20th century, redistribution was handled through taxes on income. In the 21st century, any party that wants to redistribute would have to confiscate wealth, not just income.

You would expect the Wall Street Journal to dissent, but the power of Piketty's work is that it also challenges the narrative of the centre-left under globalisation, which believed upskilling the workforce, combined with mild redistribution, would promote social justice. This, Piketty demonstrates, is mistaken. All that social democracy and liberalism can produce, with their current policies, is the oligarch's yacht co-existing with the food bank for ever.

Piketty's Capital, unlike Marx's Capital, contains solutions possible on the terrain of capitalism itself: the 15% tax on capital, the 80% tax on high incomes, enforced transparency for all bank transactions, overt use of inflation to redistribute wealth downwards. He calls some of them "utopian" and he is right. It is easier to imagine capitalism collapsing than the elite consenting to them.

Paul Mason is culture and digital editor of Channel 4 News. His book Postcapitalism will be published by Penguin in early 2015.