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# Book review: Capital in the twenty-first century

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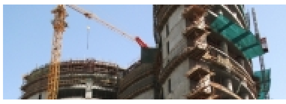

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# Book Review: Capital in the Twenty-First Century

Jason Hickel - 9th July 2014


***Capital in the Twenty-First Century, by Thomas Piketty. Translated by Arthur Goldhammer.*** Cambridge, MA: Harvard University Press 2014. 696 pp, £29.95 hardcover 9780674430006

It is always a bit surprising to hear an economist described as a "rock star" in the media, but Thomas Piketty has been collecting this accolade in spades since the publication of his runaway bestseller, Capital in the Twenty-First Century. It surely says something interesting about our times that this 700 page tome packed with dense historical data on incomes and wealth has become so popular, spreading with meme-like force and leaving bookstores around the world struggling to keep pace with demand. Clearly his argument has touched a raw nerve. For many of us who have been concerned about rising inequalities over the past few decades, Piketty's conclusions are nothing new, and many of the graphs that illustrate his text are long-familiar images. What makes this book different is that it draws on a new trove of datasets that adds a degree of substance to the left's critique, which economists and policy makers simply cannot ignore.

Piketty sets himself against Simon Kuznets, the Belarusian economist who became famous for demonstrating that, while inequality increases in the first stages of industrialization, the disparity between classes automatically evens out as economies mature. The "Kuznets Curve" made sense at the time – in the middle of the 20th century – since inequality was in fact diminishing in Western countries, but his data has long needed updating. Stepping into this breach, Piketty and his colleagues show that what Kuznets assumed to be a continuing trajectory toward greater equality was in fact an aberration – an "illusion" – in the longue durée of capitalism's history, and that in reality the predominant trend bends toward divergence. What is more, Piketty argues that unrestricted accumulation, far from reinforcing social mobility and the values of democratic freedom, drives instead toward ossified hierarchies and plutocratic governments. These claims do serious damage to the prevailing justifications for free market capitalism.

It is no wonder, then, that right-wing pundits have been scrambling for ways to discredit him. For instance, when Chris Giles of the Financial Times discovered what he felt were errors in some of Piketty's datasets, instead of inviting fair debate with the author he published a front-page exposé alleging that Piketty had fabricated some of his key numbers "from thin air", making wealth inequality in the US and Britain seem much worse than it actually is. In the furore that followed, it became clear that Giles' claims were overblown. The response of Piketty and the many economists who have risen to his defense has been to point out that wealth, unlike income, is difficult to measure because government authorities allow the rich to fudge the true value of their assets. Given imperfect information, economists have to make judgments calls. Piketty's, it seems, were fair. And to make sure that future analysts have better numbers, Piketty writes this issue into his list of demands: "National tax authorities should receive all the information they need to calculate the net wealth of every citizen" (p. 520).

The main explanation that Piketty offers for rising inequality is that the rate of return on capital tends to exceed the rate of economic growth ($r > g$). People who have access to capital – accumulated or inherited wealth, in Piketty's analysis – are able to make money at a faster rate than people who earn incomes from working, which leads to steady divergence between the two groups over time. The exception in the latter camp is the managerial class, the CEOs who have acquired the power to set their own remuneration, often without limits, and usually with no reference to their productivity, to the point where they claim incomes that outstrip average workers' wages by many hundreds of times. Piketty points out that $r > g$ has nothing to do with market "imperfections". In fact, the more "perfect" the capital market, the more likely it is that the rate of return on capital will exceed the rate of economic growth. And this pattern holds particularly true when economic growth rates are low, as they have been for the past few decades and, according to Piketty, will continue to be for the rest of the century.

What is so refreshing about Piketty is that he realizes that economic processes do not unfold according to abstract, disembodied formulas, as if the economy were somehow disembedded from the social; he recognizes the role of politics – and of the constant

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tension between capital and labor – in shaping the history of economic outcomes. He has strong words for those who ignore this fact: "To put it bluntly, the discipline of economics has yet to get over its childish passion for mathematics and purely theoretical and often highly ideological speculation, at the expense of historical research and collaboration with the other social sciences. Economists are all too often preoccupied with petty mathematical problems … an easy way of acquiring the appearance of scientificity without having to answer the far more complex questions posed by the world we live in" (p. 32).

For Piketty, the key questions of political economy have to do with the variable power of the labor movement and the rise and fall of the "social state" in Europe and America. In the decades following World War II, the highest incomes were taxed at around 80%, unemployment was kept deliberately low, trade unions flourished and gradually balanced out the power of capital, and inflation was used to erode accumulated wealth. Piketty demonstrates that these arrangements had no negative effect on economic growth – indeed, they improved growth – busting yet another core myth in the ideological edifice of free market capitalism. During this period, the tendency of "r" to exceed "g" was kept in check, and inequality decreased accordingly. But beginning in the early 1980s, with the rise of policies to cut taxes on the richest, create unemployment, eviscerate the trade unions, and target low inflation, elite accumulation was unleashed and inequality resumed its natural rise.

Piketty has often been likened to a present-day Marx, in part because of the title he chose for his book. But this comparison is far from accurate. Marx's critique focused on the fact that economic production itself entails contradictions that engender inequality. Piketty never goes this far, and never wanders much beyond the boundaries of neoclassical orthodoxy. Indeed, he is really much closer to Keynes: he doesn't reject capitalism. He simply wants to make it fairer and, in the process, prevent it from destroying itself – at least in the near term. He calls for a progressive global tax on capital as the best solution for the 21st century. While Piketty believes an income tax would kill the motor of accumulation and further reduce the growth rate, a capital tax will be vital to "ending the inegalitarian spiral while preserving competition and incentives for new instances of primitive accumulation" (p. 572). Tax revenues should then be reinvested in education and the dissemination of knowledge and technology, which Piketty sees as the only meaningful forces of convergence.

Piketty's proposals are far from radical. A radical approach would be to interrogate the legitimacy of primitive accumulation itself, as Marx did. Yet Piketty's suggestions have nonetheless been ridiculed in the press as naïve and utopian. It seems to me, however, that the naivety lies with Piketty's critics on the right, who assume we can continue with our existing order indefinitely. Against this reckless assumption, Piketty's global tax seems positively modest. And, if the popularity of Capital is anything to go by, it won't be long before such an intervention becomes broadly thinkable in the public imagination.

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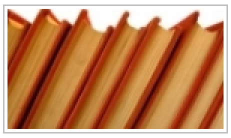

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