

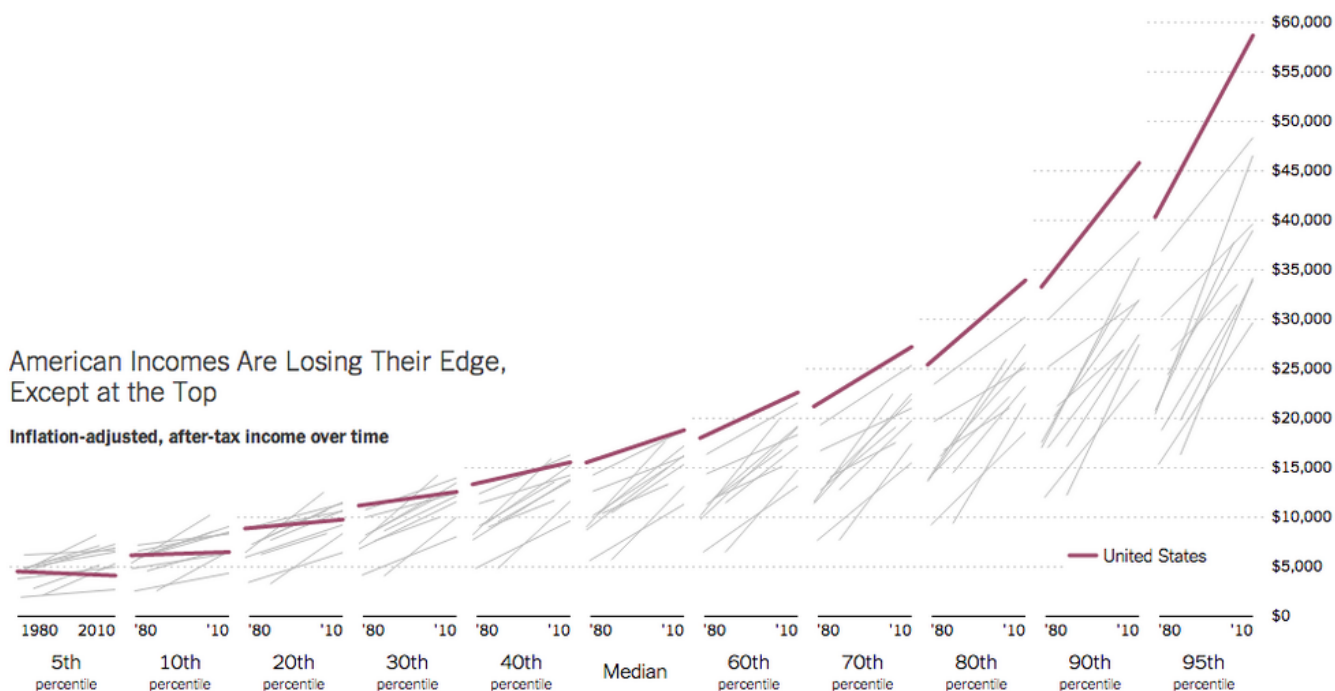
Piketty on Capitalism: Worth getting excited about?

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The excitement over Thomas Piketty's new book, *Capital in the Twenty First Century*, feels somewhat strange as few people I know have been able to actually get hold of a copy (the LSE's campus bookshop – of all places- has none for sale and there's a two-week wait on Amazon...). But reviews I've seen of the book, both hostile and positive, agree on a number of things which make me suspect the hype is justified for once:

1. In many ways Piketty's book is simply a majestic summary of things we already know but haven't been able to pin down. Parts of his thesis build on work by others going back a decade or more. For example, **Robert Reich** on the baleful influence of corporate lobbying in political life; **Colin Crouch** on the success of Chicago School economists in replacing notions of individual sovereignty with nebulous concepts of consumer 'welfare' (so Walmart is good because customers get cheap electronics); Hacker and Pierson on the steady accretion of 'Winner Takes all Politics'; and **Joseph Stiglitz** on why all this is ultimately so bad for growth. Going back further, it echoes Schumpeter's warnings about capitalism's tendency to undermine its own moral basis for existence.

2. Piketty has carefully assembled vast amounts of data to back up what he says. Until now, the possibility that the mid part of the twentieth century, when real incomes rose and inequality fell, might be an aberration was an assertion, not established fact. Not anymore. Piketty's argument that capitalism has resumed its default trajectory towards inexorably widening inequality looks unanswerable. Data-hungry readers in need of even more proof should check out a newly available source, the **Luxembourg Income Study Database**. LIS has teamed up with the **New York Times** to offer easily accessible snapshots of inequality across the developed world. The table below shows what's happened in the US; but the picture is not dissimilar in many European countries.



NYT/LIS data on how US incomes at the top have done very nicely



3. Even generally pro-market commentators are singing his praises. This, from arch globalisation advocate **Martin Wolf** of the FT: *'French economist Thomas Piketty has written an extraordinarily important book. Open-minded readers will surely find themselves unable to ignore the evidence and arguments he has brought to bear.'* David Smith of the UK's right of centre Sunday Times, writing for the **EconoMonitor blog**, also acknowledges the book's importance although he dismisses its policy conclusions and points out that Piketty's argument about inequality continuing to outstrip growth as an assertion, not a fact. Slightly surprisingly, one of Piketty's most trenchant critics comes from the Keynesian Left, with **James K. Galbraith** accusing him of confusing physical and financial capital – the latter fluctuating wildly according to market valuation making it an unsound yardstick for wealth estimation.

4. He's not challenging capitalism per se, merely questioning the political arrangements accompanying it that sanction such an absurdly skewed system for allocating its rewards. Despite many claims, **Piketty is not a Marxist**. His solutions to widening inequality – such as wealth and Tobin taxes – while possibly being difficult to implement, are not far from the mainstream in France and elsewhere.

5. Finally, and more unsettlingly, why has it taken so long – seven and a half years since Lehman's collapse – for the Left to come up with a genuinely foundational critique of capitalism such as this?

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