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Considering Thomas Piketty's *Capitalism in the Twenty-First Century*

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> *"We lack trustworthy evidence that societies with greater income equality are on average happier."*[2]

Thomas Piketty's book is a rare publishing phenomenon. Written in French, its title obviously referring to Marx's main opus, it has proved a sales hit since its English-language publication in March 2014. A first question thus arises: why has an economic history book almost 700 pages long met with such extraordinary success? The answer may offer us insight into how the book has been perceived, but not necessarily about the book itself.

Indeed, even though *Le Capital au XXI^e siècle* was a success in France as soon as it was published in 2013, its media coverage boomed only in the wake of its English translation.[3] The Piketty-mania, denounced by the same media that fuelled it, is really an Anglo-Saxon phenomenon, albeit it had strong feedback in France. Broadly speaking, the media have focused on two key issues: the dynamics of inequalities over time, and how to deal with increasing inequality. This coverage echoes both the Occupy Wall Street movement and the growing discontent, especially in the U.S., regarding the increasing inequity between the lower-deciles' stagnation and the highest decile's gains during the last forty years, especially since the 2007-2008 crisis.[4] Most reviewers have paid tribute to the enormous amount of data Piketty has amassed, homogenized, and made public, most

Note: Page number references in this essay refer to the English edition of the book: Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge, Mass.: The Belknap Press of Harvard University Press, 2014).

[1] The author is considerably grateful to Kenneth Mouré's most helpful comments and proofreading. The usual disclaimer applies, and the author takes full responsibility for the remaining omissions or mistakes.

[2] Gregory Clark, *A Farewell to Alms A brief economic history of the world* (Princeton: Princeton University Press, 2007), p. 377.

[3] Thomas Piketty, *Le Capital au XXI^e siècle* (Paris: Seuil, 2013). Note that the French edition is 185 pages longer than the English edition only thanks to a larger typography. A mistake spotted by Dietrich Stauffer with a rather mean comment is actually only in the English edition, the 9.5 and 9.6 figures being correctly stated in thousandth in the French edition. D. Stauffer, "Income Inequality in the 21st Century. A biased summary of Piketty's *Capital in the Twenty-First Century*," working paper, 1 Sept. 2014, p. 3, accessed 2 Sept. 2014 at http://arxiv.org/pdf/1406.7115.pdf.

[4] See for example *Federal Reserve Bulletin*, "Changes in U. S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances), vol. 100, no. 4 (Sept. 2014), and Standard & Poor's Financial Services LLC, "How Increasing Income Inequality Is Dampening U. S. Economic Growth, And Possible Ways To Change The Tide", 5 Aug. 2014, accessed 12 Aug. 2014, at https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1351366&SctArtId=255732&from=CM&nsl_code=LIME&sourceObjectId=8741033&sourceRevId=1&fee_ind=N&exp_date=20240804-19:41:13
As for Britain, and in a broader perspective, see *Elitist Britain? Report from the Commission on Social Mobility and Child Poverty Commission* (2014).

notably in his work with Facundo Alvaredo, Tony Atkinson, and Emmanuel Saez.[5] This focus is of course relevant, but it may lead to over attention to the pragmatic and political aspects of Piketty's contribution at the expense of the fundamental dimensions of his work in economics and in history.

The introduction makes clear Piketty's ambition: to cover more than 200 years of Western history with a global perspective, thanks to a unified theory of capitalist development in not only its economic, but also its demographic, social, political, and even cultural dimensions. Combining these academically distinct fields, Piketty's book would thus help bridge the gap between economics and "the other social sciences" (p. 32) and present itself "as much a work of history as of economics" (p. 33). As in several prominent economists' recent works,[6] Piketty provides us with a new attempt at a grand theory, distinct from past Marxist or structuralist ones, unifying social sciences under a common historical perspective and reconciling more and more specialized sciences with the general public, hard and objective data with meaning. Piketty then proceeds in three steps, from the theoretical (Part one: Income and capital) to the analytical (Part two: The dynamics of the capital/income ratio; Part three: The structure of inequality) to the normative (Part four: Regulating capital in the twenty-first century).

The book provides explanation and an in-depth analysis of two relationships. The first is that of wealth (stock) to income (flow) and updates the Marxist mantra "Accumulate, accumulate! That is Moses and the prophets!" It compares the tendency of wealth to accumulate in relation to income, leading to an increasing wealth to income ratio. Since wealth tends to accumulate, small initial differences lead to growing concentration. In turn, wealth concentration alters income distribution, when incomes from accumulated capital and particularly inherited capital tend to overtake labor incomes. The second relationship compares the growth rates of output and capital. Piketty tries to establish—and this point will surely remain one of the most controversial—that, in the long term, the interest rate will always be higher than the growth rate. This means that capital incomes will grow faster than labor incomes (which depend directly on the growth rate) and, since capital is not evenly distributed, will lead to widening inequalities. In sum, both relationships studied "spontaneously" lead to growing inequalities, contrary to the rosy picture of the so-called Kuznets law, i.e. the idea that after an initial widening in inequalities, technological progress will tend to reduce them over time. Here is precisely where Piketty stands: he does not believe in "spontaneous" patterns. He vigorously claims that behind these trends towards more or less inequality, there are conscious political, social, and economic choices. He thus stresses the ability of any given society to alter or correct these trends as was the case during the "golden age" of post-war growth, when inequalities reached a historical low. Since inequalities have been on the rise since the closing of that age, which coincided with Thatcher's and Reagan's free market and lower taxes on high incomes policies, Piketty then develops his proposals to curb the rise of inequalities within countries and among them, most notably to implement a worldwide capital tax.

A common criticism of Piketty's work asks whether he actually explains these trends, their variations, and their causes, or if he merely observes them. As explained, Piketty provides a combination of empirics, analytics, and normative developments, and it is in this blurred zone between explanation and observation that both he and most historians work: i.e. raise questions, establish "facts," confront them. It is also there that Piketty stands out: by daring to propose solutions to the recent ever-increasing concentration of wealth. His two key proposals in the fourth part of the book form the less historical part of his work. First, he proposes to restore more progressivity in taxing revenues, breaking with over thirty years of flat taxes, tax rebates, and tax havens offered without many conditions to the highest compensated people, these very people that benefitted the most from increasing inequalities. Second, he hypothesizes that a global tax on capital could be considered the ultimate weapon against wealth concentration. Even though he himself dubs it a "useful utopia" (p. 515), and that other solutions are practicable against the return of a

[5] Data available on The World Top Incomes Database: http://topincomes.g-mond.parisschoolofeconomics.eu/

[6] See for example Daron Acemoglu and James A. Robinson, *Why Nations Fail. The Origins of Power, Prosperity, and Poverty* (London: Profile Books, 2012); and Angus Deaton, *The Great Escape. Health, Wealth, and the Origins of Inequality* (Princeton: Princeton University Press, 2013), as well as Clark, *A Farewell to Alms.*

patrimonial society (p. 534), he shows that one merit of a global tax would be the information it would provide. And information is key to true and informed democratic debate, even if the said tax rate is very low, say 0.1 per cent (pp. 518-20). In sum, Piketty's work ends with a return to his point of departure: the conditions necessary for a thriving democracy.

Given such broad ambitions, it is hardly surprising that he sets his work in a tradition of trans-disciplinary thinkers, but less predictable that he would almost exclusively choose male and French ones such as Lucien Febvre, Fernand Braudel, Claude Lévi-Strauss, Pierre Bourdieu, and Maurice Godelier, with the welcome exception of Françoise Héritier (p. 32). His crucial references thus appear to be very close to the *French theory* that sparked considerable controversy in American universities. Perhaps this is a gentle teasing, as with his reference to Marx's main opus in his book's title. It may also illustrate Piketty's humour and his constant references to great novelists, particularly Honoré de Balzac and Jane Austen, which add a lighter touch to a clearly and wittily written book. Nevertheless, one would like to see more references to less male, less white, and less French global thinkers.

With regard to references, one should note the rather original organization of the book: most of the scientific or academic paraphernalia (bibliography, annexes or appendixes, exact sources and methods for the figures and calculations) is absent, but accessible in a far more comprehensive way on the author's website (http://piketty.pse.ens.fr/fr/). Here again, the author goes farther than simply acknowledging the computer age impact on scientific edition: he intends to fuel the democratic debate with accurate facts and figures by making them largely available (pp. 2-3). Nevertheless, a comprehensive bibliography is clearly wanting in the volume, but also in the online annexes. The only exception to this rule is the index *rerum et nominorum*, absent in the French edition and a welcome addition to the English version.

The numerous reviews already published have often stressed two points about *Capital in the Twenty-First Century*'s theoretical background.[7] First, even though Piketty strongly criticizes neoclassical representative agent models (p. 135), his work remains within the boundaries of neo-classical economics. Building upon the works of Solow and Kuznets, he efficiently uses a few streamlined elements to describe the secular history of several countries. His parsimonious model relates the capital stock, the flow of income, the annual change in this flow (i.e. growth), and the rate of interest. With these four variables, Piketty succeeds in describing, helped by a host of graphs, the high level of the capital to income ratio and of individual wealth inequalities before 1914, their steep decline until the late 1970s, and their subsequent accelerating increase until today, particularly in the U.S. and in the U.K.

Second, he produces an extraordinarily detailed picture of wealth, income distribution and inequality in more than twenty countries. Streamlining Piketty's periodization of wealth inequalities, we may group them into four distinct and more or less successive socio-economic models. The first one, the "patrimonial society," visible in Austen's England and Balzac's France, is that of a highly unequal distribution of incomes and wealth, both depending heavily on inheritance, giving the whole society a very low degree of intergenerational mobility. The second one, best exemplified by the nineteenth-century United States, but relevant to modern China and India as well, is that of a fast growing economy, both demographically and in terms of productivity. Here, the accumulated wealth remains limited when compared to the revenues generated by labor even though income inequality might be very high. The third case corresponds to societies that have suffered large cumulative external shocks during the twentieth century: war, inflation, high taxation, social security, extensive losses and destructions. These large shocks have produced, in a remarkably similar manner in all Western countries, a large reduction in wealth and income inequality and a truly exceptional period during

[7] A few examples of reviews. Branko Milanovic, "The Return of 'Patrimonial Capitalism'. Review of Thomas Piketty's *Capital in the 21st Century*," *Journal of Economic Literature* 52:2 (2014): 519-534. A first version of this review was published as soon as October 9, 2013, on the MPRA website. Gaël Giraud, "Quelle intelligence du capital pour demain? Une lecture du *Capital au XXIème siècle* de Th. Piketty," *Revue Française de Socio-Économie* (2014): 283-294.

which inherited wealth became secondary to income savings (pp. 390-409, graphs 11.7 and 11.12). Because these societies saw the development of middle-class home-owning, Piketty describes them as "patrimonial middle class" societies (p. 260). The fourth case, the "society of [super-]managers" refers to the present day, particularly in the U.S. and the U.K.—the actual situation of France, Germany, and Italy remains more ambiguous when it comes to a recent increase in inequality. It is a brave new world of inequalities, where income inequality—the famed "working rich"[8]—play a major role, contrary to the *rentier* society of old, when hard working people were rarely amongst the wealthiest. Nevertheless, the "patrimonial middle-class" has not (yet) been wiped out by the growth in inequality. This last case leads to a very interesting discussion by Piketty, mixing theoretical and analytical arguments, analyzing why some "Super managers" are granted such exceptional compensations (pp. 330-35). Here, with good reason, Piketty rejects the two main justifications for these super-wages: supposedly higher marginal productivity and the impact of globalization. Instead, he concludes that the reason lies in the power of a gilded elite to decide for its own compensation level, thanks to a high bargaining power, a strong self-interest, and an insider-oriented compensation system.

If power, and not marginal productivity, is the cause, then history really enters the picture: power is not a simple function of wealth, but depends on many institutional, social, and accidental features whose interplay are the very fabric of history and the cause for unexpected outcomes. Here, Piketty has a lot to teach us. First, his very long-term datasets will become a very convenient resource for new historical studies. Let's take a few examples. As a historian of banks and money, I have been appalled to read and see magnified the role of wars and other catastrophic events on the course of the economy, something many economists have denied, sometimes using econometric techniques to demonstrate that, after all, war was no "watershed." Indeed, war impacts are rather obvious in the shorter-term but often tricky to relate in a rigorous manner to long-term trends in European societies.[9] Piketty addresses this problem head-on and demonstrates the enormous long-term impact of wars on European economic and social structures, most notably their direct (taxation) and indirect (inflation) consequences on wealth and inequality.[10] His discussion of the U.S. ante-bellum economy is also highly engaging (pp. 158-63), most notably the role assigned to slaves as productive capital and their impact in the Nord-South divide. It raises historical questions not addressed in the book: for example, if one combines land and slave capital, it appears that in 1770, the agricultural capital to income ratios of the U.K. and the U.S. were about at par, which goes against the usual opposition between a capital-abundant England and a land-abundant America[11] and replaces it by distinctions in the composition of this capital. Or it could also fuel the on-going debate on the definition of what capital is and how it has evolved over time, a debate in which Piketty does not really engage.

In conclusion, Piketty provides historians and economists with a wealth of facts, questions, and long term perspectives that will help them to build a more comprehensive economic history, discarding the rosy picture of perpetual betterment by confronting economic development and inequality trends over time and space. He also makes a compelling argument that political discourses and cultural developments should be seen in the light of the structures of inequality he helped to uncover. This raises many questions about the consequences of wealth structure and distribution on political, social, and cultural agendas. His use of Austen and Balzac could be considered as merely

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[8] Olivier Godechot, *Working Rich: Salaires, bonus et appropriation du profit dans l'industrie financière* (Paris: Editions la Découverte, 2007).

[9] P. Baubeau and Anders Ögren, "Determinants of National Financial Systems: the role of historical events" in *Convergence and Divergence of National Financial Systems: Evidence from the Gold Standards, 1871-1971*, eds. P. Baubeau and A. Ögren (London: Pickering & Chatto, 2010), 127-43.

[10] Hartmut Kaelble, *A Social History of Western Europe, 1880-1980* (Dublin: Gill and MacMillan, 1990).

[11] Kevin O'Rourke and Jeffrey Williamson, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy* (Cambridge, Mass.: MIT Press, 1999).

illustrative or anecdotal—but it could also lead us to better understanding of the worlds depicted in great and minor works of art past and the reason why the authors repeatedly represent common characteristics. Recognizing the evocative power of these two writers (p. 2), Piketty also acknowledges the limits of purely demonstrative arguments and urges that we give a broader meaning to history and economics. Last, he contributes to a large and thriving domain of research on the consequences of inequality, whether upon society or the individuals. While Piketty posits a negative relationship between inequalities and democracy or social well-being, he does not demonstrate it or why he would obviously disagree with controversial statements such as the one opening this review. If inequalities have such large impacts, their assessment should then become the backbone of any comprehensive social history[12] but could also lead to more systematic historical explanations. History could thus focus on such linkages, whether it concerns the reasons for the Nazis' electoral successes in the 1930s, the swing votes of the middle class in the Western world today, or the long-term trends regarding crime or the human body. *Capital in the Twenty-First Century* is a major addition to this line of research on both our past and present.

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[12] See for example Richard Wilkinson and Kate Pickett, *The Spirit Level. Why More Equal Societies Almost Always Do Better* (London: Penguin Books, 2009).