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CAPITAL IN THE TWENTY-FIRST CENTURY

By Thomas Piketty

‘Something fresh.’ ‘Filled with brilliant moments.’ ‘Monumental.’ ‘Revolutionary.’ ‘Magisterial.’ ‘Surprisingly readable.’ This is how *Capital in the Twenty-First Century*, a book comprising 685 pages, by French economist Thomas Piketty and his col-leagues is being received. Since its translation into English in 2014 *Capital in the Twenty-First Century* has become a bestseller and has been hailed as the book of the year and perhaps the book of the de-cade. It is a work of almost 15 years’ research tracing changes in wealth and income over a span of more than 200 years from the 18th and 19th centuries, thanks to Piketty’s colleagues, Anthony Atkinson at Oxford and Emmanuel Saez at Berkley, who invented statistical techniques for tracking the concentration of wealth and income as far back as the 18th century in France and to the beginning of the 20th Century in Britain and the USA.

Piketty’s massive data base and research reveals the great inequalities in wealth that existed into the 20th century and warns that the phenomenon will repeat itself again unless the current accumulation of wealth in the hands of a few is controlled. It’s a good but somewhat challenging read. Even people who find economics dull or difficult would find this book interesting. Piketty combines history, sociology and literature with his vast data base and basically rewrites the science of economics.

Using his unique statistical techniques, Piketty has merged tax data sources with other key findings to produce new information that, along with survey evidence, shines a new light on wealth inequality.

The U Curve vs Kuznets’s Curve

Piketty’s book notes a study by American economist, Simon Kuznets, on income inequality in the USA between 1913 and 1948. Kuznets observed that in 1913 the wealthiest 10 percent owned 45 -50 percent of national income which then dropped to less than 35 percent shortly after. Kuznets concluded that income inequality decreased in advanced stages of capitalism, regardless of economic policy choices or other differences between countries, until eventually it stabilized.

Therefore, ‘Inequalities increase in the early stages of industrialization because only a minority is prepared to benefit from the new wealth that industrialization brings. Later, in more advanced phases of development, inequality automatically decreases as a larger portion of the population partakes of the fruits of economic growth’ (p.14). This is the basis of the Kuznets Curve, widely used by economists.

For Kuznets it was enough to be patient, and before long growth would benefit everyone. Piketty discovered a major flaw in this work, namely, Kuznets mistakenly gave credit to industrialization for the decline in inequality. Piketty’s work reveals that, by the beginning of the 1980s and especially by 2000- 2010, the wealthy are back to owning 45-50 percent of national income. So, when wealth inequality over the years is represented in a graph, the curve which flattened out until the 1970s is now closer to where it was before World War I; and the picture of income inequality between 1913 and 2010 resembles the full letter U, or an inverted arc.

According to Piketty:

‘For far too long, economists have neglected the distribution of wealth, partly because of Kuznets' optimistic conclusions and partly because of the profession’s undue enthusiasm for simplistic mathematical models… If the question of inequality is again to become central, we must begin by gathering as extensive as possible a set of historical data for the purpose of understanding the past and present trends. For it is by patiently establishing facts and patterns and then comparing different countries that we can hope to identify the mechanisms at work and gain a clearer idea of the future’ (p.16).

Nobel Economics Laureate, Paul Krugman, states:

’In America in particular, the share of national in-come going to the top one percent has followed a great U shape arc. Before World War II the top one percent received around a fifth of national income in both Britain and the United States. By 1950, that share had been cut by more than one-half. But since 1980, the one percent has seen its share of income surge again and in the USA it is back to what it was a century ago[i]. [1]

Piketty illustrates this U curve in several places throughout his book (see pp. 23 and 216 on inequality of income and of inheritance and p.385). *Capital in the Twenty-First Century* describes how, in the 18th and 19th centuries, the wealthy minority formed a rigid upper class in a class-structured society, and enjoyed the privilege of their wealth until the era comprising World War I (1914 - 1918), the Great Depression (1929 - early 30s) and World War II (1939 - 1945). Although there were wage increases during the Industrial Revolution, the wealthy still retained their privileged position because their riches exceeded all the wealth earned by work in their national economy. Their grip on wealth diminished during the two world wars and the great depression, eaten up by high taxes, inflation, bankruptcies, and the growth of welfare states and destruction of property during the wars. This diminished grip on wealth by the upper class ushered in a period of greater equality in the distribution of wealth and income and a stronger middle class.

Piketty’s massive work which uncovered the reality and extent of wealth inequality, has received mostly high praise. Many economists believe he deserves every bit of it. The book is a wake-up call about the market system so dominant in our world; and a key aim of his book is to warn that we are in danger of returning to the pre-World War I situation unless we intervene to transform things.

Piketty’s formula is very simple: the rate of return on capital **(r)** is greater than the rate of economic Growth **(g)**. That is, **r>g**. He explains:

‘The inequality represented by **r>g** implies that wealth accumulated in the past grows more rap-idly than output and wages. This inequality ex-presses a fundamental logical contradiction. The entrepreneur inevitably tends to become a *rentier* (a person who lives on income from property or investments), and becomes more and more dominant over those who own nothing but their labour. Once constituted, capital reproduces itself faster than output increases. The past devours the future in a society where inherited wealth is very important, and concentrated, where the top 10 percent owns 90 percent of wealth’ (p.264).

Capital in the Twenty-First Century focuses mainly on France, Germany, the United States, the United Kingdom, and to a lesser extent on Italy, Canada, Japan, Australia, New Zealand, India, China, Indonesia and South Africa. For Piketty, the dynamic of wealth inequality is inherent in the system of capitalism. With capitalism, according to Piketty, the poor don’t necessarily get poorer, but the gap between the earning power of the people who own lots of buildings and shares and the earning power of people working for a living will grow continually, when **r** is greater than **g**. This is an in-evitable outcome of free market capitalism. The rich will grab more and more of the wealth and their offspring will have an advantage over every-one else.

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[1] Paul Krugman*, Why We’re in a New Gilded Age*, New York Review of Books, May 8, 2014, p.1.

Piketty defines ‘capital’ as ‘the sum total of non-human assets that can be owned and exchanged on some market. Capital includes all forms of real property (including residential real estate) as well as financial and professional capital (factories, infra-structure, machinery, patents and so on)’ (p.46). He refuses to include what some name human capital. Right wing economists accuse Picketty of being neo-Marxist; while Marxists retort that Piketty’s concept of capital is somewhat underdeveloped. Labour unions would have liked Piketty to give them more credit for their actions during the 1914-1980 period. His work has also drawn the ire of some feminist critics because of what he left out. (See below.)

The Gilded Age and Belle Époque

One of the most enjoyable aspects of the book is Piketty’s use of Jane Austen and Honoré de Balzac’s novels to illustrate that citizens of England and France were very aware of inequality in the 19th century. Austen’s characters could compare their low wages against what they needed to live with the basic necessities. The shortfall was striking and many young women knew that having needed comforts was out of reach unless they married into a wealthy family. From 1810 to 1910 the top 10 percent in France owned 80-90 percent of wealth, and own 60–65 percent today. Britain’s wealth was similarly concentrated during the same period.

Piketty believes we are headed for a second *Gilded Age*, a title from a Mark Twain book referring to the period between 1870 and 1900 when the USA experienced an economic boom. It was a time of great wealth for the few and great poverty and hardship for the many. `Gilded` means ‘covered with gold on the outside’ but there is no gold inside. France and other European countries experienced the *Belle Époque* which was not all that different. It began in France in 1871 at the end of the Franco-Prussian War and lasted until 1914. The *Belle Époque* was defined by an incredible rise of wealth, thanks to new industries, the ownership of which accumulated into fewer and fewer hands.

However, all is not doom and gloom. Piketty sees a way to avoid returning to this situation. He suggests a global tax that would prevent the wealthy from finding havens to hide their wealth from taxes and obligations and would make them share it fairly. As well, he believes that economies could impose more wealth taxes and more estate taxes to restrain the wealth imbalance. In relation to Europe, Piketty would require corporations to make a single declaration of profits at the European level. He believes this would be less manipulative than the current system in which corporations avoid or reduce taxes by designating them to their subsidiaries in countries with low tax rates. He wants tax revenues in each country where the corporation operates to be based on sales and wages.

Paul Krugman believes the big idea of *Capital in the Twenty-First Century* is that: ‘we haven’t just gone back to 19th century levels of income inequality; we’re also on a path to patrimonial capitalism in which the commanding heights of the economy are controlled not by talented individuals but by family dynasties’.[2] *Capital in the Twenty-First Century* states that less attention is paid to the wealth of the elite because of the size and concentration of their inherited wealth which is invisible to most people. One could argue that, on the other side of the coin, the massive poverty and hardship that exists in today’s world, especially among women and children, is not in the minds of the very wealthy whose luxurious lifestyles shield them from seeing this reality. Krugman has high praise for *Capital in the Twenty-first Century*: ‘Piketty has written a truly remarkable book.’[3]

Piketty notes that the rise of ‘super salaries’ is a factor in growing inequality. In the USA today, workers are under attack. They benefit less from tax cuts than do shareholders and inheritors of wealth. Hedge fund

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[2] ibid.
[3] ibid.

managers and Chief Executive Officers (CEOs) of U.S. corporations set their own salaries. Since 1970, these have increased by 362 percent, while wages of workers increased by 165 percent during the same period.

This huge increase, Piketty believes, is due to the erosion of social and political norms as well as tax cuts for the rich. Political decision-makers **can** stop or reverse this trend through progressive tax in-creases on wealth inheritance. In France's *Belle Époque*, although the dominant class claimed the society was egalitarian, wealth, income and economic privilege based on income were as highly concentrated as in England. In spite of this ideology of equality, policy-makers changed nothing, leading Piketty to complain that the experience of the *Belle Époch* proves, if proof were needed… 'that no hypocrisy is too great when economic and financial elites are obliged to defend their interests. This includes economists, who currently occupy an inevitable place in the U.S. income hierarchy' (p.514).

Feminist Critique

As mentioned earlier, Piketty comes in for criticism by feminists, using a critical feminist and race analysis of his proposal for a global corporate wealth tax. Kathryn Moeller is concerned that 'marginalized girls and women throughout the world continue to be disproportionately affected in terms of their access to quality education, fair employment, safe healthcare, quality food, and secure infrastructure'.[4] Citing Indian social scientist, V. Nandal, she affirms that pre-existing inequalities, which include under-representation of women at all levels of property rights and economic decision-making as well as their over-representation in the unorganized sector and traditional occupations, due to lack of necessary training and skills, play a signature role. In addition, more gender inequalities arise when economic crises occur. In many countries, women have been deeply affected by austerity; and women and girls have often had to find ways to generate additional revenue while often continuing to shoulder most of the unpaid care and domestic work in their house-holds.

Moeller gives Piketty credit for a 'pragmatic, albeit utopian, response to the ravages of capital accumulation in our current age… If the geography of corporate profits was transparent and corporations were fairly taxed in countries where they do business, these states would receive increased revenues with which they could fund public schooling, healthcare, social services and infra-structure. If governments were to distribute the funds equitably, they would benefit the girls and women who are usually left on the margins.'[5] Moeller believes Piketty focuses only on the unequal distribution of income rather than capitalist production itself.

To conclude –

Thomas Piketty has taken a stand against the in-justice of an economic system that by its very nature gives unfair advantage to a minority. If the trend continues, the majority of us will find our-selves living more like the people of the *Belle Epoch* or the *Gilded Age* and those who suffer extreme poverty in today's world. The victims of this system are everywhere. In one way or another, we are all part of today's corporate Empire, branded on our hands or our foreheads with the Beast's name, as in Revelation 13: 16-18, 'no one can buy or sell unless he [or she] has been branded'.

The scope of Piketty's work has been compared by some critics to that of Adam Smith, David Ricardo, Karl Marx and John Maynard Keynes, although his ideas differ in varying degrees and he has more access to data. His insights help us to better under-stand the current world and glimpse the future. Do we want to go back to 'patrimonial capitalism'? Or will we choose to add our voices and actions to those who have the will to transform the present situation of inequality and injustice? Or, will we leave all this in the realm of words and concepts, what *Laudato Si'* calls 'nominalism'? This is the challenge.

(Mary Boyd, Grail Canada)

4. Kathryn Moeller*, A critical Feminist and Race Critique of Thomas Piketty's Capital in the Twenty-First Century*, British Journal of Education, Volume 37, 2016, Issue 6, p 6
5. Ibid. p.2