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Review

Thomas Piketty, *Capital in the Twenty First Century*, translated by Arthur Goldhammer. Published by the Belknap Press of Harvard University Press. viii + 685 pages.

"The past devours the future" is the most poetic of the ways in which Thomas Piketty expresses the unfettered long-term consequences of "r > g" (the rate of return on capital exceeds the rate of economic growth), in accordance with which the wealth of a rentier capitalist class will grow disproportionately and create more and more inequality. While not always so poetic, the style of this book makes it accessible and interesting even to a reader with little knowledge of economics. There are few new concepts to be learned and much information that might not figure in a more conventional mainstream book on economics; for example, there is a clear description of the history of public debt, an explanation of how it works, its role as an alternative to taxation, as a means of enriching the already rich and the role of inflation in reducing it. The central themes of the book are clearly stated and they come round again and again, in different contexts - different countries, different measures and different spans of historical time. There is occasional humour, in the form of ironic turns of phrase, rather than actual jokes; the nearest he comes to one of the latter is when he concludes that planet earth must be in debt to Mars because calculations of total global debts are never balanced out by global assets (the only alternative would be the rich hiding assets to evade tax). Jane Austen and Honoré de Balzac further lighten the load. He illustrates one of his central themes, namely that the nature of capitalist accumulation is impelling us towards a society similar economically to that of the nineteenth century, with scenes from these two authors' novels. The book is easily navigable and eminently browsable, being divided into four parts, which are in turn subdivided into chapters, which are in turn subdivided into headed sections. There is an outline list of contents at the front and a detailed list of contents at the end and there is a good index.

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Its accessible style and structure certainly help but they cannot nearly explain the extraordinary popular success of this weighty volume. It has flown off the shelves of bookshops and it features in all sorts of top-ten lists for non-fiction sales. For a while it was the top-selling non-fiction title on Amazon in the United States. The author himself has been multiply interviewed, on television and in print and is in great demand for delivering guest lectures. He even gets called a “rock-star economist”. Much of the explanation is (I think) that Piketty makes observations and predictions about the economy and the structure of society which confound very widely accepted views but which at the same time are recognisable in certain things we can see happening around us. The greater social equality in the decades following the second world war, which many of us had hoped was the beginning of a long-term historical trend was in fact, we learn, a temporary abnormality. On the other hand, the recent reverse, which many of us hoped and believed was temporary, turns out, according to Piketty's findings and his analysis of them, to reflect the re-establishment of capitalism's long-term historical trend.

Picketty offers plentiful evidence for his case concerning past and future economic trends. Much of it is quantitative and is well supported by graphs. Most of the statistics are drawn from France and Britain, because they provide the most data stretching back into the eighteenth and nineteenth centuries; they are joined by the United States for the twentieth and twenty-first centuries. It should be stressed however that Piketty does not confine himself to these countries or even, entirely, to these centuries. His narrative ranges widely over space and time, wherever he can find data to support his case, which is (very summarily) that capital consolidated and grew through the eighteenth and nineteenth centuries while inequality grew at the same time; then it suffered considerable destruction and reduction in the first half of the twentieth century, followed by recovery and, along with it, diminishing inequality for a few decades afterwards; now, in our own era, we are witnessing a return of the original trends. Therefore many of the graphs are U-shaped (inverted, in the case of tax rates), with the base (or apex) of the U occurring some time in the twentieth century. For example, the world capital/income ratio reached a low point in the 1950s

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(p196), inequality in the "Anglo-Saxon" countries reached its lowest point in the 1980s (p316) and inheritance tax rates in Britain reached a peak around 1970 (p503).

The route to wealth in modern capitalist society (says Piketty) is increasingly that of inheritance and this trend is liable to continue. Those with substantial wealth are less likely to be entrepreneurs and more likely to be rentiers, that is, those whose income is gained simply by virtue of what they own, as distinct from what they do. The capitalist society of the future will come increasingly to resemble that of the nineteenth century in Britain and France. It should be emphasised that this is not portrayed as being a direct result of following a particular political or economic philosophy but rather as being an underlying structural tendency:

> Rent is not an imperfection in the market: it is rather the consequence of a "pure and perfect" market for capital, as economists understand it: a capital market in which each owner of capital, including the least capable of heirs, can obtain the highest possible yield on the most diversified portfolio that can be assembled in the national or global economy. (p423)

And later:

> The idea that unrestricted competition will put an end to inheritance and move toward a more meritocratic world is a dangerous illusion. The advent of universal suffrage ..... ended the legal domination of politics by the wealthy. But it did not abolish he economic forces capable of producing a society of rentiers. (p424)

Unless a steep, progressive tax on wealth is instituted by governments on an international basis, a measure which Piketty recommends more in hope than expectation, the scenario we face is diminishing social mobility and increasing inequality based on birth.

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It is possible even now to appreciate the growing importance of inheritance in our society. For example, inheritance of a house in Britain can easily represent the equivalent of the sum of twenty years' worth of a professional income; power in the world of Westminster politics is increasingly dominated by those born and brought up to it; entry into many top professional jobs can only be contemplated by those with well-off parents, since it requires a period of unpaid internship; and there are those whose earnings have been so high as to enable them to retire early and live off rent, as will, most likely, their children. In her review of Piketty's book (*The Guardian,* 17 July 2014), Stephanie Flanders told a revealing anecdote, which was designed to counter his claims about the rich avoiding tax; instead, it inadvertently illustrated his point about our impending return to the nineteenth century. Flanders assured us that the wealthy are much less worried about tax than about the prospect that their spendthrift children will fritter away the family fortune: 'I was at a conference recently for advisers and trustees to family estates, and was amused to hear speaker after speaker assert that the "biggest threat" to a family fortune was "not the taxman or the markets but the family itself".' Such concerns are indeed reminiscent of the world of Jane Austen!

Yet this rise of the rentier has not resulted in a reduction in the volume of manufactured products, even if there is growing differential access to them. I would have welcomed an account of how rentier capitalism facilitates, or at least accommodates, the continued production of cars, ships, computers, mobile phones, kitchen sinks, clothes, and so on. Less of it may go on in France than hitherto, and less still in Britain, but the global output of such items is greater than ever and capitalism crucially depends on its ability to continue the production of goods to the end of exchanging them as commodities on the market before they are used. Production of commodities is a topic curiously absent from this massive book on capitalism in our century and absent also from the author's account of the nineteenth century, of which Jane Austen is a well-chosen literary representative from this point of view. Apart from being, in my opinion, the best English novelist of the nineteenth century, her genius was directed entirely to a minute examination of the preoccupations of the lower-to-middle echelons of the landed gentry, who lived off

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rent. But there are other excellent novels from that same century (including some by Charlotte Bronte, Charles Dickens and Elizabeth Gaskell) which prominently feature a self-made mill-owner and his disputes with his workers. Moreover, the chronology of these authors (Austen was the earliest, having been born in the eighteenth century) would suggest a "society of rentiers" being replaced by a society dominated by industrial capitalists, rather than vice-versa.

The particular evil that Piketty perceives in inheritance-based inequality is a threat to "democracy", although he does not elaborate on what he means by democracy in this context or precisely what he thinks would happen to it. The important qualification in the last sentence was 'inheritance-based'. Piketty would not seek to abolish inequality, merely to moderate it and (above all) ensure that it is not based on birth. He argues for a meritocracy, asserting that it is vital to be able to justify a society's inequality: "it is vital to make sure that social inequalities derive from rational and universal principles rather than arbitrary contingencies"(p422). But even if we could agree on the principles (bearing in mind that the qualities required to gain wealth are not necessarily admirable), and even if, difficult though it would be, people were prevented from handing on money or property to their children, insuperable difficulties would remain. Given the lifelong benefits of growing up in a well-off household, the effects of inequality would still impact greatly on the life-chances of those in the next generation, for whom they would be arbitrary contingencies. To be sure, this objection to Piketty's political philosophy has no implications for his proposed strategy of a progressive tax on wealth, which is aimed more directly at greater equality than meritocracy.

The title of the book is somewhat misleading, in that it evokes the title of that other book called *Capital*, written by Karl Marx in the nineteenth century. The two authors use the word 'capital' in quite different senses and Piketty's references to his forbear are generally lukewarm at best. This is no tribute book. He rubbishes the prediction made in the *Communist Manifesto* of the progressive impoverishment of the proletariat under capitalism, citing a rise in wages in the last third of the nineteenth century. It is a familiar target of anti-Marxists but a very odd one for Piketty to

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choose in view of its similarity to his own predictions of ever-widening inequality. Crucial to Piketty's entire argument is his contention that the reduction in inequality which occurred after the second world war was an "aberration". How come the improvements in workers' living standards of 1870-1900 were courtesy of capitalism if those of 1950-1980 were despite it?

Piketty argues that the temporary reduction in inequality in the latter half of the twentieth century was a response to the preceding two world wars and the Great Depression. This is not unreasonable except for the fact that the events themselves are described as though they were the equivalent of a collision with a large meteorite, rather than social eruptions which had social and economic causes. He constantly refers to them as "shocks"and "accidental events", as here (p376): "the fact that wealth is noticeably less concentrated in Europe today than it was in the Belle Époque is largely a consequence of accidental events (the shocks of 1914–1945) and specific institutions such as taxation of capital and its income." This quotation conveys the main factors that Piketty allows to shape history: structural development of the capitalist economy, external events that can knock it off course, and government measures that can moderate its effects. All that needs to be added to these are the positive effects of population growth (including immigration) on wealth distribution within a country. He does not acknowledge any agency on the part of the proletariat itself in raising its living standards in the second half of the twentieth century, let alone the possibility that it might have forged onwards to overthrow capitalism and create a genuinely egalitarian society.

These (in my view) political limitations of the book do not diminish the quality of the contribution made by Piketty's empirical research on inequality, the main findings of which are presented in Part Three of the book. Their benefit to all those interested in the subject and their value to all those involved in politics from the centre leftwards can hardly be overstated. He anatomizes the distribution of wealth and income. The data are drawn at least partly from an ongoing project in which he is engaged and which provides an accessible and interactive resource on income and wealth

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distribution across the world, available on the internet[1]. He reports the distribution of income from capital and of income from labour across the populations of various countries and various historical time-scales and in various ways. He rejects single derived measures, such as the Gini co-efficient, as inadequate and potentially misleading. He typically uses some fraction of a country's population (the richest 1%, for example, or the richest 0.1%, or the richest 10%, or the poorest 9% of the richest 10%) and compares its share of the wealth with that of another fraction of the same population (the bottom 50%, perhaps), or with the same fraction of the population of another country, or traces its changing share of national wealth over several decades (or even centuries). Again he insists that no one such measure is sufficient to characterize the wealth distribution within a country. He examines the relationship of inequality with age and the preponderance of inherited wealth. For example, 12% of those born in France in the 1970s inherited the equivalent of a lifetime of the average wage of those in the bottom 50% of earners (it was 10% of the 1810s cohorts but only 2% of the 1920s cohorts - so another U-shaped graph). He is keenly aware of uncertainties surrounding some of the data since he and his colleagues spend much time trying to fill in the gaps and penetrate the obfuscations of official statistics (one of the sections of the book has the title 'The Chaste Veil of Official Publications'). This makes questioning his evidence quite risky. The *Financial Times* supposedly dismantled his statistics on wealth distribution. He wrote a detailed rebuttal in the form of an addendum to the book, which is available on the internet[2]. With regard to Britain, the *Financial Times* quoted statistics from a study which gave a much more favourable view than Piketty's of wealth distribution in Britain in recent decades. After criticising the methodology of the study, here is Piketty's verdict on the statistics themselves:

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1. Alvaredo, Facundo, Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez, The World Top Incomes Database, http://topincomes.g-mond.parisschoolofeconomics.eu/ . Accessed 19 August 2014.
2. Piketty, T. (28 May, 2014). 'Technical Appendix of the book *Capital in the Twenty-First Century*: Appendix to Chapter 10. Inequality of Capital Ownership. Addendum: Response to the FT.' http://piketty.pse.ens.fr/files/capital21c/en/Piketty2014TechnicalAppendixResponsetoFT.pdf Accessed 15 August 2014.

"Also note that a 44% wealth share for the top 10% (and a 12.5% wealth share for the top 1%, according to the FT) would mean that Britain is currently one of the most egalitarian countries in history in terms of wealth distribution; in particular this would mean that Britain is a lot more equal than Sweden, and in fact a lot more equal than what Sweden has ever been (including in the 1980s). This does not look particularly plausible."

That's the way to tell 'em!

Nigel Hewlett
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