Capital in the Twenty-First Century: Leveling the Playing Field promotes Economic Growth

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Washington, DC - Thomas Piketty’s book, *Capital in the Twenty-First Century*, is an impressive accomplishment. The three volumes of Das Kapital required roughly two thousand pages to analyze the nature and direction of capitalism, and drew some of it's findings from surprisingly limited amounts of data. In contrast, Piketty has managed to distill years of statistical research, centuries of political history, mathematical quandaries, and a smattering of literary analysis into a 577 page narrative that flows like a beach read compared with Keynes’s General Theory.

His argument is simple. From 1700 until 1914, Europe had an accumulated stock of capital worth about seven years of national income, mostly in the form of land, government debt, and riskier financial assets. That capital stock was highly concentrated within the upper reaches of society. The reason why society constructed itself in this way is that throughout capitalism’s history, capital’s rate of return has averaged four or five percent, while global economic growth has generally hovered around one percent, meaning that those with large stocks of savings have earned more than those with little else than their labor and natural talents. Over time, this trend causes capital to accumulate and concentrate itself. To emphasize this point, Piketty frequently references Balzac’s novel Pere Goriot in which an ambitious nineteenth century noble, Rastignac, is given an opportunity to access a large inheritance by committing murder rather than becoming a lawyer. His choice is stark. By pursuing a legal career at most he will earn an income of 5,000 Francs a year, and only if he is lucky and corrupt. But through inheritance, he could acquire a fortune of one million francs and draw a 50,000 Francs a year income from interest alone, without ever touching the principal. This was a static world, in which inflation was nil, social mobility was scant, and novelists would mention a character’s income within the first few pages as a way to timelessly communicate that person’s status and life style. (The US, it should be noted in Piketty's narrative, was slightly less inegalitarian than old Europe, with a capital stock of five years-worth of national income. America’s explosive population growth due to immigration and swift economic development prevented the level of wealth accumulation observed in Europe.)

That world was swept away over the course of the twentieth century. Political and economic shocks destroyed investments and caused rentiers to draw from their accumulated fortunes rather than the interest they accrued. Additionally, government policies constrained executive incomes while raising minimum wages. As a result, the twentieth century was the most egalitarian in the history of capitalism. Social mobility was achievable, and writers no longer consistently used income to describe the lifestyle of their characters.

But the twenty-first century does not have the same guarantees in Piketty's formulations. The measures constraining executive income were nullified during the 1980s, economic growth is returning to its historically normal levels of roughly one percent annually, and the world’s capital stock has rebounded to almost 1914 levels. And although the middle class has attained a significant level of capital accumulation, Piketty argues that large pools of money generate better returns than small pools suggesting that wealth will continue to concentrate itself towards the top one percent, or even one tenth of one percent of society, with devastating consequences for democratic meritocracy.

The strength of Piketty’s work is in the level of research that went into his analyses (although a sharp barb from the Financial Times prompted him to issue a more detailed explanation of a few of his data maneuvers). It is rare that an author takes the time to present data on the development of the world’s capital portfolio, age of average inheritors, and even the value of home furnishings and china in eighteenth century England. (One can feel their brain expanding while staring at his graphs that at times look like spaghetti plates on an Excel sheet.) In a field in which analysis has often times been based on anecdotal evidence and ideologically influenced hunches, Piketty’s attempt to establish fact is a breath of fresh air. He does not expend much effort attempting to explain why capital’s rate of return has generally been higher than economic growth. He simply lays out the historical trend and builds his model around it. This gives him a strong foundation for his criticisms of previous academic scribblers such as Marx, Pareto, and Solo who used much less data in comparison while formulating their views of capitalism.

His efforts to draw upon other humanities and popular culture are also commendable. Any economist can rattle off numbers. Few successfully place them in their social or political context. In fact, one of his key conclusions cannot be expressed in mathematical terms at all; the history of economic inequality is also one of political choices.

However, while Piketty has workable sources from tax records for constructing his history of capital accumulation over the past 300 years, his sources become much weaker as he moves into the present. The data simply are not available to definitively portray the current state of capital accumulation. This is something Piketty readily admits. As interesting as his analysis of the Forbes richest people list is, he makes no pretensions about it being authoritative.

He uses this information void as his first justification for the controversial international wealth tax as it would allow for the first comprehensive look at the world's wealth distribution since the advent of globalized finance in the late twentieth century, giving policy makers the tools to make informed decisions. Piketty also asserts that a progressive international wealth tax could alleviate the debt crises in European countries within a few years. The practicality of these ideas is a matter of debate. The suggestion has provoked extensive commentary in the opinion pages of late and even the author himself labels the tax as a “useful utopia.” The Question of whether his work will be the basis for serious reform or the rantings of used bookstore clerks will take years, possibly decades, to answer.

As a work of economic history, Capital in the Twenty-First Century is scholarship at its finest.

As commentary on the state of inequality in the world today, it is an educated but imperfect guess which probably comes nearer to the truth than what most people are comfortable with.

As a blue print for a twenty-first century social contract, it's thought provoking thesis and recommendations have sparked a discussion about how we perceive the structure and future of capitalism.

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