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Review Essay

Thomas Piketty and His Discontents*

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To say that Thomas Piketty's *Capital in the Twenty-First Century* has become a sensation would be a bit of a cliché by now. The French economist's seven-hundred-page analysis of wealth and inequality over the past three centuries has dominated not merely the financial press but the popular press as well since its March 2014 appearance in English translation. By late April, the book had rocketed to #1 on Amazon (of all genres) and was sold out (my own copy took three weeks to arrive); a month later, it seized the coveted #1 spot on the relevant *New York Times* best-seller list, a position it held for several weeks. For months, the blogosphere was buzzing with reviews, critiques, rebuttals, praise, slanders, and occasionally bewilderment—all of this for an academic work of economics, an almost unheard-of feat.

Of course, that is in part because Piketty's book is not really an academic book—and I say that in the sense of a compliment, rather than an insult. While it is full of charts and graphs and numbers, it is readily comprehensible to the general educated public, and few, if any, sections require formal economics training to comprehend. It is also an engrossing read—at some points even a page turner. Piketty's writing (and the translation provided by Arthur Goldhammer) may rarely rise to the threshold of eloquence, but it is remarkably lucid, smooth, and engaging, with an understated wit that occasionally flashes forth in biting sarcasm. It is also considerably more culturally literate than one would expect;

* Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge: Belknap Press of Harvard University Press, 2014).

Piketty frequently illustrates his observations about wealth and society by reference to film and literature, most notably the nineteenth-century novels of Jane Austen and Hugo de Balzac to which he has recourse throughout.

Capital's success is perhaps also in part due to the fact that it is not truly a book of economics, as many will tell you—some as a compliment and some as an insult. Piketty is far more interested in economic history and in what would have once been called "political economy," than in much of what passes for economics nowadays—a frequently abstract, hyper-mathematicalized discipline for which Piketty reserves his most scornful witticisms. Piketty proceeds on the conviction that economics as a moral and social science, in addition to a political reality unfolding through history, is far truer to life, is more insightful, and is more useful than the sterile calculations that preoccupy much of the profession today. In fact, perhaps more than anything else, *Capital* is a clarion call for economists to humble themselves and take their place among the social sciences—to abandon "their childish passion for mathematics" in addition to "their contempt for other disciplines and their absurd claim to greater scientific legitimacy, despite the fact that they know almost nothing about anything" (33). As a demonstration of just what can be achieved by such a methodological shift, Piketty's *magnum opus* is a compelling argument that the discipline cannot afford to ignore.[1]

Of course, this is not to say that Piketty is sloppy, lazy, or indulges in philosophy and narrative without the foundation of hard numbers. On the contrary, the book is built on an enormous mountain of data and is indeed the capstone of more than ten years of data collection and collation by Piketty and his collaborators, which before now had attracted little attention beyond the guild.

The difference, though, between the enormous spreadsheets of data that Piketty has compiled and the childish passion for mathematics that he decries is one of *a posteriori* vs. *a priori*. Piketty's aim is to compile, as much as the available data allowed (and he is the first to admit and complain of just how little they do allow), hard facts about the amount and distribution of wealth in western Europe and America since the Industrial Revolution, and then to infer general patterns and causes from this evidence, much as any good historian will do. What he has little patience for is mathematical models that aim to describe and predict in the abstract (based on assumptions about human agency) what sorts of wealth will be generated and where it will go. It is perhaps no surprise, then, that some of the sharpest critiques of Piketty's work have come from those most wed to such mathematical models, complaining that their models simply cannot yield the results that he describes and projects. Of course, to such naysayers, Piketty may make a fairly simple response: "So much the worse for your models, then"—that is to say, if history shows that something has happened and consistently happens, then it is little good denying that it is possible on purely mathematical premises.

Nowhere is this more true than in what Piketty calls "the central contradiction of capitalism," the inequality $r > g$, which sums up in three characters the book's main concern: the *rate of return on capital*, in general and in the long-run, exceeds *the economic growth rate* (and thus the growth rate of wage labor).[2] What this means may best be understood narratively.

Why was it that for so many centuries the wealthy tended to be those who were born wealthy, not those who worked for it? This social dynamic is crystal clear in the novels of Balzac and Austen, where even relatively important and high-earning professions such as law or the ministry are held in some contempt and anyone wanting to ensure their fortune seeks it by marriage or inheritance. The problem was that capital (generally in the form of land or bonds) yielded a fairly steady real return of 4–5 percent, while per-capita economic growth languished at near zero before 1700 and at 1–2 percent from 1700 onward. Wage earners accordingly could only grow their income very slowly, while the wealthy could generally afford to live comfortably off their income and still reinvest enough to grow their wealth still further, thus perpetuating permanent, extreme inequalities. Conventional economic wisdom has long held that this state of affairs was steadily eroded by the rise of industrial capitalism: By unleashing an engine of economic growth and encouraging the rise of skilled labor, modern economies deprived static capital of its advantage and led to a steady equalization of the playing field as wealth flowed meritocratically toward the most talented and hardest working.

Piketty demolishes this rosy picture. On the contrary, he shows that wealth inequalities built largely on the power of inherited wealth continued to increase right up to the eve of World War I, at which point the quadruple shocks of the war, inflation, the Great Depression, and World War II decimated the intergenerational wealth of Europe and to a lesser extent the United States. In the accelerated growth period of postwar rebuilding, wages rose rapidly (g was greater than or equal to r), but already with these large but temporary aberrations behind us, r is again outpacing g, inequality is growing, and the importance of inherited wealth is once again asserting itself. In the future, as economic growth slows,[3] r may again exceed g by a wide margin, leading to spiraling inequality.

Such is the gist of Piketty's main contention. Of course, this is far from his only contention. The book is profound and wide ranging, shedding light on numerous historical and economic phenomena such that anyone who claims to have discredited the book by discrediting one central argument has clearly not read it closely.[4] Some are sure to ask, "So what? Why should we necessarily care?"

One answer is, whether or not we think this kind of inequality is a problem that we should do anything about, it is still important to know whether it exists. Piketty's main mission is simply that of a messenger—to provide a reality check for Western democracies—a revelation that many of the narratives we tell about ourselves have little relation to reality. In this, he might be compared to Edward Snowden who insisted that his main point was not to push for a certain surveillance policy but simply to present the facts of the matter to the American public so that transparent democratic debate could occur. Likewise Piketty: Although he certainly includes some policy suggestions,[5] he repeatedly insists that he primarily wants to draw attention to this information to make sure that debate over economic policy takes place against a backdrop of hard reality rather than self-satisfied reassurances that bear little relation to reality.

What Is Wrong with Inequality?

Piketty is not the first to sound the alarms about inequality, nor is he the first to apply rigorous economic analysis to the problem, even if *Capital* surpasses all previous treatments in the comprehensiveness of its historical and statistical scope. In recent years, a growing chorus of leading economists have begun to highlight and analyze the problem from various angles. Keynesian economists Robert Skidelsky in the United Kingdom and Robert Reich in the United States have leveraged their political and media connections to forcefully highlight the issue in the press and in public policy debates; indeed, Reich has harnessed the power of social media to develop a following of almost 500,000 on Facebook. In addition, he has presented his case about the dangers of inequality in a recent award-winning documentary, *Inequality for All*. The University of Texas economist James Galbraith has for many years also dedicated his research to the problem of inequality, culminating in the acclaimed 2012 book, *Inequality and Instability*. Perhaps most notably, the Nobel Prize-winning Columbia University economist Joseph Stiglitz has given increasing attention to the issue in a series of articles, both academic and popular, as well as in his 2012 book *The Price of Inequality*.

Names such as these should be proof enough that the discussion of inequality is not just some passing political fad, or a thin veneer for class envy. It is a widely recognized social problem that increasingly preoccupies the attention of leading economists, economic historians, and political theorists. Why? Piketty himself is relatively silent on just why the specter of inequality is "potentially terrifying."[6] It may be that his own French context, with a long tradition of egalitarian aspirations, simply takes it for granted that inequality is generally problematic. However, it is worth elaborating on that which Piketty merely implies by drawing on some of these other recent treatments of the subject. The precise answers vary, but common themes can be found. Here are a few:

First, *inequality is correlated with instability*, as both effect and cause (obviously a particular theme of Galbraith's work but one shared by the others here mentioned as well).[7] Stable and sustainable economic growth, these economists point out, is associated with increasing the productivity of industry and the service sector, thus, raising wages. Growth that is the product of asset price bubbles (which is much of what we saw in the 1990s and again in the 2000s), however, is bound to come back down to earth again with sometimes disastrous effects. Because existing capital owners will profit disproportionately from such rises in asset prices (and here Galbraith's work, for instance, is complemented and strengthened by Piketty's analysis of the dominant role of *capital income* in the incomes of the super rich), inequality will balloon during such asset bubbles. Worse, as we have seen since 2009, the wealthiest are much better positioned to duck and weave in the face of impending crisis, and they are able to maintain most of their winnings even when asset prices come tumbling back down to earth.

This is all part of a vicious cycle, however, because widening inequality intensifies this very instability. At the top of the wealth distribution, there is too much capital chasing too few assets, resulting in a series of rapid bubbles; while at the bottom of the wealth distribution, there is an urgent demand for credit as low-income households try to artificially keep up a higher standard of living. As the upper class evermore urgently seeks return and the lower class evermore urgently seeks credit, the two inadvertently conspire to create unsustainable credit booms and busts such as that which almost brought the world to its knees in 2008.

Second, *inequality depresses economic growth*. This argument, perhaps most insistently advanced by Robert Reich, confronts head-on the most common justification for rising inequality: that it is simply the natural by-product of strong economic growth, and if you want a rising tide to lift all boats, you have to be willing to let some rise faster than others. Reich and other Keynesian economists, however, have compellingly argued that because the ultimate driver of economic growth is aggregate *demand*, and this is determined by both aggregate purchasing power and *velocity* of the money supply, inequality is a barrier to growth. This is because one billionaire simply will not spend his money as quickly as a thousand millionaires will: at some point, you do not need more yachts or private jets, and you can only eat so much caviar. The very rich will spend only a fraction of their incomes and will reinvest the rest (contributing, incidentally, to the overinvestment instability problem mentioned above), whereas the poor and middle-class will quickly spend the majority of their incomes, thus driving more economic production.[8] Reich's arguments are certainly backed up by some impressive correlations in which Western nations' most vigorous economic growth has coincided with their lowest inequality. Of course, there is both a *cause* and an *effect* operative here as well—a "virtuous cycle" as Reich calls it because vigorous economic growth stimulates a rapid rise in wages and thus an expanding middle class. It should be noted that Reich's arguments here dovetail neatly with the statistical evidence compiled by Piketty, which likewise correlates high rates of economic growth with low rates of inequality.[9]

Third, *inequality undermines the political process*. Another argument, emphasized particularly by both Reich and Stiglitz, is the destructive effects of severe inequality on our political institutions.[10] We live in what claims to be a democracy, in which all have equal protection under the law and equal access to the halls of power. Of course, we all know instinctively that this is something of a myth, but we rarely want to admit just how little it corresponds to reality. Money has always entailed power in human history, and in an age of mass media, when elections are determined largely by advertising, and of mass bureaucracy, when policy is determined largely by lobbying, this timeless principle is at least as true as ever. Accordingly, in a highly unequal society, the top income earners will largely shape policy, less by conscious corruption than by simple force of arithmetic and the self-interest intrinsic to human nature. These worries have been neatly confirmed by a recent study[11] showing that American public policy is almost wholly determined by wealthy elites.

Fourth, *inequality undermines fairness.* A final concern, which is really the most basic, relates to "fairness," the sense that inequality, at least beyond a certain level, violates the sense of justice on which our nation, and Western societies in general, have been founded. Neoliberal policy advocates are often keen to emphasize that it is not "equality of outcomes" that we should be concerned with but "equality of opportunities," and, therefore, income inequalities justified on meritocratic grounds should not too much concern us. There are ethical reasons to dispute such a simplistic answer, but, in any case, economists such as Reich and Stiglitz have sought to bypass this objection by arguing that inequality today *is* undermining even equality of opportunity.[12] This is because, while economic development may not be a zero-sum game, power politics is, and as we just saw, income distribution affects power distribution; accordingly, runaway inequality tends to lead to policies that disfavor the already poorer.

It is also because of more prosaic reasons. For instance, those with barely enough to get by do not even have the time or money to invest in training for new skills or to move to a better city and thus have little opportunity to rise up the income ladder; those with a hoard of cash to spare can take their time landing the best job in the best city and can make sure their children start off high on the income ladder as well. This is one area where Piketty's research has added quite substantially to the work of others. For instance, he offers evidence that most denizens of the top 1 percent were born at or near such levels, and those who start life working on the assembly line rarely end up in the ranks of upper management.[13] More importantly, though, the whole dynamic of capital accumulation that his book boldly highlights is a deathblow to the meritocratic myth. If the majority of income at the upper end of the distribution comes not from labor but from accumulated capital (as Galbraith's research has already drawn attention to[14]), then those born into wealth will, with a modicum of prudence, remain exceptionally wealthy regardless of how hard they work, while those born penniless will be lucky simply to die debt free. The inequality $r > g$, Piketty shows, is true regardless of merit and shows that beyond a certain point, opportunity can only be as equal as capital ownership is.

Inequality, Injustice, and Envy

Of course, this last concern—of *injustice*—certainly raises pointed questions for Christian ethicists. Some may be quick to note the tension between Piketty's critique of inherited (and thus unearned) wealth and the very positive view of inheritance in Scripture. This tension, however, may be greater than it appears when we remember that under the Old Testament law, at least, the size of an inheritance over time was to be fairly constant, limited by the original distribution to tribes and families and generally within the same order of magnitude as that of other families. What Piketty is worried about is inherited estates hundreds of times larger than the average, which inscribe the very class divisions that the Old Testament laws of inheritance were meant to prevent.

Much more significant for many readers of this journal will be the concern that this language of "fairness" is little more than a thin veneer for institutionalized *envy*. After all, anyone who is a parent knows how frequently a child's "That's not fair!" is just another way of saying, "I want that!" As a general rule of thumb, we might say that when person A complains that he lacks something person B has, envy may well be operative, while if person C is worried about person A's problem, justice is more likely the concern. Certainly, when tenured economists such as Joseph Stiglitz or Thomas Piketty worry about inequality it is not because they are itching for a larger share of the pie; therefore, to this extent the envy objection is invalid. However, we still might worry that whatever their motives, the result of such a politicization of inequality will be to arouse envy in the society or, rather, amplify the envy that is always present.

Jordan Ballor, for instance, expressed concern in two recent articles, one co-authored with Victor Claar, that the sin of envy must be foregrounded whenever the problem of inequality is discussed and that attempts to assuage envy by redistributive taxation are bound to do more harm than good.[15] However, there are some odd gaps in the argument as presented. For one, even if one were to argue that concern about inequality stemmed only from envy, conservatives concerned to maintain social order might still want to take measures to mitigate this ill-founded grievance. However, Ballor and Claar do little more than assert that "rarely do efforts at redistribution to equality turn out well," choosing as proof the examples of the Viet Cong, Pol Pot, and Mao Tse-Tung![16]

More seriously, though, why should we assume that "envy reduction" is the main concern? Although Ballor and Claar provide a careful taxonomy drawn from Thomas Aquinas of four candidates for "envy," only one of which is actually sinful, they thereafter imply that the fourth, the sinful one, is the key phenomenon in discussions of inequality.[17] This would seem like the very thing that needs to be demonstrated. It seems *prima facie* more plausible, given the sorts of concerns raised by the economists mentioned above, that what we are dealing with is either when "a man grieves for another's good, through fear that it may cause harm either to himself, or to some other goods" (Aquinas's first category), or grief over a "good [that] comes about unjustly, 'because he who happens to have that good is unworthy of it'" (Aquinas's third category).[18] Indeed, although Ballor is good enough to survey the actual concrete concerns raised by Galbraith and others,[19] which do not appear to fit his description of the vice of envy, he then raises the specter of envy without discussing where these concerns might fit in Aquinas's taxonomy. Likewise, in his article with Claar, they discuss redistributive agendas as if they were primarily attempts to mitigate envy.

What is needed in such discussions is a careful retrieval of the Christian tradition's teaching on distributive justice to determine the line between sinful *envy* and righteous concern about *injustice*. We need to beware also of facile attempts to narrate inequality as the result of differential merit or talent. Piketty notes that in earlier times, great disparities in wealth were much more realistically justified as an unfortunate providential necessity, which left much more space for sympathy toward the poor. However, now that we tell ourselves, in rather brazen defiance of the empirical reality that Piketty sketches, that the poor man is poor only due to laziness or some other defect and that the rich have *earned* everything they have, we destroy the bonds of social empathy.[20] Whatever one thinks of Piketty's diagnosis or his prescriptions, then, it is to be hoped that by highlighting the magnitude of inequality today—and likely in our future—his work will serve as a wake-up call for theologians and ethicists to again weigh in intelligently on this important discussion.

Notes

1. To be sure, *Capital*'s relation to neoclassical economics is an ambivalent one. He continues to operate within the concepts and definitions (such as the key concept "capital") of mainstream neoclassical economics, while eschewing its ahistorical and apolitical methodology. Some dissident economists accordingly charge that he does not go far enough in questioning the terms of the debate, and thus offers us a historically illuminating but not altogether theoretically coherent book. See, for instance, David Harvey, "Afterthoughts on Piketty's *Capital*," accessed August 27, 2014, http://davidharvey.org/2014/05/afterthoughts-pikettys-capital/.

2. Some economists have objected that standard models show that as the supply of capital increases, *r* should fall to near *g*, long before capital concentrations reach the levels that Piketty is concerned about. See, for instance, the discussion by Matt Rognlie and Tyler Cowen, "More Matt Rognlie on Piketty," accessed August 27, 2014, http://marginalrevolution.com/marginalrevolution/2014/04/more-matt-rognlie-on-piketty.html. However, given that this did not happen in the past, there is reason to be skeptical of such models. See also Brad DeLong's discussion of this objection, "Piketty Day Here at Berkeley: The Honest Broker for the Week of April 26, 2014," accessed August 27, 2014, http://equitablegrowth.org/2014/04/23/piketty-day-berkeley-honest-broker-week-april-26-2014/.

3. Economic growth is the sum of population growth and productivity growth. The former, which has played a huge part in global growth over the past century, is expected to slow to near zero in the coming century; the latter, once the developing world finishes industrializing (a process that allows for accelerated "catch-up" growth), global productivity growth is likely to return to its long-term industrial era average of 1–1.5 percent.

4. A particularly unfortunate example of this was Chris Giles's attempt in the *Financial Times* ("Data Problems with Capital in the 21st Century," accessed August 27, 2014, http://blogs.ft.com/money-supply/2014/05/23/data-problems-with-capital-in-the-21st-century/) to discredit Piketty wholesale by purportedly discovering serious number fudging in one chapter of *Capital* (despite the fact that Piketty had made all his data public to maximize transparency). Piketty's polite but withering response ("Response to FT," accessed August 27, 2014, http://www.berfrois.com/2014/06/pikettys-response/) put most of Giles's objections to rest but not before many conservative bloggers—without engaging in any substantive assessment of Piketty's book—triumphantly declared that he had been unmasked as a liar.

5. Although, it should be noted, these are in fact much more tentative than most reviews or critiques have implied. Most critics have dismissed his proposed "global wealth tax" as ridiculously utopian, but he is the first to admit this (see *Capital*, 515), and offers it instead in *Capital* as something of a thought experiment.

6. Piketty, *Capital*, 571.

7. See James K. Galbraith, *Inequality and Instability: A Study of the World Economy Just Before the Great Crisis* (Oxford: Oxford University Press, 2012), especially the concluding remarks in chapter 13.

8. Robert Reich, *Inequality for All* (DVD), directed by Jacob Kornbluth (Los Angeles: 72 Productions, 2013); Robert Reich, *Beyond Outrage: What Has Gone Wrong with Our Economy and Our Democracy, and How to Fix it* (New York: Vintage Books, 2012), 42. Stiglitz also surveys a number of other reasons why high inequality tends to depress growth in *The Price of Inequality* (New York: W. W. Norton, 2012), 115–32.

9. See especially Piketty, *Capital*, chapter 5.

10. Stiglitz, *The Price of Inequality*, chapter 5; Reich, *Inequality for All*; Reich, *Beyond Outrage*, 15–23. See also Galbraith's interesting evidence for a negative effect of inequality on voter turnout in *Inequality and Instability*, chapter 7.

11. Martin Gilens and Benjamin I. Page, "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens," *Perspectives on Politics* 12, no. 2 (Fall 2014): 564–81.

12. Reich, *Inequality for All*; Stiglitz, *Price of Inequality*, 22–25, 93–96.

13. Piketty, *Capital*, 299–300.

14. Galbraith, *Inequality and Instability*, 13–14.

15. Jordan J. Ballor, "The Moral Challenges of Economic Equality and Diversity," *Philosophia Reformata* 78, no. 2 (2013): 196–208; Jordan J. Ballor and Victor V. Claar, "Envy in the Market Economy: Sin, Fairness, and Spontaneous (Dis)Order," *Faith and Economics* 61/62 (Spring/Fall 2013): 33–53.

16. Ballor and Claar, "Envy in the Market Economy," 45.

17. Ballor and Claar, "Envy in the Market Economy," 38–39. See also Ballor, "Moral Challenges," 203–4.

18. Ballor and Claar, "Envy in the Market Economy," 38, quoting Thomas Aquinas, *Summa Theologiae* II-II.36.2.

19. Ballor, "Moral Challenges," 197–201.

20. Piketty, *Capital*, 411–18.