Capital in the Twenty-First Century

Thomas Piketty
Arthur Goldhammer (Translator)
Cambridge, Massachusetts: Belknap Press of Harvard University, 2014 (696 pages)

A new book by the French economist Thomas Piketty has caused quite the stir among liberal-leaning and socialist political and economic scholars and even some politicians. *Capital in the Twenty-First Century*, published by Belknap Press and translated from the French in 2014, has been viewed as a major contribution to the economic cause of the Left.

Piketty begins with what is essentially his thesis, or at least the technical basis for his thesis:

> [T]he fundamental inequality, which I will write as r > g (where r stands for the average annual rate of return on capital, including profits, dividends, interest, rents, and other income from capital, expressed as a percentage of its total value, and g stands for the growth rate of the economy, that is, the annual increase in income or output).

This *r*, Piketty shows, has been far greater than *g* throughout the period from 1870–2010, except for the Interwar period, increasing rapidly once again after World War II, and increasing among the highest decile and centile of the population of selected nations of the West at an even faster rate. To put it simply, both income and return on capital have been diverging between the lower economic groups and the higher, and even more so at the highest levels. (25). As Piketty writes, "when the rate of return on capital significantly exceeds the growth rate of the economy … it logically follows that inherited wealth grows faster than output and income" (26). The result, he argues, is that "levels potentially incompatible with the meritocratic values and principles of social justice fundamental to modern democratic societies" result (ibid.). The "top of the top," who do nothing to earn their wealth, will grow ever richer because of those unearned returns, and will do so more quickly than those below them, resulting in *growing* inequality, not a static gap.

After framing and refining the thesis, Piketty devotes about 450 pages to an enormous number of statistics to make his case historically for the growing gap. His figures, which he presents for the most part in chart or graph forms, come mainly from France, Great Britain, Germany, and the United States. Here Piketty examines the various types of wealth and income and their growth trends, always using percentage changes and comparisons. Interestingly he also uses only percentages and relative comparisons, not absolute figures.

The conclusions and implications of the book begin around page 470, although the author does occasionally allude to or state outright his views of his factual constructs. For example, on page 264, Piketty states that inequality must have resulted because of some repressive regime or "apparatus of justification." Piketty has a particular interest in the wealth of the top tenth and hundredth of the population of a given nation, those whom he tends to label CEOs. These are the "super rich," whose incomes are ten to one hundred times or more than those of the people below them. Moreover, Piketty finds *capital* income gaps even higher than the labor compensation gap (wages and labor income) (see 300–301). All forms of wealth are suspect, however. Inheritance is one such example (401).

Beginning in part 4 with chapter 13, "A Social State for the Twenty-First Century" (471), one sees Piketty's policy conclusions in detail. He opens with the words, "the ideal policy for avoiding the endless inegalitarian spiral and regaining control over the dynamics of accumulations would be a progressive global tax on capital" (471). While admitting this proposal is utopian, he nevertheless asserts that it is the best. Here, too, Piketty invokes democracy, arguing that his tax "would expose wealth to democratic scrutiny" (ibid.). This should be read as exposing wealth to democratic (majority) control. Moreover, the tax would "promote the general interest over private interests while preserving economic openness and the forces of competition" (ibid.). His ideal top rate would be around 80 percent and would be steeply progressive, achieving the higher rates at much lower incomes. These taxes would be applied to both labor compensation and capital returns, as well as specifically to inheritance (the latter of which he appears to want to tax away completely).

To evaluate this book is a task. First, it is important to note that several scholars have already challenged the accuracy of Piketty's figures. I have not had time to do so, but the fact that the criticism has come from more than one quarter makes me skeptical of some if not all of Piketty's factual claims. Even if one assumes his numbers are correct, I do not believe that is what matters most because Piketty assumes what he must prove, and he does not actually prove his proposition. He offers a plethora of numbers that indicate that inequality exists, even fairly large and growing income or wealth gaps. However, his use of these to justify policy prescriptions is a *non sequitur* because the mere existence of such gaps does not make the case for taxation, redistribution, and equalization policies. One must know what the actual well-being of those below is, which Piketty does not tell us since he does not use actual real numbers. Besides that, new work has indicated that income and "money" wealth are not the only measures of well-being. Ordinary individuals who fifty to one hundred years ago could not afford many goods and services that could improve human flourishing can now easily afford many of them, with resources to spare—simple goods like TVs, automobiles, refrigerators, radios, smart phones, personal computers, and Internet access, and more important goods such as a greater variety of food, medical care, and so on. Piketty's focus is confined to income measures.

Politically, Piketty is like both Hobbes and Machiavelli, but apparently more naïve. He does not appear at all nervous about the massive sharing of data necessary, as he himself admits, for administering any kind of global, let alone regional, tax. He does mention possible abuse, but then dismisses it. In addition, he fails to grasp the problem posed by the potential tyranny of the majority attendant with his democratic method. He seems to believe that if taxes are imposed by a majority, they will be acceptable. Furthermore, he does not recognize that a majority might be motivated by envy to expropriate from the wealthy and redistribute the proceeds to that majority. There appears to be no place for any checks on the power to tax but rather an appeal to some "Leviathan" agency to do the job, having first been authorized by the people.

On the moral level, Piketty disappoints, as do most of the Left, by failing to offer any argument as to why it is moral simply to take resources and redistribute them because some state mechanism approves it. Did the wealthy steal to get that wealth? Did they defraud? Did they force the less well-off to give up their wealth? (This is not to imply that these abuses are impossible or never happen; the point is that Piketty does not even address the matter.) Somehow for Piketty, having great wealth (income, capital) is inherently immoral, it seems. Of course, as for most of the Left, this is intertwined with the idea of the utopia of equality of outcome and the evil of property (defined narrowly and broadly).

Moreover, Piketty's philosophical bases for his proposals are rather thin if not non-existent. He invokes the historical foundation of the French *Declaration of the Rights of Man and Citizen* of 1789, but interprets it through the lens of Rousseau. He also mentions John Rawls' *A Theory of Justice* (1971), arguing that "the basic rights and material advantages must be extended insofar as possible to everyone, as long as it is in the interest of those who have the fewest rights and opportunities to do so" (480). That is just about it philosophically.

It is also strange that, as an economist, Piketty ignores the possible effects of steeply progressive taxes on economic behavior and the resulting consequences. What might be the disincentives for work or investment? Does Piketty believe that individuals and firms will not care about tax rates or that they will continue to work and invest at the same levels? Apparently social justice trumps all economic considerations.

This book will appeal to those on the Left who already hold Piketty's views—which, by the way, are popular already in France (as evidenced by governmental policy). It is somewhat tedious and superficial overall, but it was what I expected in its conclusions. It may well be significantly factually flawed, though that judgment will have to wait. It must, however, be read by those who would wish to counter its ideas. I look for a comprehensive rebuttal of the book, but suspect it may have already been published, perhaps some years ago (e.g., Nozick or Hayek).

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The Character of the Manager: From Office Executive to Wise Steward

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Managing a company is not an easy job. Managing it profitably, honestly, and fairly; producing useful goods and services for consumers; generating profits for its owners; creating a work environment in which employees can satisfy their needs and evolve as free and responsible people; and building a prosperous organization that, at the same time, contributes to the common good of its community is, in fact, a very difficult job. Indeed, many believe that it is impossible to fulfill all of these conditions simultaneously.