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## The return of the rentier. Review of 'Capital in the 21st century' by Thomas Piketty

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# **The return of the rentier.**

## **Review of: Piketty, Thomas (2014): Capital in the 21st century. Harvard University Press, 685 pages**

Jakob Kapeller\*

“Refusing to deal with numbers rarely serves the interest of the least well-off.”  
(Piketty 2014, 577)

Thomas Piketty presents a provocatively entitled book that is as remarkably innovative as it is politically and socially important. It is so for several reasons: Firstly, Piketty’s examination of the historical development of income and assets is based upon meticulous empirical work which sheds a completely new light the genesis of wealth, assets and capital. Secondly, Piketty does not hesitate to attempt at embedding these data-driven insights in mainstream economic theory, thereby delivering numerous crucial arguments for criticizing and advancing existing theories on the distribution of income and wealth. Thirdly, Piketty relentlessly demonstrates the political and social consequences of the distributional dynamics he analyzes. In the very same vein he suggests a range of clear, consistent and far-reaching policies aimed at keeping these very dynamics at bay.

Especially Piketty’s demonstrations of historical time series - despite the insecurities and flaws that they are subjected to - represent a central innovation in research on the distribution of wealth and income. While this book irrefutably contributes to the field of data acquisition and processing, both, the theoretical embedding of the results and the political conclusions drawn, leave ample room for debate. Of course, this is no surprise, given the extent of the undertaking, the extensive aims of the book and the author’s rather functional, empirical approach.

When Piketty speaks about assets, laudably, he does not only mean an economic variable but also a regulatory social dimension and a factor of societal power. Piketty is basically aware that interdisciplinary

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\* I want to thank Thomas Piketty, who responded to some of my questions regarding his book in personal conversation and thereby managed to greatly improve my review. Additionally, I am indebted to Leonhard Dobusch, Stefan Kranzinger, Walter Ötsch, Matthias Schnetzer, Bernhard Schütz und Wilfried Altzinger for providing helpful comments on an earlier draft of this paper. Finally, I have to thank Benjamin Leitl for his efforts in translating this article from the German original to an English version.

cooperation is a preliminary for explaining most social phenomena and emphasizes the relation of economics to other social science disciplines as well as the role of power and governance in social contexts. “Economics as a separate science is unrealistic [...]. It is one element - a very important element, it is true - in a wider study, the science of power”, was once uttered by the philosopher Bertrand Russell (1938, 108) with regards to economic science. Thomas Piketty follows this path and locates his own research in the borderland between economics and history.

While this focus on questions of power and the author’s interdisciplinary attitude are surely laudable, in the actual text they are often ousted by the author’s endeavor to discuss contemporary economic standard theories of distribution in light of his data. Despite all contrary indications and critical evaluations, it is predominantly mainstream economic views that constitute the theoretical content of the book, with little substantial remaining of these views in light of the data that is presented. Herein lies the cardinal dilemma of this book: Piketty poses the right questions at the right time. He, however, does not have all the right tools at his disposal to address these questions - his data rather demolishes than advances the mainstream economic theories he employs. Nevertheless, there is paradigmatic relevance to Piketty’s ambition to put aspects of distribution into the center of economic analysis again. In doing so he asks the “big question” whether stable and prosperous development of capitalism is indeed possible in the longer term from anew, thereby delivering a calm and yet cutting way of criticizing capitalism.

### **The return of patrimonial capitalism**

Definitions ahead: Piketty equates “capital” with “assets”: The capital of a household is identical to the sum of its assets, regardless of their kind.<sup>1</sup> This definition of capital is unusual to economic discussions which often differentiate between productive and unproductive capital, yet it is rather easy to understand: Any asset yields a certain kind of revenue (in the owner-occupied property said revenue is about equal to the lease costs of an equivalent object) and ex post facto this revenue can be calculated on the basis national accounts data. Therefore the rate or return of capital  $r$  need not be determined through the analysis of thousands of individual portfolios but simply arises as a result from contrasting aggregate assets and capital income of all forms (profits, dividends, interest payments, etc).

The core statement of Piketty’s magnum opus is based upon an analysis of long-term distribution trends. Two of these trends are focused on in particular: a relative rise in aggregate capital juxtaposed to the national income of developed economies on the one hand, and an increased concentration of said capital as well as earned income on the other. Let us address these trends in more detail.

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<sup>1</sup> Exempt from this rule are household goods, vehicles and other valuables (including exemplary status symbols such as yachts or art collections).

The first trend that Piketty brings into play describes a scenario wherein the rate of return to capital ( $r$ ) surpasses the growth rate of national income ( $g$ ). Subsequently capital and assets of a country steadily increase at a higher rate than its economic performance. The relation between capital stock and national income - the “capital-income ratio”  $\beta$  as is Piketty’s terminology - thus rises as long as  $r > g$ . If  $r$  and  $g$  remain constant, the next period will bring about an automatic increase of the capital income share of national income (labeled  $\alpha$  by Piketty), resulting in an inbuilt and continuous redistribution from labor income to capital yield.

This first trend in distribution stated by Piketty solely refers to empirical observations and corresponding accounting identities<sup>2</sup>: Capital and assets usually grow faster than the national income ( $r > g$  is fulfilled, empirically speaking), and hence  $\beta$  rises, which logically goes along with steady redistribution of national income towards capital yield (any increase in  $\beta$  causes *ceteris paribus* a corresponding increase in  $\alpha$ , since  $\alpha = r\beta$ ; see footnote 2).

From the perspective of the neoclassic standard theory this result is anything but problematic, as any rapid expansion of the capital stock ought to correspond to a reduction of the rate of return  $r$  to rebalance the relation between capital and labor income. Piketty, however, objects: Technological development has brought along highly differentiated and multilayered means of investment, which devalue the old principle “too much capital kills the return on capital”.

“This is perhaps the most important lesson of this study thus far: [...] because capital has many uses one can accumulate enormous amounts of it without reducing its return to zero.”<sup>3</sup> (Piketty 2014, 224).

The multitude of investment possibilities eventually causes the rate of return to decline at a much slower pace than the standard theory suggests. Conversely, there is a higher likelihood of stagnated growth - or even decline - of national income. Here Piketty refers to the historic circumstance stating that the most technologically advanced economies never surpassed a per-capita grow rate of 1.5 per cent - higher growth rates are thus only possible in those exceptional situations wherein nations catch up with the “world technological frontier”. According to Piketty’s research, however, the rate of return, has hardly ever dropped below 4 per cent and is currently even a bit above that. For instance, a  $\beta = 6$ , as it is typical of today’s

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<sup>2</sup> The exact relation between these arguments and variables can be summed up as follows:  $\beta$  is defined as the relation between capital and asset stock  $K$  and national income  $Y$ , meaning that  $\beta = \frac{K}{Y}$ .  $\alpha$  is defined as the share in capital yield ( $rK$ ) within the national income, hence as  $\alpha = \frac{rK}{Y} = r\beta$ . If the rate of return  $r$  remains stable, any increase in  $\beta$  leads to a corresponding rise in  $\alpha$ . Through this theoretical apparatus, which is strictly made up of macroeconomic identities, the central inequality  $r > g$  can be derived (when assuming that all capital income is reinvested accordingly).

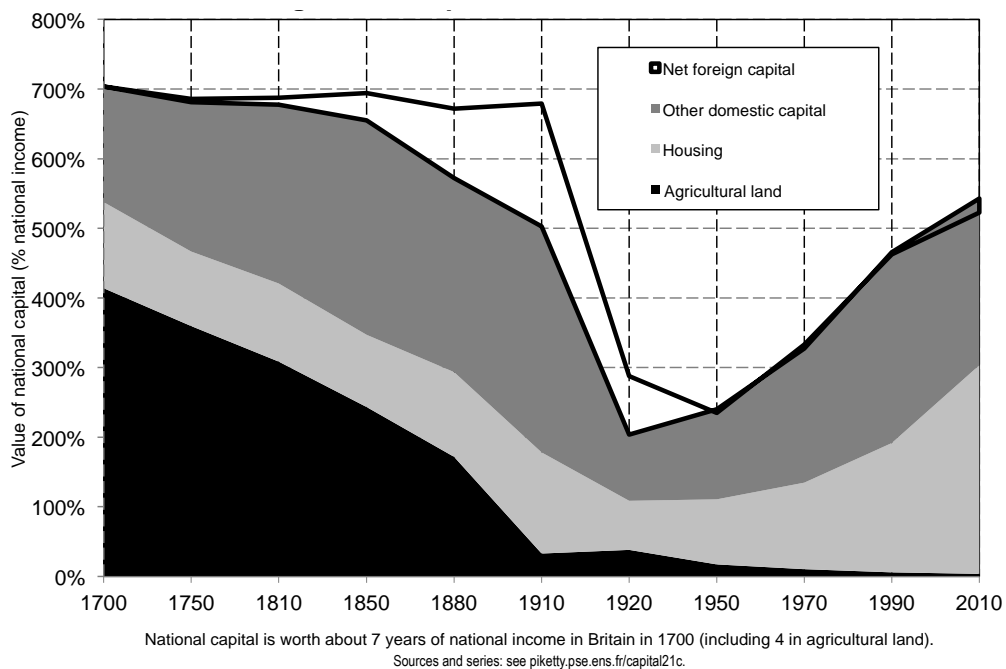
<sup>3</sup> Technically speaking, the elasticity of substitution between capital and work is constantly greater than one.

Europe, and a capital share of 30 per cent in the national income make for a rate of return of 5 per cent. The underlying reasoning is dry as dust and convincing. The standard scenario of a per-capita increase of 1.2 per cent, as Piketty assumes, appears optimistic against the backdrop of his statements. What is especially dicey is that, according to Piketty, “an annual growth of 1 % implies major social change” (Piketty 2014, 95). Such a development allows expecting an even more rapid increase of the ratio between capital stock and national income, giving further edge to the trend of inbuilt redistribution from labor income towards capital income.

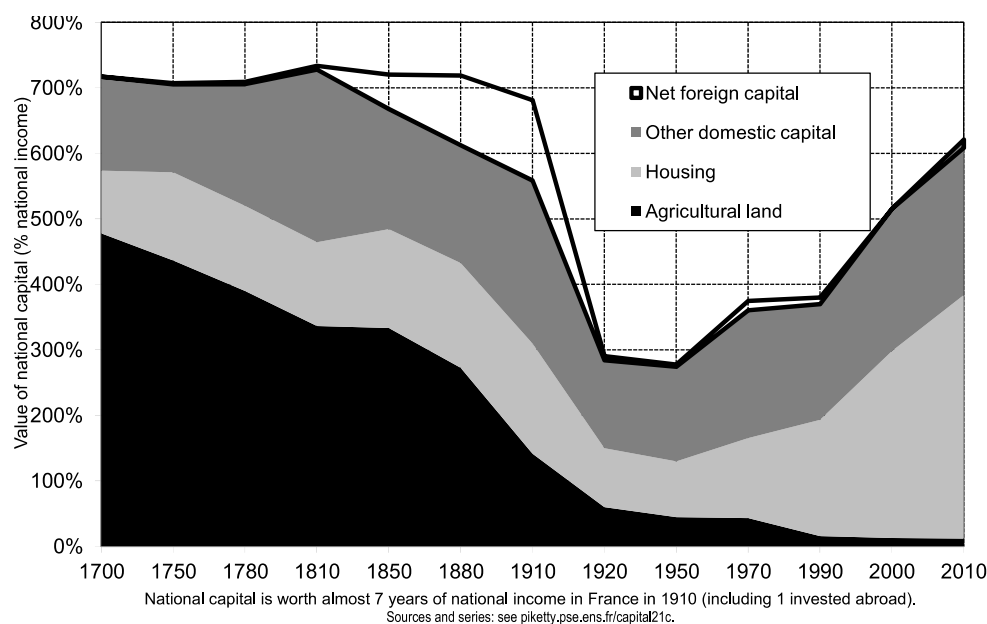
The data used to undergird this argument is as extensive as it is impressive. In its core, Piketty focuses on the long-term development of  $\beta$  that he discusses extensively using the examples of the UK and France. In this analysis he also breaks down the composition of assets - meaning the size of specific asset components such as land, real estate, physical capital and foreign assets relative to the total stock of capital.

Piketty’s result is simple: in 18th and 19th century Europe the capital-income ratio was exorbitantly high and reached a value of  $\beta = 7$ . The entire asset base was seven times as high as the annual national income until the beginning of the 20th century, when it fell dramatically only to reach a historic low in the time span encompassing the two World Wars (after WWII  $\beta$  is between 2 and 3 in both countries).

**Figure 1: Capital in Britain 1700-2010 (Figure 3.1 in Piketty 2014)**



**Figure 2: Capital in France 1700-2010 (Figure 3.2 in Piketty 2014)**



Ever since the 1960s, the trend of the first half of the 20th century has reversed: Social stability and technological innovation have allowed for rapid accumulation of capital and brought about a defining historical experience for the post-war generation: For the first time in centuries, the achievable economic wealth one could attain was not directly dependent on one's inheritances (as in the 18th and 19th century), but also related to work performance. The changes in the relation between capital and national income made social advancement by means of one's own work a viable option for great parts of the population (instead of being restricted to a small subset of successful entrepreneurs). However, Piketty perceives this historic "window of opportunity" drawing to a close and refers to the rapid increase of his "capital-income ratio"  $\beta$  in the second half of the 20th century to illustrate the rising relevance of capital income, inheritances and endowments, in both economic and social regards.

Let us now progress to the second distributional trend investigated by Piketty, which parallels to the "Matthew effect"<sup>4</sup>. The underlying idea - "he who has will be given" - is, in Piketty's understanding, applicable to the distribution of earned income and capital income, in both absolute and relative terms: This means that greater fortunes not only receive greater incomes from capital, but they also earn greater rates of return than smaller fortunes. Greater fortunes therefore grow much faster than smaller ones (in both absolute and relative terms) and the concentration of wealth increases - a process that is further

<sup>4</sup> The use of the term "Matthew effect" in social research traces back to Robert K. Merton who initially attempted to explain the distribution of prestige and attention within academia (Merton 1968). The underlying principle was expanded and applied to other areas of society in sociological research (Rigney 2010).

accelerated by the growing importance of inheritances and endowments<sup>5</sup> (which are highly unequally distributed themselves<sup>6</sup>). The following table shows an overview of current concentrations of assets in Europe and the USA as compared to other historic or fictive scenarios.

**Table 1: Inequality of Capital Ownership (Table 7.2 in Piketty 2014)**

Share of different groups in total capital	<b>Low inequality</b> (never observed; ideal society?)	<b>Medium inequality</b> (= Scandinavia, 1970s-1980s)	<b>Medium-high inequality</b> (= Europe 2010)	<b>High inequality</b> (= U.S. 2010)	<b>Very high inequality</b> (= Europe 1910)
<b>The top 10%</b> "Upper class"	30%	50%	60%	70%	90%
<i>including: the top 1% ("dominant class")</i>	10%	20%	25%	35%	50%
<i>including: the next 9% ("well-to-do class")</i>	20%	30%	35%	35%	40%
<b>The middle 40%</b> "Middle class"	45%	40%	35%	25%	5%
<b>The bottom 50%</b> "Lower class"	25%	10%	5%	5%	5%
Corresponding Gini coefficient (synthetic inequality index)	0.33	0.58	0.67	0.73	0.85

In societies with "medium" inequality of capital ownership (such as Scandinavian countries in the 1970s-1980s), the top 10% richest in wealth own about 50% of aggregate wealth, the bottom 50% poorest about 10%, and the middle 40% about 40%. The corresponding Gini coefficient is equal to 0.58. See technical appendix.

This development can also be observed with respect to earned income. The rate of increase of the highest wages is many times that of an average income - a phenomenon which is typical of Anglo-Saxon countries. The widening gap in incomes in these countries has reached a dramatic extent: While average actual earnings in the USA have stagnated or even declined over the past 30 years, the top 1 per cent of income

<sup>5</sup> Piketty attempts to quantify the relevance of inheritances by contrasting the sum of inheritances of a period to the respective national income. In the case of France (being the only with available data) it shows that the macroeconomic relevance of inheritances was at an all-time high in the 19th century: They added up to circa 20 to 25 per cent of the national income. Given the shocks until the mid-1900s, this share reduced to a historic low of circa 5 per cent after WWII, only to have risen to 15 per cent by today - with a trend still rising, according to Piketty (2014, 399).

<sup>6</sup> For completeness' sake, it needs to be mentioned that the high concentration of assets (being significantly more unequally distributed than incomes), which are usually described by exponential functions, can also be explained with much less restrictive assumptions (see Gibrat 1931 for an earlier example). The crucial basic insight - assets and capital tend to be exponentially distributed at the top - holds true for all historical periods since antiquity. The central mechanism appears to rest upon the intergenerational transfer of storable assets, that is, the bequeathing of property (see Borgerhoff Mulder 2009).



earners may claim nearly 25 per cent of all paid-out income and still experience additional income growth (Atkinson et al. 2011).

These two trends - the increased relevance of capital and assets in economic life (symbolized by a rising  $\beta$ ) as well as a higher concentration of assets and income - make Piketty's predictions of the economic development in the 21st century seem gloomy. In particular, Piketty anticipates the possibility of a "return of a patrimonial capitalism", wherein assets and inheritances regain an important role in economy and everyday life. Piketty draws comparisons to 19th century Europe, which was characterized through high capital intensity, enormous concentration of assets as well as the near absence of inflation and little economic growth (of about 1 per cent). In such an economic constellation, the concept of *patrimonium* (literally: the inheritance received from one's father) has a decisive impact on the social status and income of any individual. In particular, the question was whether the inheritance would allow for a life free of constraints and the burden of work. In this economic context, it was perceived as rather ridiculous to achieve significant social advancement through work performance and without any kind of starting capital; it was much more probable to achieve such a state - if at all - through adequate marriage strategies. Hence, a central facet of a rentier society is what Piketty calls the "Rastignac Dilemma" - for Eugene de Rastignac, the young and gifted son of lesser nobles, from Honore de Balzac's novel "Father Goriot". Said Rastignac, full of ambition and aspiring a career in law or medicine, is taught a special lesson by his contemporary Vautrin, a rather cynical ex-convict. For Piketty, this lesson represents the influence of capital and assets on life and society in the 19th century; an influence which he summarizes as follows:

„In substance, Vautrin explains to Rastignac that it is illusory to think that social success can be achieved through study, talent and effort. [...] The verdict is clear: even if he ranks at the top of his class and quickly achieves a brilliant career in law, which will require many compromises, he will still have to get by on a mediocre income and give up all hope of being truly wealthy. [...] By contrast, the strategy for social success that Vautrin proposes to Rastignac is quite a bit more efficient. By marrying Mademoiselle Victorine, a shy young woman who lives in the boardinghouse and has eyes only for the handsome Eugene, he immediately lay hands on a fortune of a million francs [yielding] ten times the level of comfort to which he could hope to aspire only years later on a royal prosecutor's salary.“ (Piketty 2014, 239-240)<sup>7</sup>

It needs to be mentioned that young Rastignac decides against the proposition made by Vautrin<sup>8</sup> - he does so, however, only because it would also require the murder of Victorine's brother to ensure her hereditary

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<sup>7</sup> Another aspect of the Rastignac Dilemma was of importance for the development within the social elite, that is, the wealthy aristocracy. According to Alexander of Toqueville (1856), the high political and economic concentration in 19th-century France caused rural nobility to disregard their landholdings in favor of conducting businesses (or intrigues) at the royal court (which at least seemed to constitute a more promising economic activity). Toqueville deems this trend a main reason for the comparatively better development in the UK.

<sup>8</sup> The character Vautrin is a guise for no less a person than former convict Jacques Collins who does not display his entire malevolence until the Balzac novels "Lost Illusions" and "The Splendors and Miseries of Courtesans". It is also in these works that the Rastignac Dilemma is the starting point of the plot.

title, which is too much to take for the young man. Thereby, the Rastignac Dilemma is not only a metaphor for the nature of patrimonial capitalism, but is also representative of numerous clever and well-picked references to British and French 19th century literature (with Jane Austen and Honore de Balzac leading the way) which Piketty draws on to powerfully illustrate<sup>9</sup> his data-driven insights.

However, we have not yet crossed the threshold back to the future, though. The return of patrimonial capitalism in the guise of the 21st century is a prediction based upon current trends in distribution: Neither is it an analysis of the present state, nor does it follow from a strict law-like relationship. Nonetheless, patrimonial capitalism might be closer than we think. While in terms of concentration of assets the current situation is still different from the 19th century (at least in Europe; less so in the US; see also Table 1), the relation between capital stock and national income has almost returned to the scale of the 19th century - with no end in sight.<sup>10</sup>

In the context of both these trends, Piketty extensively discusses possible mitigating factors such as education, fertility and marriage behavior, migration and population growth or changes in terms of life expectancy. However, he concludes that while these factors will not reverse the observed trends, they may well intensify them. The latter is the case, when the respective influences reproduce social inequalities, as it occurs in the context of education, marriage and fertility.

Hence, the return of the patrimonial capitalism would be no coincidence. On the one hand, such a return is necessarily a long-term issue; the accumulation of assets requires time as well as political and social stability. On the other hand, these very laws of accumulation were subject to great fluctuations in the 20th century: the two World Wars caused the destruction and devaluation of existing assets (illustrated by a considerable decline of  $\beta$  in the first half of the 20th century), the national economic systems in Europe (that were rebuilt after WWII) henceforth regulated and taxed capital and established means of redistribution in the form of social security systems. This led to a swift rise in public spending from about 10 per cent of national income at the beginning of the 20th century up to 30 to 40 per cent in the 1970s. At the same time significant developments in vocational and wage justice were made. These intrinsic factors of redistribution aided in lowering the capital-income ratio  $\beta$  and delaying its comeback by pushing down the actual rate of return due to changed power relations. This constellation was accompanied by considerable economic growth in the post-war era and caused a historic singularity that can be summed up as  $g > r$ , which made it possible to accumulate (modest amounts) of capital by means of labor income.

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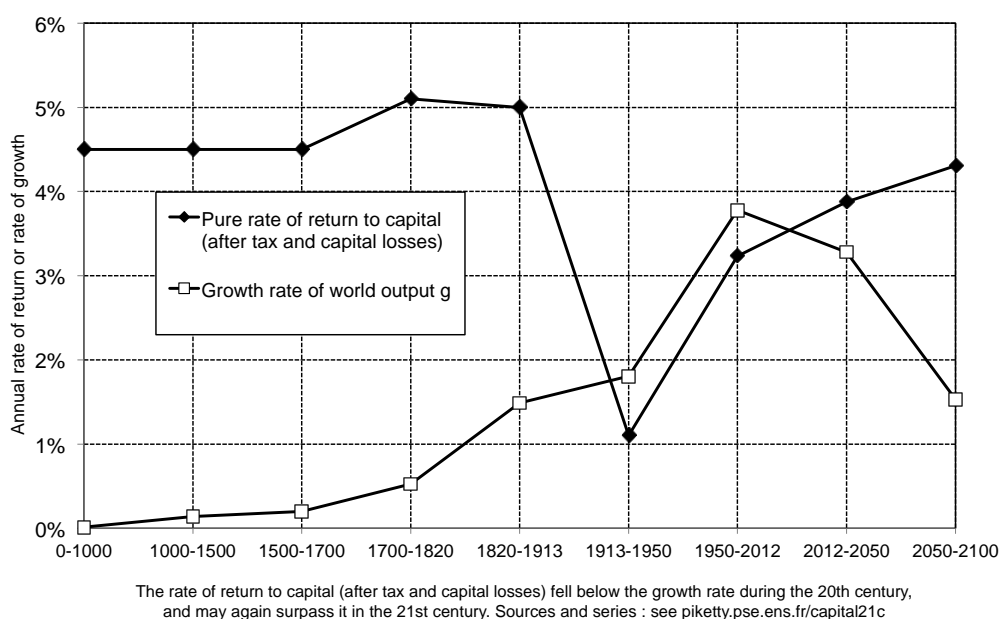
<sup>9</sup> Russian literature of the same period would also be suitable for an illustration of Piketty's prognosis, one need only think of Nikolai Gogol's „Dead Souls”.

<sup>10</sup> Historically, 19th-century Europe was about 7 while the USA was about 4.5. According to Piketty, this historical difference can be traced back to differences in demographic developments.

This novelty - the growth of national income surpassing the rate of return of capital - spawned the European middle class. For the first time, the general population was able to acquire significant amounts of property through their own work performance. Although the phenomenon of an emerging “middle class” is limited to the upper half of the wealth-distribution<sup>11</sup>, this emergence is a noteworthy development, wherein the share of assets owned by the top 1 per cent shrunk to the benefit of the upper 50 per cent (see table 1). The “golden age of capitalism” in Europe, as the time period between 1945 and 1973 is commonly termed, marked by full employment and rapid growth, can, thus, be understood as a success story of economically and socially taming capital and wealth.

Piketty accesses the specific character of the 20<sup>th</sup> century by a long-term comparison of the world growth rate and the post-tax rate of return, which is reproduced in Figure 3. It is important to note that Piketty is concerned with average world growth rates here, which extends the argument on the peculiarity of the 20<sup>th</sup> century up to 2012 (due to high growth rates in emerging economies), while in most developed countries the relation between  $r$  and  $g$  has been reversed about thirty years ago.

**Figure 3: After tax rate of return vs. growth rate (Figure 10.10 in Piketty 2014)**



<sup>11</sup> The poorer half of the population did not have and still has no relevant amounts of property - their share in capital did not change despite the intense shocks observed in the first half of the 20th century.

## Piketty and economic theory

Both trends formulated by Piketty are well-known in the economic literature - after all, they are derived from accounting identities in macroeconomic relationships (the first trend) and already published empirical data (the second trend; see Atkinson et al. 2011). The first-mentioned trend of growing  $\beta$  can be found in similar form in Meade (1964)<sup>12</sup>, who emphasizes that the reproduction of capital is not solely based on its rate of return but also on the share of consumed (and hence not reinvested) capital. Hence, Piketty's central relation  $r > g$  technically becomes  $(1-c_c) r > g$ , with  $c_c$  symbolizing the share of consumed capital income. Piketty himself explicitly indicates this aspect, although it is explained relatively late in the book (Piketty 2014, 351) - a circumstance that may render an economy-savvy reader sceptic. Piketty's implicit justification for this omission is, nevertheless, remarkable; he notices correctly that, in the context of large assets,  $c_c$  is rather negligible (Piketty 2014, 525), since it is practically very difficult to consume more than several million Euros on an annual basis.

The theoretical embedding of this argument is rather ambivalent: Piketty's explicit emphasis on the necessity to analyze distributional trends as well as the vast and new data used for discussing such trends is what appears as strikingly positive and innovative in this book. His attempt to revitalize the analysis and discussion of distributional tendencies is expressed most clearly in two connections that Piketty labels as "fundamental laws of capitalism". These laws, however, stem from the established economic literature: the "first fundamental law of capitalism" is, in essence, given by the already introduced accounting identity  $\alpha = r\beta$  (see footnote 1) and recites the first trend: A rise in the capital-income ratio causes the capital share in national income to rise at the expense of wages (given that the rate of return  $r$  remains constant).

Piketty's "second fundamental law of capitalism", on the other hand, asks for a merely hypothetical, equilibrium state of the capital-income ratio ( $\beta$ ). According to Phelps (1961) such a long-term equilibrium position is equal to the relation between saving ratio and growth rate (i.e.,  $\beta = s/g$ ), or to put it differently: Given only weak or economic growth (meaning a low  $g$ ), the capital-income ratio  $\beta$  might reach tremendous heights.

These central theoretical statements are neither new nor do they challenge predominant economic conventions, although the use of a (constant) "net-of-depreciation" savings rate in the second law differs from many standard neoclassical approaches, where (constant) gross saving rates are employed (Wolfers 2014). Piketty's book is innovative rather due to its empirical contributions, which supply brisance to the aforementioned "laws of capitalism", but it is rather conservative with regard to its contribution to the economic theory. Specifically, only the combination of low economic growth, a tremendously high stock of

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<sup>12</sup> While Meade's approach focuses on the aspect of personal (instead of functional) income distribution, it can be easily adapted to the functional income distribution.

capital, and a steady rate of return, that is, the starting conditions, infuse Piketty's equations and theoretical story with right amount of drama.

It is in the theoretical analysis and embedding of the data that the lack of alternative views to mainstream economics becomes excruciatingly obvious and analytically harmful: One obvious and most salient objection against Piketty's view on capitalist dynamics would come from Keynesian Theory. From a Keynesian perspective Piketty's slogan "Capital is back, because low growth is back" claims unilateral causality, although the relevant relation is eventually one of mutual interdependence or even reversed causality. In an economic model based on the assumption of effective demand, trends in distribution as illuminated in Piketty's work normally cause growth rates to decrease, since any kind of bottom-up redistribution weakens macroeconomic demand. While, in this reviewer's opinion, such an argument is not suited to invalidate Piketty's diagnosis – it rather constitutes an important theoretical complement –, the complete absence of any discussion on a "reversed" or "mutual causality" seems rather odd, to say the least.

Also in other fields of economic theorizing – for example when trying to point to the reasons for the continuous divergence in income distribution – Piketty largely restricts himself to mainstream economic concepts and arguments without looking beyond this received view. The reoccurring logic of display is as follows: First, concepts of neoclassical economic theory (like marginal productivity theory, skill-biased technological change, the life-cycle theory of wealth or the economics of "superstars") are abundantly discussed and presented as formative for any theoretical analysis. Second, concepts from other social sciences or even heterodox economics, which could be considered relevant for analyzing distributional issues are mostly ignored and not taken up by Piketty. The sole exception is Marx - who Piketty vigorously distances himself from, though. Other reviewers have already discussed the treatment the bushy-bearded classic receives and characterized the reception of Marx in Piketty somewhere in between "hostile and unnecessarily caustic" (Galbraith 2014) and "plain wrong" (Vernengo 2014).

This combination reveals the most substantial flaw of this book: its theoretical monotony. This aspect as well as the corresponding "logic of display" becomes most obvious when Piketty explains the increase in income inequality (in particular the spectacular rise of the top 1 per cent): Firstly, the arguments from neoclassic theory which he uses to contextualize his data are rarely suitable for explaining the empirical results - which Piketty himself readily admits. However, these findings are often contradicted by his eagerness not to dupe specific professional circles and their cherished theories too strongly. In practice, this seems to require that all empirical findings must be somehow aligned with the established mode of mainstream theorizing. This dangerous concoction of critical data-driven research and an overemphasis on theoretical modesty and respect tends to run into contradictions. For instance, the theory of marginal productivity and its associated hypothesis of skill-biased technological change (according to which

differences in incomes are mainly the result of differences in education and the introduction of new technologies amplifies the distributional effect of these educational differences) are completely rejected at the beginning of the respective chapter (“to be blunt, this theory does not explain anything,” Piketty 2014, 304) and, moreover, denounced as a tautological (Piketty 2014, 314). At the end of the section the very same theory is almost entirely rehabilitated: “As noted, the theory of marginal productivity and the race between technology and education offers a plausible explanation of the long-run evolution of the wage distribution, at least up to a certain level of pay and within a certain degree of precision.” (Piketty 2014, 333). It is therefore up to verdict of the inclined reader to judge whether this approach is a tautology devoid of any explanatory power or if it explains the vast majority of the available data in a surprisingly solid manner.

Secondly, the implied neoclassic coherence of the argument brings about the unfortunate circumstance that potentially enriching arguments from sociological or heterodox research generally remain disregarded. Sociological research might have had much to say about the meaning and reproduction of economic and non-economic capital (Rigney 2010) – but save for one lonely reference to Bourdieu regarding the peculiarities of the French education system it is not taken into account from a theoretical perspective. Also any attempt at a more profound discussion on the relation between economic assets and social power, which surfaces every now and then but is never touched upon explicitly, falls through the neoclassic cracks, although some steps in such a direction have already been made (Rothschild 1971, Rothschild 2005). Similar things can be said about the treatment of heterodox economic concepts: The argument of a “financialization” of developed capitalism (see Stockhammer 2004), an argument basically tailor-made for a delivering a theoretical underpinning of Piketty’s approach, is mentioned once without any reference. The concept of socially transmitted aspirations towards consumption and income (Veblen 1899) - which would be a suitable candidate for explaining a significant rise in income and consumption aspirations within a certain economic elite - is mentioned once in a footnote. While Piketty touches the famous capital controversies, his main aim in this context is to downplay its implications (see on this Galbraith 2014). Also, Piketty is surely aware of the well-known French theory of regulation, which shares or even anticipates some of his historic views (Boyer 2000, 2010). However, this school and its thinkers are not directly mentioned or appreciated anywhere in “Capital in the 21st century” (although Piketty mentions a series of French historians, most notably Jean Bouvier, who played an important role in the development of the regulationist theory; see Boyer 2014).

But how problematic are these instances of conceptual smoothing and strict commitment to mainstream economic research? The answer to this is essentially dependent on one’s perspective: For Piketty’s intended focus on empirical results and the central message of the book (“inequality matters”), this is not necessarily a setback. Piketty’s ambition to analyze questions of distribution via descriptive statistics is neither hindered nor furthered by this strategy. The commitment to mainstream compatibility, however, does affect the

emancipatory potential of the book for it does not substantially question the dominant, narrow and isolated thought routines of neoclassic economics. Any reader awaiting a new version of a “Kritik der bürgerlichen Ökonomie”, meaning a sophisticated attack on the neoclassical ivory tower, will be disappointed. Nevertheless, there is much critical potential in Piketty’s work, which can be assessed to legitimately question the “obvious preference for and promotion of a neoclassic-oriented mainstream at universities, research institutes and national and international economic organizations” (Rothschild 2008, 25, Translation JK). With regards to economic theorizing, said potential must, however, first be exploited in its entirety. Nonetheless, it should be noted that Piketty signals awareness for the general problem of intellectual monopoly in economics in some passages of „Capital“ (e.g. on p. 31) as well as by signing the „International student initiative for pluralism in economics“ ([www.isipe.net](http://www.isipe.net)).

Although the sections on theory are miles away from an equal display of different theoretical or disciplinary approaches (and, hence, miles away from Piketty’s initial ambition), this way of presenting does have one key advantage: If an author’s missionary intentions with regards to his own disciplinary culture are kept to a minimum, the available credibility and the concern for reform and change can be focused on a single, central criterion. For Piketty this is, ultimately, not the layer of economics but that of economic policy, wherein Piketty, based upon his dry-as-sand data, makes up for any kind of radicalism lacking elsewhere.

### **Political implications**

In lieu of a comprehensive alternative theoretical concept, Piketty’s aspiration is social reform based upon empirical insights. In this respect Piketty is much more similar to the socialist Utopians than to Marx by providing large-scale policy suggestions based on ideal-typical reasoning.

It is with good reason that Piketty refers to tax policy as a central and vital instrument of economic policy: Only by implementing exorbitantly high top tax rates (in the range of 80 to 90 per cent, as was typical of US and UK until the 1970s) the strong relative increase in top incomes could be kept at bay and the corresponding steady redistribution of low and medium incomes towards top incomes could be stopped. In politics Piketty thinks in a more interdisciplinary way than when it comes to economic theory and refers to the fact that such tax rates do not primarily serve the purpose of generating tax revenue but are rather suitable for disciplining economic elites, that is they serve as basis for socio-economic conventions. He formulates a similar thought with regards to a possible empowerment of lower income groups when arguing that a substantial improvement for the weakest participants in the labor market could be achieved by raising minimum wages. Here he expresses the idea of regulating and controlling income disparity by means of political tools, i.e. by means of exorbitant top tax rates in the top segment and higher minimum wages in the lower segment of the income distribution.

The same logic applies to Piketty's primary argument of increasing accumulation and concentration of wealth that, in a period of slowing growth, can only be regulated through the taxation of capital and wealth. Thereby Piketty aims for mathematical as well as administrative consistency. From a mathematical standpoint, containing the trends predicted would require high tax rates - a reoccurring proposal suggests a tax exempt amount of one million Euros, a tax rate of 1 per cent for assets between one and five million Euros and a rate of 2 per cent for all assets beyond five million Euros. From an administrative standpoint the introduction of such a tax on a global basis (given possible effects of evasion and avoidance) would be an ideal scenario in order to minimize instances of avoidance. Moreover, it would be imperative to implement a transparent administration of private asset data, thereby largely eliminating existing tax-havens.

Property taxes are not only a matter of redistribution arising from the innate necessity to regulate capitalist economic activity, but for Piketty they are also related to issues of democratic transparency and discourse quality. According to Piketty, only tax-based data provides a reliable base for estimating the amount and distribution of available assets of a given community. Therefore, the elicitation of a respective tax cataster would be a significant gain for political discourse: Only the availability of this kind of data would allow for an objective and transparent public debate regarding the actual and the desired distribution of assets - and hence introduce the possibility to partake in successful democratic decision-making related to issues of wealth and distribution.

Piketty also comments on the issue of public property and public debt. He finds that European countries have only very few assets at their disposal, especially in comparison to the significantly higher amount of private assets. For Piketty, this is primarily an issue of distribution between public and private sectors – for a simple reason: From a strictly quantitative perception, the old and supposedly sluggish continent of Europe is incredibly wealthy when compared to the rest of the world (as indicated by the high values of  $\beta$ , which Piketty states for most European countries). Hence, there are only problems concerning the distribution of this wealth – and these problems do not only relate to the divide between poor and rich, but also to the distinction between public and private. National debt is not a problem in principle but rather one of operative matters since corresponding interest payments limit the political scope of action and imply that tax payers effectively pay their money to finance the rentiers' income. Consequently, Piketty sees a possible solution again in the taxation of property, ideally in the form of a onetime property levy from exceedingly wealthy private households equivalent to the respective public deficits. It seems essential to Piketty that political redistribution in both proceeds and expenditures does not constitute a burden that hinders the market from operating smoothly; quite on the contrary such a framework rather creates the foundations for any long-term coexistence between free market economy and an open society.

Contrary to possible expectations induced by the book's title, specific issues of the financial sector and its part in a globalized economy only play a minor role in Piketty's analysis. The prime reason for this is Piketty's



focus on the development of net assets, meaning the balance between assets and debts. He shortly discusses the idea of creating deposit money through commercial banks (“endogenous creation of money”), which implies that all financial assets relate to corresponding debts. While he explicitly refers to such a trend of endogenous money creation as being responsible for the successive inflation of financial assets, which today are even greater than the total amount of net wealth (for the UK this would mean 20 times the national income), his main focus on net assets implies that many aspects of the financialized economy are simply not covered by Piketty’s analytical framework. Hence, the development and role of the financial sector remains a side issue: The analysis of practices and innovations of the financial sector, for example in the spirit of Hyman Minsky (1986), may be useful to (partly) explain the constantly high rate of return postulated by Piketty, but are not explicitly discussed in “Capital”. For the same definitional reason Piketty only dedicates few pages to the issue of debt and its distribution; “Debt: The first 5.000 Years” by David Graeber (Graeber 2012) lends itself as parallel reading which makes an attempt at analyzing the history of debt, thereby delivering results complementary to those of Piketty. Especially Graeber’s analysis of the connection between unbalanced accumulation of assets and debt crises fills a valuable gap which is not featured prominently by Piketty: Although the possibility of continuous social instability is immanently inscribed in his approach, Piketty does not, in contrast to Minsky and Graeber, fully go through with his approach in this respect.

Nonetheless, regulating capital is surely decisive to Piketty: At great length he discusses - in accordance with his propositions regarding taxes - the issue of transparency and mutual exchange of bank data and data of other financial service providers as well as the vital necessity of fiscal transparency, meaning to prevent any kind of tax evasion and avoidance with the help of tax havens (see Ötsch et al. 2014).

## **Conclusion**

“Capital in the 21st century” is a rich and educational book. Not only does it pose an important question - the one regarding the sources and the consequences of increasing economic inequality - but it also supplies many potential building blocks for finding answers to this question. The book is humble and smart; avoiding appeals to academic authority and dogmatic affectations. It rarely happens that such a dry book is such an invigorating read. The book is surely a milestone for opening up the discourse on economy policy. While it does not contribute in the same intensity to a “re-opening” of economics as academic discipline, the book’s full potential for facilitating paradigmatic change in economics is yet to be excavated.

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