Thomas Piketty's Capital in the 21st Century: Old Wisdom in a New Wineskin?

I have been quite surprised by the interest that this book has generated. Firstly, it is no "pot-boiler". In fact, at 577 pages of data analysis and discussion, plus a further 80 pages of footnotes, it is quite heavy going. So I suspect it could end up being a book like the Bible, often bought but very rarely read from cover to cover. Secondly, there is a sense in which income and wealth inequality (as distinct from poverty analysis) are no longer topics that excite the interest of economists and policy advisors in the way that they once did. And, thirdly, there are other authors, certainly in relation to income inequality, who raise similar concerns about advanced capitalist economies in a rather more succinct and approachable way – Sir Tony Atkinson's recent overview of his lifelong research agenda, "Inequality" (2015), published since Piketty appeared, springs to mind. Piketty, to be fair, acknowledges his intellectual debt to Atkinson: in the words of the Independent newspaper's reviewer "before Piketty there was Atkinson". For the more technically proficient, who are particularly interested in poverty, hot off the press is Sabina Alkire and James Foster et al.'s "Multidimensional Poverty Analysis and Measurement" (2015). This will provide much food for thought, and points the way to new methodology.

So why has Piketty attracted so much attention? (The BBC's flagship programme, Newsnight, recently devoted an entire edition to the book – I can't recall them before doing this for an economics research monograph.) At a superficial level one could point to the judicious choice of title, and its "homage" to the scribbling of another (long dead) political economist; scribbling which runs to even more pages and even longer footnotes. But it is perhaps that the book marshals an impressive array of empirical evidence on inequality, over in some cases a very long time span, rarely in the past collated in one place. This evidence makes a very serious point: that inequality in the ownership of private capital has increased dramatically in advanced countries over the past 40 years or so, in particular since the end of the 1970s. This rise in inequality is such that by the opening decades of the 21st century, wealth inequality in advanced capitalist economies has reached historically unprecedented, and Piketty would argue, social dangerous levels. The world is now more inegalitarian than it was when Anthony Trollope was lambasting rampant 19th century industrial capitalism in "The Way We Live Know" (1875), or Charles Dickens, in novels such as "Little Dorrit" (1857) and "Our Mutual Friend" (1865), was railing against the squalors of "modern" urban capitalism. I find this quite shocking, although I don't necessarily question Piketty's conclusion.

The question of where this wealth (inequality) has come from is addressed in Piketty's second major contribution: the "law" that $\beta = s/g$. This says that the ratio of capital to income (β) in the long run equals the ratio of an economy's savings rate to its growth rate. Wealth inequality rises if the savings rate outstrips growth. Private agents in the economy are encouraged to save by higher real rates of return on capital. And as they "actively" save, they also "passively" save through the wealth accumulation process. This leads to the statement that wealth inequality rises if the real rate of return on private capital is greater than the growth rate: $r > g$. This is a "principle" to which one can now subscribe by literally buying the t-shirt! If agents save at a faster rate than an economy is growing, the only way to keep "the lid" on the growth in the capital share is to implement rigorous forms of capital taxation that will redistribute income to those more likely to spend it. (Ironically, I am writing this on the day after the British Chancellor of the Exchequer announced, in his budget speech, a massive relaxation in inheritance taxation.)

When I read this point about the capital share, and reached Chapter 6, which is devoted to the discussion of rising capital shares, my intellectual ears pricked up, Has functional income distribution analysis suddenly become interesting again? Has Piketty just reminded us that functional distribution imbalance leads to stagnation in capitalist economies? I wrote my own PhD thesis in the early 1980s on the work of the Polish economist, Michal Kalecki, and his analysis of functional income distribution. Much of what I read for that research had been written in the 1930s (without the luxury of a barrage of long and impressive time series data), and the time series data that I had to hand of course came to end in the late 1970s. The issue then was profit squeeze and the "realization" crisis in advanced, monopolistic capitalism. So, with Piketty are we now back to a pre-revisionist Marxian analysis, in which capitalist wealth accumulation sows the seeds of its own disintegration? (And can we, perhaps, forgive him the hubris of his chosen title?)

In essence Piketty is telling us that there is a natural economic principle at work in advanced capitalism, that the capital share, and therefore wealth concentration, tends to rise inexorably in the absence of serious corrective economic and social policy. Furthermore this principle stands the test of very rigorous empirical scrutiny. It is, in effect, an application of what industrial economists understand as Gibrat's Law (the Law of Proportional Effect). Curiously, given that Gibrat was also French, Piketty makes no mention of this.

But hold on a minute. This is surely ancient wisdom, first clearly identified in the Jewish teaching embodied in the Jubilee provision of Leviticus 25. Why else would Old Testament law propose regular and significant redistribution events in which capital is returned to it original owners? The corrective redistribution instituted in Leviticus 25 (if it ever was actually implemented) focuses on the restoration of land to those to whom it had been originally allocated, land being the primary source of capital and "means of production" in an agrarian economy which forbade permanent non-voluntary slavery amongst its own citizens.

Another volume that has recently caught my attention is, Christian physicist, Tom McLeish's excellent "Faith and Wisdom in Science" (2014). In McLeish's theological reflection, in Chapter 3 of this book, he explores the tension in the wisdom literature of the Bible, and especially in Jeremiah (10: 1-17), and the dynamics interplay in creation between order and harmony (represented in the Jeremiah passage by the rainfall cycle) and chaos and disorder (represented by wind and lightning). The prophet immediately connects this to humankind's idolatry – it is as if there is in the social world also an inter-play between order and chaos. The re-establishment of order through the Jubiliary provisions stands in contrast to the forces of chaos in capitalist societies, that might follow from the operation of "free" markets and human self-centeredness in the economic sphere. (I would therefore like my t-shirt to read "r > g => chaos", a normative rather a merely positive statement!)

We are historically, developmentally and socially a long way from agrarian Israel of over 3000 years ago. Part 4 of Piketty focuses on policy responses for the 21st century. Ideally he would like to institute a progressive global capital tax (if you like a modern form of "continuous Jubilee"), but recognizes that this is hopelessly utopian. In practice, like Sir Tony Atkinson, he shifts attention to a Senian focus on the logic of "rights" or "entitlements", placing emphasis on the role of the "social state" in a modern economy. This is surely correct in a world in which the primary means of production are access to knowledge and the ability to accumulate human and social capital. But this access has to be funded through direct taxation and it has to be progressive. Here I am grateful to Piketty for introducing me to the work of another 19th novelist-social commentator, Honoré de Balzac, and the character of Eugène de Rastignac in the novel Père Goriot (1835). Rastignac's dilemma (between studying hard for a mediocre income or colluding with a criminal to acquire, via marriage, inherited wealth – see Piketty, pp. 238-242) still implies that progressive income taxation can equate with regressive wealth re-distribution. *Income* tax rate rates ought to be tailored to one's centile position in the *wealth* distribution, but even that will not avoid the "Rastignac problem". Such an approach hardly seems, in contemporary society, to form to basis of an electable manifesto. In fact, advanced societies have, since 1980, been systematically reducing top rates on income taxation on both earned and unearned income (as illustrated in Piketty's Figure 14.1, p. 499). Modern economic and social policy focus is increasingly on poverty reduction. Is poverty reduction without reduction in wealth inequality illusory? Christians might applaud a focus on issues of justice for the poor, but can the Christian ignore the wealthy, in the light of the Old Testament wisdom? I would suggest not.

Why wealth redistribution? Piketty, in a manner similar to many other economists, is rather vague on this. Surely wealth redistribution is ultimately a moral question, but Piketty does not develop any argument here in terms of a firm philosophical or ethical framework. If anything Piketty's *telos* is to make the capitalist economy function "better", to bring us closer to what he calls an "ideal society". This is the reasoning of the "technical" redistributionist. What is this ideal society, about which we all to greater or lesser extent engaged in public debate? Christians and Christian economists, in particular, should provide a clear answer to this question. An ideal society is not an "equilibrium" in which the distribution of resources is fair (or fairer) or "just". Justice is of course both *means* and *end* – it is to be found in the both the ontological reality and eschatological hope of the Kingdom of God.

Andrew Henley

Aberystwyth University

July 2015