Great Transition Initiative
Toward a Transformative Vision and Praxis

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Two Cheers for Piketty

John Stutz

Capital in the Twenty-First Century
By Thomas Piketty
The Belknap Press of Harvard University, 696 pp.

Thomas Piketty's *Capital in the Twenty-First Century* is a remarkable achievement. It is not every day that a 700-page tome of path-breaking economic analysis sells out on Amazon in just over a month. Similarly, not every book tour includes meetings with the US Secretary of the Treasury and a presentation at the United Nations.

Why such excitement? The popularity of Piketty's book stems from its resonance with the increasing attention to and mobilization around economic inequality in recent years. Piketty provides a wealth of information for those seeking to understand and mitigate the inequities of the current economic system. However, while his extensive documentation of inequality and explanation of its tendency to rise under capitalism point him in a radical direction, his proposed response—a global tax on capital—offers reform, rather than the fundamental change essential to guiding the global economy toward a just and sustainable future.

Inequality in Our Time

In the wake of the financial crisis, the Occupy movement focused attention on inequality, especially on the gap between the "99%" and the "1%." Piketty shows just how stark this divide has become throughout the developed world, and especially in the US.

Table 1: Inequality in the US in 2010
(From Piketty, Tables 7.1 to 7.3)

Subgroup of the Population	Share (%)		
	Earned Income	**Wealth**	**Total Income**
Top 1%	12	35	20
Next 9%	23	35	30
Next 40%	40	25	30
Bottom 50%	25	5	20

In terms of earned income (wages, salary, and other payments for services rendered), the Top 1% in the US receive 12 times their population-based share; the Bottom 50%, half. This discrepancy primarily reflects the "supersizing" of executive compensation that has occurred over the past several decades. Inequality in wealth is even more dramatic, with the Top 1% controlling 35% of the total. If we add unearned income from wealth to earned income, the shares of the top two subgroups rise while those of the bottom two fall. As total income per capita rises, so, too, does the amount available for savings and investment. Wealth drives income, and income in turn drives wealth, creating a tendency for capitalist economies to generate inequality.[1]

Piketty also draws attention to historical changes in inequality (Table 2). Throughout the twentieth century until 1970, the US was following a "Kuznets curve," in which inequality rises at first with economic growth but then falls as additional growth distributes prosperity more widely. However, as the data for the full twentieth century reveal, inequality is not inherently "self-correcting." After 1970, the Bottom 90% saw no growth in average income: the Top 10% captured all of the gains, with most going to the Top 1%. This pattern continued into the first decade of this century, and, as Piketty argues, there is no reason to assume that the situation will improve barring a significant change in policy.

Table 2: The Evolution of Inequality in Total Income in the U.S.
(Estimated from Piketty, Figures 9.2 and 9.8)

Subgroup	Share (%)			
	1900	**1930**	**1970**	**2000**
Top 1%	18	17	9	21
Next 9%	22	28	24	26
Bottom 90%	60	55	67	53

Why Inequality?

The data Piketty provides raise an interesting question: Why in the course of the twentieth century did the top shares fall dramatically and then rise back up? In order to answer this, Piketty looks at earned and unearned income separately. He explains the variation of unearned income with a simple model based on the relationship between the real rate of return (*r*), or the gain from wealth above and beyond inflation, and the real rate of economic growth (*g*). The "normal" historical pattern—*r* above 4% and *g* below 2%—causes an increase in the unearned share of total income. Because unearned income is much more unequally distributed than earned income, inequality in total income rises.

Piketty shows that after 1913, an "abnormal pattern"—*r* less than *g* and between 1 and 3%—emerged. Two world wars, the Great Depression, progressive income taxation, and exceptional economic growth during the long post-WWII recovery made the period between 1913 and 1970 a historical anomaly. The developments during this period, particularly the destruction of capital during the wars, caused *r* to fall and then *g* to grow, reducing the importance of unearned income as part of total income. This caused the mid-century dip in income inequality, shown in Table 2, often referred to as the "golden age" of capitalism.

Although Piketty's framework is remarkably successful in explaining the past, it has limited value when addressing the future. Piketty puts forward a simple long-range scenario detailing the economic trajectory from the present to the year 2100. In it, *g* falls (primarily as a result of declining population growth) while *r* rises, a continuation of the pattern since 1990. Excluded from Piketty's analysis are the uncertainties in the behavior of *r* and *g* introduced by climate change, social conflict, and other potential crises. Consider in particular climate change. Severe storms and other natural disasters may drive *g* down, while economic adjustments, such as an energy transition, could push it up. The prospects for *r* are similarly indeterminate. Climate change will likely destroy wealth and, at the same time, drive innovation and profitable investment opportunities. This uncertainty renders the use of a single scenario highly inadequate. A more complex analysis of future possibilities would require the use of multiple scenarios, reflecting a wide range of possible behaviors for *r* and *g*, as well as consideration of shifts away from today's market economy, the basis of Piketty's framework.

What is to be done?

After arguing that inequality is the natural consequence of market-driven economy and that it will likely worsen in the decades to come, Piketty offers his major policy proposal: a global tax on wealth. He positions this proposal as the next step in the process of social development in a world that remains dominated by market capitalism. In the US and Europe over the last 100 years, the level of tax revenue has increased fivefold, from roughly 8% to 40% of national income. This increase was associated with a dramatic change in the role of the state. The historical functions of the state were to maintain public order and to provide for the national defense. As revenues rose, the additional funds were used to provide health services and education and to pay for pensions.

Piketty describes this shift in the role of government as the creation of a "social state" which provides benefits for all. The emergence of the social state was linked historically with the flourishing of democracy. Piketty expresses concern that growing inequality will have adverse impacts on the health of democracy, concentrating political power in the hands of the rich. Those at the top of the income distribution live in a very different world than the rest of the population. By virtue of their wealth, they have little need for the government-funded health care, education, and pensions that a well-functioning social state provides and a strong interest in limiting the taxation that makes the provision of extensive public services possible.

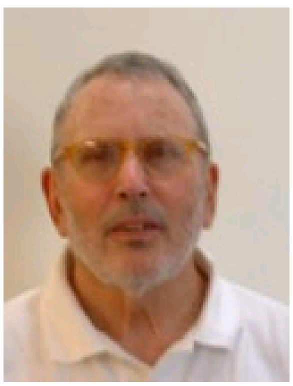
Although Piketty characterizes the benefits provided by the social state as basic human rights, the language of rights is largely absent from his proposals. When he discusses changing the control of wealth and strengthening economic democracy, his examples—such as the inclusion of worker, community, and state representatives on corporate boards in Germany—stay well within the logic of the market. Nowhere does the book suggest that the values by which individuals live, or the institutions by which society operates, must undergo deep change. Efficiency, rather than dignity or rights, is his focus. He argues that taxation of wealth promotes efficiency because, to offset its effects, the wealthy will work ever more aggressively to maximize their returns. The link between such "efficiency" and increased consumption and environmental degradation is left unacknowledged.

Piketty situates his global tax proposal within the evolution of a market economy, rather than a break from it. However, continuity is a problematic premise for our perilous century. A century and a half ago, in the original *Capital*, Marx surveyed the contemporary conditions of industrial capitalism and saw revolutionary change as the only way to achieve social justice. Piketty, despite the radical conclusions to which his analysis leads, remains just within the outer edge of reform. So, *Capital in the Twenty-First Century* merits two cheers, not three. I'll reserve the third one for his next book, in which, I hope, he goes on to explore the systemic changes required to build a just and sustainable economy.

Endnote

1. Inequality in Europe is less than it is in the US, but still substantial. In 2010, the Top 1% had 7% of the earned income, 25% of the wealth, and 10% of the total income.

About the Author



John Stutz is a Vice-President and founding member of the Tellus Institute and a founding member of the Sustainable Consumption Research and Action Initiative (SCORAI). Over the past 35 years, his research areas have included utility regulation, energy policy, waste management, conservation, and human well-being. Dr. Stutz's recent research has centered on human well-being, particularly as it relates to values, affluence, and the environment. Before joining Tellus in 1976, he was on the faculty of the Massachusetts Institute of Technology, the State University of New York at Albany, and Fordham University, where he was Associate Professor of Mathematics and Co-director of the Program in Mathematics and Economics. He received a Ph.D. in Mathematics from Princeton University in 1969.

About the Publication

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The Great Transition Initiative is an international collaboration for charting pathways to a planetary civilization rooted in solidarity, sustainability, and human well-being.