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How to Read Thomas Piketty's Capital

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Piketty in His Own Words

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Piketty Introduction

Right below the introduction heading, we get a blurb cited by Piketty from *The Declaration of the Rights of Man and the Citizen*, Article 1, 1789: "Social distinctions can be based only on common utility." (1)

Piketty's point of departure is that the debate over income and wealth distribution "has long been based on an abundance of (class) prejudice and a paucity of fact." (2) The classical liberals of the late 18th and 19th centuries were driven by "fear of revolution in France." (4) They were also driven by wrong economic and contrary assumptions; Ricardo's error was that he argued "the price system knows neither limits nor morality." (6) And that the "the principle application of Ricardo's principle of scarcity" is the "possibility of a large and lasting divergence in the distribution of wealth" is "linked to extreme changes in certain relative prices." (7) The trend of unprecedented concentration of inequality since the 1840s stabilized between 1870 and 1914. We now know that without the shocks of war, inequality would have returned. Piketty admits, "Marx's prophecy came no closer to being realized than Ricardo's." (9) Nevertheless, Marx's "principle of infinite accumulation …contains a key insight" (10): Accumulation ends at a finite level, but that level may be "high enough to be destabilizing." See the 1980s plus. (10)

Piketty then turns from the apocalyptic 19th century to what he calls "the fairy tale" of Simon Kuznets and Robert Solow in the 2Oth century of decreasing inequality within advanced capitalism. (11) Kuznets "noted a sharp reduction in income inequality in the United States between 1913 and1948." (12) He used "objective data" for the first time. (13) But, says Piketty, this move toward equality was "accidental" and Kuznets knew that the "Kuznets curve" showing the reduction in inequality had more to do with the shocks of war and depression than "with any natural and automatic process" (13) of "the inevitability of a "balanced growth path." (15) It was also "a product of the Cold War" (14-15) to propose the "optimistic view of the relation between economic development and the distribution of wealth." (16)

"Since the1970s, income inequality has increased significantly in the rich countries." (15) For this reason we need to put income distribution back on the agenda and engage in a historically reliable, data driven comparison of various countries in order to study "the dynamics of income and wealth distribution over the long run." (19)

The premise of the book is that inequality is bad and there are no justifiable reasons for it! Piketty advocates the principles of 1789 France to achieve a just social order. (31) His whole point is that income equality is due to shocks and wars and is not the result of a rational or evolutionary or spontaneous economic process. In the end the history of distribution boils down to what the "relevant actors" consider to be justice and the influence they have to implement that vision. (20)

Another oddity, a sort of unintentional bow to classical liberalism, is that the "compression of inequalities" is due mainly to "the diffusion of knowledge and investment in training and skills." (21, 22) Yet, Piketty adds, this is fundamentally to be done by "public policy" rather than "a market mechanism." (21) It requires conscious educational policies providing genuine access. But there are "forces of divergence" at work. Most importantly "there are a set of divergence associated with the process of accumulation and concentration of wealth when growth is weak and the return on capital is high."

"It no doubt represents the principal threat to an equal distribution of wealth in the long run." (23)

Between 1910 and 1948, the top decile share of national income in the US was 45%-50% through 1940 and then dropped to about 35% by 1950. Between 1950 and 1980, the share remained in 35% range. Between 1980 and 2010, it has risen steady back up to 50%. Why? "Top managers by and large have the power to set their own remuneration." (24) Piketty's second diagram shows the fundamental inequality of wealth in Europe as an equation $r > g$. "where r stands for the annual rate of return on capital" and g "stands for the rate of growth of the economy." (25) For Piketty, this $r > g$ formula "sums up the logic of all my conclusions." (25) Another way of putting it is that "inherited wealth grows faster than output and income." (260) And this has nothing to do with market imperfection. But Piketty is not apocalyptic like Marx; he argues that "a progressive global tax on capita" would narrow the r-g relationship in a fair and efficient manner. (27)

Piketty intends to focus on the UK and France. The French Revolution established estate records. And in France the inheritance factor is more important than in the US because of "the demographic growth of the New World." (29) The French case of slow population growth "is more typical and more pertinent for understanding the future." (29) Moreover the French Revolution "quickly established an ideal of legal equality in relation to the market." The British left standing royalty and aristocracy, and the American Revolution "allowed slavery to continue for nearly a century and legal discrimination for nearly two centuries… In a way, the French Revolution of 1789 was more ambitious. It abolished al legal privileges and sought to create a political and social order based entirely on equal rights and opportunities." (30)

Part One: Income and Capital

Part One reviews the concepts of income and capital and the main stages of their growth.

"How should income from production be divided between labor and capital?" (39) What is the "evolution of the labor-capital split since the eighteenth century?" (41) Contrary to contemporary opinion, the labor-capital/wealth split is not stable in the past and won't be in the future. β = capital (stock)/income (flow) ratio. The first fundamental law of capitalism: α (capital's share in income) = r (the rate of return on capital) x β. We have vast "global inequality." (64) This can't be overcome simply by free markets but by the diffusion of knowledge, which is “associated with the achievement of legitimate and efficient government.” (71)

Piketty introduces his notion of “the convergence process.” (72) Poorer countries are catching up with richer countries by investing in themselves. But catch-up is abnormal; slow growth is the norm. This is true for demographic growth, which has only expanded between 1700 (600 million) and 2012 (7 billion) and could just as well decline as continue to grow. “Other things being equal, strong demographic growth tends to play an equalizing role because it decreases the importance of inherited wealth: every generation must in some sense construct itself.” (83) Spectacular economic growth also took place during that time period. We have shifted in both France and the US from an agricultural economy in 1800 to a manufacturing economy in 1900 to a service economy in 2000.

But are we about to see an end to the increase in per capita output? “The key point is that there is no historical example of a country at the world technological frontier whose growth in per capita output exceeded 1.5% over a lengthy period of time.” (93) “History and logic show” that an expected growth rate of 3%-4% is “illusory.” (93-94) Piketty thinks 1.2% is more probable, “but cannot be achieved, however, unless new sources of energy are developed to replace hydrocarbons, which are rapidly being depleted.”

“In my view, the most important point…is that a per capita output growth rate on the order of 1% is in fact extremely rapid, much more rapid than many people think.” (95) It requires a society that embraces “deep and permanent change.” (96) We need to create specific institutions for the purpose and not rely solely on market forces or technological progress.” (96)

“To recapitulate, global growth over the last three centuries can be pictured as a bell curve with a very high peak.” (99)

Essentially inflation—“largely a 20th century phenomenon”-- “allowed the wealthy countries to get rid of the public debt they owed at the end of World War II. Inflation also led to various redistributions among social groups over the course of the twentieth century.” (103) By contrast, the wealth based economy of the 18th and 19th centuries was linked to great monetary stability. The French Revolution of 1789 was an exception. The world of stable money “collapsed for good with World War I.” (106) “Governments went deeply into debt.” (106)

Part Two: The Dynamics of the Capital/Income Ratio

This section looks at the “main evolution of the capital stock” by way of French and British literature. (113) In the 19th century wealth took the form of land or government bonds. Since producing “a reliable and steady income” is the whole point of 21st Century capital markets, there is much to learn from the 19th Century. Unlike during the 19th Century, however, we can not now clearly identify to whom we currently owe the government debt. But more importantly, has modern capital become more “dynamic” and less “rent seeking”? (116) Has there been a metamorphosis or decomposition of capital? (118)

National Capital=farmland +housing+ other domestic capital+ net foreign capital. (119) Between 1700 and 2000 farmland dropped from 2/3 to under 10% of national capital. “The nature of capital has changed: it once was mainly land but has become primarily housing plus industrial assets. Yet capital has lost none of its importance.” (120) Capital went through shocks in the early 20th century and revived after WWII.

In 2010, in both the UK and France, private wealth “accounts for virtually all of national wealth in both countries.” (125) “In other words, the history of the ratio of national capital to national income in France and Britain since the eighteenth century, summarized earlier, has largely been the history of the relation between private capital and national income.” (126) And government going to war in the 19th century led to a high level of public debt and this led to increased private wealth in both countries. (130) However in the 20th Century when government went to war, it was unclear who was doing the lending. And “debt was drowned by inflation and repaid with money of decreasing value.” (132)

The Great Depression “durably discredited” the doctrine of laissez-faire. (136) And Schumpeter and Samuelson held the Soviet “statist economic system” in high regard. (137) “In 1950, the government of France owned 25-30 percent of the nation’s wealth, and perhaps even a little more.” (137) This mixed economy was “capitalism without capitalists.” (138) But this changed after 1980 with the arrival of the deregulation and privatization movement. France “became the promised land of the new private-ownership capitalism of the twenty-first century.” (138)

So capital went through metamorphoses but in the end, “its total amount relative to income scarcely changed at all.” (140) Piketty wants to get to the question: “what fundamentally determines the capital/income ratio in the long run.” (149) But to get there Piketty expands his French and British model to other parts of Europe and the New World. “The United States enjoyed a much more stable capital/income ratio than Europe in the twentieth century, perhaps explaining why Americans seem to take a more benign view of capitalism than Europeans.” (154) Moreover foreign capital had little influence in America. (155) “The net foreign asset position of the United States has at times been slightly negative, at other times slightly positive, but these positions were always of relatively limited importance compared with the total stock of capital owned by US citizens.” (156) He ends hid old world-new world coverage with references to slavery in he new world. “All told, southern slave owners in the New World controlled more wealth the landlords of old Europe.” (160) There were virtually no slaves in he north. ”This complex and contradictory relation to inequality largely persists in the United States to this day.” (161) “The first fundamental law of capitalism “is “beta=alpha/r.” (162)

Piketty now turns to the capital/income ratio over the long run and introduces “the second fundamental law of capitalism: $\beta = s / g$ where β is the capital- (national rather than disposable) income ratio and it is related in a simple way to the savings rate - s - and the growth rate -g. (166) This is a dynamic process. The first fundamental law was explained in Chapter 1: $\alpha = r \times \beta$ where alpha is the share of capital in national income and is equal to the rate of return on capital— r —times the capital/income ratio— β. (168) “There is indeed a long-term trend in all of the rich countries in the period 1970-2010.” (172) Private capitalism is making a strong comeback. He calls this “patrimonial capitalism.” (173) Piketty includes profit/business capital and real estate, but not durable goods, in s and includes demographic growth in g. So the increase in β between 1970 and 2010 in rich countries is due to high s plus low g along with privatization and the "catch up" of asset prices. (183) "This historical catch up process is now complete." (188) Piketty anticipates that β will continue to grow in the 21st century.

Piketty turns finally in Part Two to the Capital-Labor split or the division of national income between capital and labor in the 21st century. (199) If we can determine the value of α (capital income made up of rent, profits, dividends, and interest) then the remainder is the share going to labor. α was around 40% in France and UK in the19th century and is now at about 30% having dipped to the low 20s in the middle of the 20th century. (200) There has been a decrease in the pure return on capital in the long run from 4-5% in the 19th century to 3-4% today. (208) Why? Social and economic forces change over time. (212) Piketty rejects the marginal productivity of capital notion. And he also rejects the Cobb-Douglas/Keynes stable capital-labor ratio. (220) The K-L substitution ratio in the 21st C will have an elasticity >1. (220) So how does this relate to Marx? (227) "Marx usually adopted a fairly anecdotal and unsystematic approach to the available statistics." (229) We have data in the 21st C concerning "the law $\beta = s / g$" (233) and $\alpha = r \times \beta$.

"To sum up: modern growth, which is based on the growth of productivity and the difference of knowledge, has made it possible to avoid the apocalypse predicted by Marx and to balance the process of capital accumulation. But it has not altered the deep structure of capital—or at any rate has not truly reduced the macroeconomic importance of capital relative to labor. I must now examine whether the same is true for inequality in the distribution of income and wealth. How much has the structure of inequality with respect to both labor and capital actually changed since the nineteenth century?" (234)

Part Three: The Structure of Inequality

Inequality and Concentration: Preliminary Bearings. Part One defined income as "the sum of income from labor and income from capital." (242) Part Two looked at "the dynamics of both the capital/income ratio at the country level and the overall split of national income between capital and labor." (237)

Part Three examines income and wealth inequality at the individual level. Part Two showed the shocks of war. The 21st century has seen the return of "patrimonial capitalism." This is not something new but a return to the low growth of the 19th century. In Part Three, contra Kuznets, Piketty will show that WWI and II and "public policies that followed them, played a central role in reducing inequalities in the twentieth century." (237) Inequality, he states, has returned since the 1970s. And he will show the increased importance of inherited wealth over labor from income. "Many people believe that modern growth naturally favors labor over inheritance and competence over birth. What is the source of this belief, and how sure can we be that it is correct?" (237) Will inequality be greater in 21st century than 19th century? Income from capital is more concentrated than the distribution of income from labor. (244) What is the current structure of inequality at the individual level?

"In every society, whether France in 1789 (when 1-2 percent of the population belonged to the aristocracy) or the United States in 2011 (when the Occupy Wall

Street movement aimed its criticism at the richest 1 percent of the population), the top centile is a large enough group to exert a significant influence on both the social landscape and the political and economic order." (254) And inequality from capital is always larger than inequalities from income.

"The growth of a true 'patrimonial (or propertied) middle class' was the principal structural transformation of the distribution of wealth in the developed countries in the twentieth centuries." (260) "I want to insist on this point: the key issue is the justification of inequality rather than the magnitude as such. That is why it is essential to analyze the structure of inequality." (264) There are two ways of achieving inequality: 1) inheritance, or rentiers, and 2) super managers of merit (See in particular, pp. 276-278).

Piketty then turns to the changed structure of inequality. "The shocks of the period 1914-1945 played an essential role in the compression of inequality, and this compression was in no way a harmonious or spontaneous occurrence. The increase in inequality since 1970 has not been the same everywhere, which again suggests that institutional and political factors played a key role." (271)

He notes the reduction in inequality in France in the twentieth century with the arrival of the managers, "The top docile always encompasses two very different worlds: 'the 9 percent,' in which income from labor clearly predominates, and 'the 1 percent,' in which income from capital becomes progressively more important." (280) "The foregoing discussion demonstrates the usefulness of breaking income down by centiles and income source." (286) "In every country the history of inequality is political—and historical." (286)

The transformation of inequality in the United States is more complex than in France. The New Deal and WWII "substantially compressed" income inequality. (293) But this compression was less than in France. There was an "explosion of US inequality after 1980." (294) The financial crisis of the early 2000s did not alter this structural dynamic; in fact, "there is absolutely no doubt that the increase in inequality in the United States contributed to the nation's financial instability." (297) The "structural increase in the capital/income ratio" also was a contributing factor. (298)

"Let me return now to the causes of rising inequality in the United States. The increase was largely the result of the unprecedented increase in wage inequality and in particular the emergence of extremely high remunerations at the summit of the wage hierarchy, particularly among top managers at large firms." (298) The US now represents the world of the super manager.

He examines the "dynamics of labor income inequality. What caused the explosion of wage inequalities and the rise of the super manager in the United States after 1980?" (304) Later he will answer the question: "why has the concentration of wealth decreased everywhere…since the turn of the twentieth century?" (304) The answer lies in understanding the emergence of a "patrimonial middle class". (304)

Marginal productivity analysis is an inadequate explanation for income distribution. He has a specific section called "The Illusion of Marginal Productivity." (330-333) "Inequalities at the bottom of the US wage distribution have closely followed the evolution of the minimum wage." (310) "Over the long run, minimum wages and wage schedules cannot multiply wages by factors of five or ten: to achieve that level of progress, education and technology are the decisive forces." (313) But education cannot explain why the top 1% "have seen their remuneration take off." (315) What about the invisible hand at work? "In practice, the invisible hand does not exist, any more than 'pure and perfect' competition does, and the market is always embodied in specific institutions such as corporate hierarchies and compensation committees." (332) It is mostly about "social norms of fair remuneration." (333) "During the 1980s English speaking countries reduced the top marginal income tax rate." That is a major reason for the increase in income inequality.

Inequality of Capital Ownership: Today, capital ownership is becoming increasingly concentrated and thus may become more problematic than the unequal distribution between super managers and others. (336) Once there was a middle class that moderated the inequality of wealth. This happened in France after the Revolution; but reversed itself later in the 19^{th} and 20^{th} centuries until the eve of WWI.

"Three questions will concern us in the remainder of this chapter. Why were inequalities of wealth so extreme, and increasing, before World War I? And why, despite the fact that wealth is once again prospering at the beginning of the twenty-first century as it did at the beginning of the twentieth century (as the evolution of the capital/income ratio shows), is the concentration of wealth today significantly below its historical high? Finally, is this state of affairs irreversible?" (346) The "major structural transformation was the emergence of a middle group." (347)

Wealth in the US became increasingly concentrated during the 19^{th} century. Then came the progressives. "Perceptions of inequality, redistribution, and national identity changed a great deal over the course of the twentieth century, to put it mildly." (349) Inequality dropped between 1910 and 1950. But it is back up again.

The European wave of enthusiasm between 1945-1975: capitalism was finally killed "and that inequality and class society had been relegated to the past." (350) What went wrong after 1980 about not controlling the excesses of capitalism? The United States, by contrast never had "a great leap forward in social justice. Indeed, inequality of wealth there is greater today than it was at the beginning of the nineteenth century." (350)

The r (the return on capital) is < than g (the growth rate) in the 20^{th} century. The r was under 2% between 1913 and 2010 but it was less than g. But this is not a natural or inevitable situation. The theory of time preference goes some way to explain the level of r. "All signs are, however, that it is about to end," and return to 19^{th} century levels (356) of $r > g$. We need to examine $r > g$ "as a historical reality dependent on a variety of mechanisms and not as an absolute logical necessity." (361) Over time r is about 4-5% and g is about 1%. And this is "a powerful force for a more unequal distribution of wealth." (360)

The French Revolutionary tradition persists in France today: no primogeniture, no entails, and inheritance taxes. Piketty says that France introduced the "principle of equal division of property, among brothers and sisters." (362) Yet Piketty claims this principle of equality was based on "a principle of liberty and economic efficiency."

(363) The main point for Piketty is that both the French Revolution and the American Revolution were similar with regard to inherited property.

His next point is clear: given the principles of the French Revolution, how come the continued concentration of wealth in 19th century France? "Clearly, equality of rights and opportunities is not enough to ensure an egalitarian distribution of wealth." (364) Answer: $r > g$. But there is no simple Gini number to measure inequality nor is there a Pareto inequality equilibrium. The shocks of 1914-1945 explain the reduction of inequality because of the impact on *r*. "In France and Britain, foreign assets virtually disappeared after the two world wars." (370) "The more surprising part at first glance, and in a way the more interesting part, is that the concentration of wealth never recovered from the shocks I have been discussing." (372) That is, concentration did not start to approach the earlier levels until the 1980s and 2000-2010. (372) Why? The major reason is "that governments in the twentieth century began taxing capital and its income at significant rates." (373) This, along with progressive income tax and estate taxes, led to "the rise of the middle class." (374)

So the question Piketty turns to now is will the 21st century be eventually be even more in egalitarian than the 19th century? It is "an illusion" to think "the nature of modern growth or the laws of the market economy ensures that inequality of wealth ensures that inequality of wealth will decrease and harmonious stability will be achieved." (376) It all depends on what happens to governmental tax laws. The form of capital has certainly changed from land to financial, industrial, and real estate. There is a now a patrimonial middle class that own between 1/4 and 1/3 of total wealth. The wealthiest 10% now own 2/3 rather than the 9/10ths they owned in the 19th century. And pay attention to r-g over the years. When r-g "is significantly and durably higher" (377) then "it is all but inevitable" (378) that inherited wealth rather than earned wealth twill play a larger role. That is the probability of the 21st century. The "key question" is the breakdown between wealth created by work and wealth created by inheritance. Inheritance flow in France was 20% in 19th century, down to 4% by 1950 and is now 14%. Piketty examines, in turn, three forces that influence the inheritance flow. He is particularly interested in whether the importance of inheritance decreases because people live longer and inheritors inherit later. Part of this interest is to question the Modigliani theory that people (only) save for retirement and the goal is to end up with nothing when you die.

According to Piketty, "the desire to perpetuate the family fortune has always played a central role," thus the importance of inheritance and gift giving prior to death. (391, 393) In this regard, says Piketty, only 15-20% of retirements in English speaking countries are funded by annuities. It is only 5% in France.

The period 1914 to 1950, especially WWII, "reset all counters to zero, or close to zero, and inevitably resulted in a rejuvenation of wealth. In this respect, it was indeed the two world wars that wiped the slate clean in the twentieth century and created the illusion that capitalism had been overcome." (397)

So what does this tell us about the future of the 21st century? It all depends on how wide the gap between *r* and *g* is. And how much of *r* is due to inheritance and how much to work? He is impressed by how "we have moved from a society with a small number of very wealthy rentiers to one with a much larger number of less wealthy rentiers: a society of petites rentiers if you will." (420)

In a funny sort of way, Piketty's argument for equality presupposes a liberty component. "Our democratic societies rest on a meritocratic worldview, or at any rate a meritocratic hope, by which I mean a belief in a society in which inequality is based more on merit and effort than on kinship and rents." (422) But the inequality must be based on the "common utility" provision of ARTICLE ONE OF THE 1789 FRENCH DECLARATION. So the liberty involved does not stand on its own footing as an individual right; it is contingent on something higher: the common utility or the general welfare.

He turns now to the issue of global inequality of wealth in the 21st century. Forbes claims there were 140 billionaires in 1987 in the world and 1,400 in 2013. (433) "Since the 1980s, global wealth has increased on average a little faster than income…and the largest fortunes grew much more rapidly than average wealth. This is the new fact that Forbes rankings help us bring to light, assuming they are reliable." (435) "Global inequality of wealth in the early 2010s appears to be comparable in magnitude to that observed in Europe in 1900-2010" (438). "One of the most striking lessons of the Forbes rankings is that, past a certain threshold, all large fortunes, whether inherited or entrepreneurial in origin, grow at extremely high rates, regardless of whether the owner of the fortune works or not." (439) The point? "Capital grows according to a dynamic of its own." (440) He estimates that 60-70% of the wealth is inherited rather than earned.

I never did understand why Piketty stuck with the distinction between inherited wealth and earned wealth for so long. He now finally comes clean and abandons the distinction. $R > g$ turns entrepreneurs into rentiers. That is why we need a world wide progressive annual tax. The argument that there is "a moral hierarchy of wealth" in practice amounts to "an exercise in Western ethnocentrism." (445) So much for the slim claim that here is a distinction between inherited and earned wealth.

Part Four: Regulating Capital in the 21st C

"In the first three parts of this book, I analyzed the evolution of the distribution of wealth and the structure of inequality since the eighteenth century. From this analysis I must now try to draw lessons for the future." (471) The 20th century wars wiped out the inequality of the past. Inequality is returning in the 21st century. The object is to avoid a global war to end capitalism and find a peaceful way; "can we imagine political institutions that might regulate today's global patrimonial capitalism justly as well as efficiently?" (471) The main reason the Great Recession did not become the Great Depression was because of government action. But the actions were merely a pragmatic response rather than "the return of the state" response to the first crisis of "globalized patrimonial capitalism." (473)

"The simplest way to measure the change in the government's role in the economy is to look at the total amount of taxes relative to national income." (474) Between 1870 and WWI it was 10%. Between 1920 and 1980, the amount devoted to social spending rose to 55% in Sweden and to 30% in the US. Britain and France were in between. Between 1980 and 2010, "the tax share stabilized everywhere." (476) And a second great leap forward by the state is not likely to happen, nor is it likely to decrease. Today about ½ of government spending goes to health and education and about ½ goes to replacement incomes and transfer payments. (477) This translates as 15-25% of national income: "In other words, the growth of the fiscal state over the last century basically reflects the constitution of the social state." (479) So his point is that modern redistribution theory is "built around a logic of rights" to health and education for example. Modern redistribution "does not consist in transferring income from the rich to the poor." (479) But it should take its bearing from the 1789 French model of social distinctions based only on "common utility." Thus "equality is the norm." (480) But we are sort of stuck these days with neither going back to the 19th century nor going forward beyond pensions, health, and education of the 20th century to what is needed in the 21st century. He would like to entertain the notion of moving from the current level of 50% of "public financing" to "two-thirds to three-quarters of national income." (483)

The first task is to show how to generate more efficiency in government out of the current 50% devoted mainly to pensions, education, and health. Current education policies have neither reduced income inequality nor increased access to education, nor increased social mobility. So much for the theory of merit generated "American exceptionalism." (484-485) There is unequal educational opportunity in the US. Who can afford the high tuition fees? (And yet he admits that US universities are "the envy of the world! (886)) Whatever we do with pension reform, privatization is not the answer. Complexity is the problem and so uniformity is the answer.

The two tax innovations in the 20th century are the progressive income tax and the progressive inheritance tax (it is unclear from his coverage whether these taxes were the result of accident and force or deliberation and choice). They were created in wartime and not thought through properly. It is not "the natural offspring of democracy and universal suffrage." (498) These two taxes need to be revisited. We need to increase the progressive income tax just to establish and sustain the current global 50% level. He mentions in passing that is ironic that the United States took the lead in taxing "'excessive' incomes and fortunes" (505) at 70%. It could not have been for revenue purposes. "The progressive tax"—and this seems odd in light of his above remark that the progressive tax is not the natural offspring of democracy—"is thus a relatively liberal method for reducing inequality….The progressive tax thus represents thus represents an ideal compromise between social justice and individual freedom." (505) "The fear of coming to resemble Old Europe was no doubt part of the reason for the American interest in progressive taxes." (506) And then there were the Great Depression and WWII.

(He wants to show that for most of the 20th century the US had tax rates that were above the 70% threshold that he wants.)

The top income tax rate was about 25% under "Hoover's disastrous presidency." (506) FDR raise it to 63% in 1933; 79% in 1937; and in the low 90%s from 1944-mid 1960s. It fell to 70% in the 1980s (506-507). "The top estate tax remained between 70% and 80% from the 1930s to the 1980s." (507) And it was higher on inherited than it was on earned income. But both the UK and US veered away from this "great passion for equality' in the 1970s and 1980s. (508) It fell from the 80-90% range to 28% after the Reagan tax reform of 1986. The countries "with the largest decreases in their top tax rates are also the countries where the top earners' share of national income has increased the most." (509) This totally transformed the determination of executive salaries; the increase in executive pay has nothing to do with the naïve theory of marginal productivity.

Here is his point: "levying confiscatory rates on top incomes is not only possible but also the only way to stem the observed increase in high salaries." (512) 80% on incomes over $500,000 or $1m and 50-60% on incomes over $200,000 is well within the reach of the United States. "The egalitarian pioneer ideal has faded into oblivion and the New World may be on the verge of becoming the Old Europe of the twenty-first century's global economy. (514)

So how do we "regulate the globalized patrimonial capitalism of the twenty-first century?" (515) "Rethinking the twentieth-century fiscal and social model and adapting it to today's world will not be enough." (515) "The ideal tool would be a progressive global tax on capital, coupled with a very high level of international transparency." "The global tax I am proposing is a progressive annual tax on global wealth." (517) "The primary purpose of the capital tax is not to finance the social state but to regulate capitalism." (518) There is a "contributive justification and an incentive justification." (524) And transparency about who owns what assets is vital for this project. We need an automatic global "transmission of banking data." (521) Piketty seeks "a less violent and more efficient response to the eternal problem of private capital and its return." (532) The best response to $r > g$ is a tax on capital. "In this form, the tax on capital is a new idea, designed explicitly for the globalized patrimonial capitalism of the twenty-first century." (532)

In terms of transparency, "justice and efficiency," taxes are better than debt for funding government spending. Besides debt increases inequality. An exceptional tax of 15% on private capital is a better way of reducing public debt than inflation or the current austerity measures. (540-547) The Central Banks are not the solution; what they do is to "redistribute wealth very quickly" to the rich. (551) If we want improvement in the ECB, then we need "the countries of the Eurozone (or at any rate those who are willing) to pool their public debts." (558) And we need European political union. (562) This is no more utopian than the attempt "to create a stateless currency." (561)

Piketty Conclusion

There is a central contradiction of 21st century global patrimonial capitalism: $r > g$ which is the key measure of inequality. "The right solution is a progressive annual tax on capital." (572) "The bipolar confrontations" between capitalism and communism of 1917-1989 "are now clearly behind us."

Lloyd Interpretation

Let's begin at the beginning. Right below Picketty's Introduction heading, we get a blurb cited by Piketty from *The Declaration of the Rights of Man and the Citizen,* Article 1, 1789: "Social distinctions can be based only on common utility." (1) Perhaps we need go no further than to grasp the philosophical/conceptual and political indebtedness to J.J Rousseau that runs through this book. And in fact coming to grips with the common utility declaration is the key to understanding both Piketty's debt to the past and his innovation in the 21st century. Piketty has a problem with socialism in the 20th century. Thus he seeks guidance from the 18th century and the 19th century.

John Maynard Keynes was not a 19th century income/wealth inequality sort of socialist. He was primarily interested in unemployment and the role that government should and could play in filling in the gap left by fleeing capitalist investment in the 20th Century. His main aim was to put people to work so that they could consume and get the economy out of crisis. Economic Growth—or what Pketty calls *g*-- was Keynes' objective. John Kenneth Galbraith and Michael Harrington, however, are not in the strict Keynes mode of increasing *g*. They enter the scene after the Depression and WWII. Galbraith is concerned that most production is unnecessary and most consumption is conspicuous. We need public or environmental socialism, which presumes that we have enough *g* to go around if only we cold make it go around more fairly. Harrington is driven by a concern that a Great Society cannot exist unless the public takes care of its "other America." He is a social justice Catholic inspired kind of socialist. And thus he would be more open to talking about the issue of *r*. But the main problem for Harrington is the state's heavy involvement in housing and education programs. So the issues that drove 19th century socialists were altered by 20th century America rather than inspired the 19th century French Revolution. What drove these three was that the market, laissez faire, rugged individualism might work but for the few, but certainly did not work for the "forgotten man" and the environment. The role of government in the 20th century was to create and fund programs for those whom the market left behind or for issues that the market would not address. They were socialists in the sense that they saw the market as more of a failure than a success and government as more of a success than a failure.

But now we are in the 21st century and the French Revolution has much luster for Piketty. The privatization and deregulation of Thatcher and Reagan, inspired more by the common sense of the American Revolution/Constitution and the commercial solutions of the Scottish enlightenment, derailed the 20th century socialist conquest of capitalism, according to Piketty. It is time for the left to restate their case. And that case is economic inequality.

Piketty's book arrived at the right time—the 21st century—and in the right place—the United States. And it retrieved the core 19th century socialist theme of inequality of income and wealth. The real battle is the one fought during the French Revolution, namely, genuine quality. It is a huge book, which is impressive in itself, full of data, which is even more impressive in the land of social science. And not only data covering ten years in one sector of the economy in one part of one country. We are talking about 250 years of data on all sorts of inequality drawn from public records available in the advanced economies of the capitalistic countries. This is no short-term study that ends with the pathetic plea that more research funds are necessary. We have as close to a definitive study on inequality as we can get. There is also a prognosis: income/wealth inequality is likely to get worse over the coming years. So let the shift from the Ancien Regime in France by way of the French Revolution be our guide: get on the right side of history in the 21st century or, I assume, expect to lose your head.

And this sets off the usual panic and excitement among American elites. The French Revolution coming to the shores of America petrifies the Conservatives. So there is a sort of panic over Piketty. The left are ecstatic. Finally we can replace the elitist Declaration of Independence and Constitution with the egalitarian French Declaration and the democratic concentration of power. For Piketty, the enduring battle is not between the rugged individual and the forgotten man; it is between the rugged egalitarian and the greedy 1%.

A powerful feature of the book is its sheer length and weight and depth and range of coverage. It is enough to put you at a distance and bow in respect. Like Marx, there are "laws" of capital and predictions. But unlike Marx, Piketty includes all sorts of diversions into asterisks and what ifs that take up a lot of space without really introducing skepticism into such a vast project. There is sufficient innuendo to suggest that Marx was good for the 19th century, but we need a refresher for the 21st century.

"What is the role of government in the production and distribution of wealth in the twenty-first century, and what kind of social state is most suitable for the age"? (471) This is the question that Piketty keeps returning to. And it is a vital question because ever since the Great Society programs, the presumption among academics was that public policy equals government policy and the presumption was that the federal administration should have all sorts of programs to solve various problems. And Piketty raises an important question: how one measures the role of government over time. Why stop with government providing retirement, education and health care. Why not also include "culture, housing, and travel"? (480) Piketty sees John Rawls and his "difference principle" as the modern representative of the French model. (480) In fn 21 on page 631 he cites the following from Rawls Theory of Justice: "Social and economic inequalities…are just only if they result in compensating benefits for everyone, and in particular for the least advantaged members of society."

Thus Piketty wants to move beyond the 20th century European social model and recapture the vitality of the French model of 1789. And his inspiration is the French Declaration as supported by Rawls. The title of the book could easily have been Rawls for the 21st century or the 21st century French Declaration of Equality. Nevertheless, Piketty does claim to be novel about his contribution: "In this form, the tax on capital is a new idea, designed explicitly for the globalized patrimonial capitalism of the twenty-first century." (532)

I think what makes Piketty also important is that implicitly at least he recognizes that the Reagan revolution was not simply about cutting deficits and budgets and size and interference. It was the reintroduction of the question: what should government do? Which level of government and which branch of government? And is there a role for intermediary institutions? One might go so far as to say that for Piketty the Reagan revolution from the 1972 to the start of the 21st century has been a success because inequality has returned and the Great Recession is due to that success. It has also made "the return of the state" a real possibility. But perhaps this is to give too much credit to the change made by the Reagan revolution. Did the state ever disappear or go into limitation mode in the late 20th century? Apparently not, according to Piketty, because the 20th century social state hasn't really attacked the problem of r.

His solution, however, would probably the question what should government do forever to rest. We need more than "the return of the state." (473) We need “confiscatory rates” on the top incomes. (512) But what happens if the electorate doesn’t go for it? Does that matter to Piketty? At certain critical moments in his argument, his proposals are tempered by the claim that this can only be done by “collective deliberation” (see for example 513). He also declines to support the notion that the 1% is responsible for the ills of the world. And when he suggests that European nations should pool their public debts, that proposal is moderated to “those who are willing.” (558) What should the level of public debt be in “an ideal society?” “Only democratic deliberation can decide.” (562) Really? I thought it was *r* and *g*. Isn’t “the golden rule” that $r = g$ (563)? Isn’t the “central contradiction of capitalism” that $r > g$? (571) Piketty makes the rather odd value statement that ”inequality is not necessarily bad in itself: the key question is to decide whether it is justified, whether there are reasons for it.” (19) Also (31) he says “I have no interest in denouncing inequality or capitalism per se—especially since social inequalities are not in themselves a problem as long as they are justified, that is, “founded only upon common utility.” But the “common utility” of the French Revolution trumps everything for Piketty.

He prefers a 21st century tax on capital to the 20th century progressive income tax in order to control *r*. His criticism of the current distribution theory is that it bows too much to the liberty narrative of the Declaration of Independence and not enough to Article One of the French Declaration that “social distinctions can be based only on common utility.” (479) In other words, Rousseau ought to trump Locke in theory, but Locke trumps Rousseau in practice. And reforming Locke has produced the dilemma of the current version of the rights generated social state.

One of Piketty’s greatest challenges to those who hold to the liberty narrative is to explain and defend liberty position on inheritance. I would reinforce his challenge by emphasizing what he hardly mentions, namely, that the liberty narrative, not just the equality narrative, is based on a critique of the ancient/feudalism distribution of property that had no link to earning or merit. He is correct to base the equality narrative in that critique, but he does not address the not too subtle differences between the two narratives on inheritance over the last two centuries. In other words, where do they part company? It is clear they were allies at a critical moment. He does not help us with this question. Ideally, we need a “progressive global tax on capital.” (471) And this is derivative from the larger question: “What is the role of government in the production and distribution of wealth in the twenty-first century, and what kind of social state is most suitable for the age”? (471)

This is the point to recall that John Stuart Mill in his Political Economy prefers the American model because distribution is voluntary rather than forced. And doesn’t the liberty principle suggest that I can give my inheritance unequally to family members? Piketty’s response is that equal distribution within the family was the norm in the United States. He is correct in noting that both Revolutions were based on the premise that the earth belonged to the living, but surely the attitude toward the past was different in each country? The French attitude was down right hostile! And Piketty doesn’t raise and answer the question of when and why did voluntary rather than forced inheritance come to pass in America so that today there is virtually no serious inheritance law at all. I totally agree that inheritance is a major issue for the continued case for both capitalism and socialism and those like Piketty who want to move into new paradigms, but he leaves many questions unasked and unanswered.

Piketty suggests from time to time that if we let people make their own choices then (growing) inequality will be the outcome in society. This seems to me to be saying that legal and constitutional provisions for equality are insufficient. More than voluntary consent is needed and force is justified. Is he going so far as to suggest that people will not live in accordance with certain well laid down principles? Then we need government to require them to behave in accordance with the vital principle of equality. But why would the people elect officials who pushed equality on them if they were naturally disposed to equality in the first place? Wouldn't such a people punish officials who deviated from equality? Is the job of a representative basically, not just prudentially, to ignore the inclinations of the people toward liberty? Is it ever wrong under the Piketty model for the representatives to inform the people that they are asking for too much equality? What happens if the population doesn't want higher taxation and it takes an emergency like a war or a depression –shocks—to get taxes supported?

In fn 33 on page 639 he bemoans the electoral outcome of 1972 in the US. "George McGovern, the Democratic candidate, went so far as to propose a top rate of 100% for the largest inheritance taxes (the rate was then 77%) as part of his plan to introduce a guaranteed minimum income. McGovern's crushing defeat by Nixon marked the beginning of the end of the United States' enthusiasm for redistribution." But I would suggest that McGovern actually put the Democratic Party on the course of ultimate progressivism and this is the defining core of the Democratic Part in the 21st century. By the way, Piketty does not mention that the turnout of the 18-40 year olds peaked in 1972. Has that demographic turned away from the progressivism they learned in college and expressed in authentic civic engagement? Bill Clinton's restraining influence disappeared with the end of his presidency. But not Hillary care!

Piketty seems to be arguing: We need new and high tax laws to reduce wealth and income inequality. The market won't correct the problem because the market *is* the problem. And the question then is: even if that inequality is earned, do we need taxes? At times, he is unnecessarily ambiguous on this point. He should just come out and say—as he pretty much does in Part Four-- which there really is no coherent or relevant argument for any inequality. His argument for a global capital tax is NOT so that the existing social state can better fund its programs. Rather it is to regulate capitalism. In other words what is driving Piketty is the very presence of inequality and he has found the culprit and the solution has to be global. Is there a range of inequality that is OK for Piketty? Only that which is consistent with the general welfare. And who decides the general welfare? Should we consult the history of the French Revolution between 1789 and Napoleon? He is silent on that point.

Along the way, a number of well-known economists and theories over the last couple of hundred years get roughed up. And that is fine, they deserved to be reviewed. But the number of people and the ease of dismissal are eye opening. For example, Simon Kuznets is ideological on historical data and natural growth; Robert Solow on the stages of economic growth is way off. Pareto's optimum can be discarded. Gini's coefficient is simplistic. The Cobb-Douglas production function is questionable. Marginal productivity theory can be thrown out of the window; it is naive. As is Modigliano's "my money and I die together at the same moment on the same day" assumption. Keynes is unclear because "he does not mention $r = g$" and he "does not discuss public accumulation." (652) True, Irving Fisher's Presidential address is lauded because he recognized the problem of income inequality. And Milton Friedman gets a two page accolade: "The work of Friedman and other Chicago School economists fostered suspicion of the ever-expanding state and created the intellectual climate in which the conservative revolution of 1970-1980 became possible." (549)

It is also reasonable to suppose, in Piketty's reading, that everyone who lived on the same side of the street with Adam Smith, John Stuart Mill, Hayek and Friedman were living the same illusionary life and lie. This is certainly true of Gary Becker.

And while it is true that Piketty sees more to economic life than economic science in his appeal to culture, history, and literature—for example see his frequent references to 19^{th} century literature and 20^{th} century movies—he boasts that he is, in effect, the first to ask the right questions, accumulate the correct data, and express the complexity of economic life in easily usable formulas. They are different and more nuanced than earlier formulas and downplay the tendency to inevitability portrayed by earlier economists. But Piketty still talks about dynamic laws and predicting the future. It is not going too far to say he sees himself as the first great economist of the 21^{st} century. "The sources on which this book draws are more extensive than any previous author has assembled." (571)

It is clear, to me anyway, that Piketty is interested in the same question that Marx and the socialists are interested in and not just because the accumulation and concentration of capital is unfair per se. Equally important is that it can be shown scientifically to be unfair. In order to show this, however, Piketty has to do what all previous generations of thinkers have had to do with regard to both the liberty and equality narrative, namely, "correct," or update their mentors and teachers from previous generations. So he corrects Marx concerning the accumulation and concentration of capital and applies that to the conditions of the 21^{st} century. One of the main influences of Marx on Piketty is his implicit assumption that g will be close to zero. Thus, the concern of both Marx and Piketty with r or the creation and dominance of capital, and the claim by both that there is a central contradiction to capitalism. Piketty, however, does not have the stomach for violence. And he has this wonderful, yet unexplainable, preference for "democratic debate" over "mathematical certainties." (571) He wants to move beyond Marx without losing Marx's concern for "questions of capital and class inequality." (655)

One possibly unintended thought that Piketty generated for me was the dynamic relation between the 1% of the population and the amount of tax revenue. Take California. The 1% pays 50% of the California government revenue. While that percentage remains pretty constant the actual amount of revenue does not. The vast bulk of the 1% wealth comes from the performance of the stock markets. Thus when the markets go down—as they did from 2007-2010—then California government faces a huge deficit and also the delimma of raising taxes even further on the 1% and or cutting education, health, and pension programs. In 2015, California is awash in a surplus because of the rebounding stock market. Few people—see George Skelton of the Los Angeles Times and Senator Bob Herzberg—are calling for a fundamental reform in the tax code to even out these variations in revenue. So I wish Piketty had spent more time talking about the dynamic of r in relation to tax revenue and less time simply focusing on the ”inevitable” $g > r$ hypothesis. Maybe he could persuade the huge audience he is attracting to focus on the internal dynamic of *r* and its relation to revenue and social programs. Also, there seems to be a tipping point where unless *g* is regularly high, then the social programs of the left can't get funded!

Another area of possibly unintended thought that Piketty provoked in me was the similarity of his argument to the content of the Presidential announcement by US Senator Bernie Sanders in May 2015. Sanders unabashedly went after the 1% and warned them that their days of dominance were/ought to be over. His plan is to tax the 1% in order to pay for free schools and free health care, a minimum wage and environmental policies. Now just because Sanders describes himself as a socialist or a democratic socialist doesn't make him one. Commentators on the left and right aren't challenging his attachment to the terminology. But even the presence of that consensus does not make him a socialist.

What is interesting is like Piketty, Sanders is reviving and updating the 19th cenutry concern with inequality per se. Actually, Sanders goes beyond Piketty. Although he is a bit fuzzy on how much inequality he would tolerate, Piketty does distinguish between inherited income and earned income, at least up to a point. Put differently, up to a point he distinguishes between inheritance and meritocracy. Sanders does not make the distinction (at least he has not in his announcements). It doesn't matter whether you worked for it; you have it and others do not. This is the sort of class think that the 19th century socialists articulated. It doesn't matter to Sanders that part of the 1% may not only have earned it, but be very sympathetic to the issue of social justice. I wish a study were available on what percentage of the 1% are supporters of left wing causes. Sanders wants to get rid of private campaign financing. Actually, environmental policies are included, following Galbraith's socialism, in Sanders's agenda.

Final thought. Just remember, Piketty explains inequality by $r > g$. “This is the fundamental force for divergence.” (422) Forget market forces or universal suffrage as solutions for inequality. And he would rather not have a violent solution. Why is it not central to his project that *g* rise? He says it will be low for generations. He is concerned instead that *g* will never rise as fast as *r*. OK, but what if we tried to push *g* to rise. How would we do it? It won't happen, says Piketty. He is not really interested in pushing *g* up because he thinks that *g* is pretty much stable. He is more interested in closing the gap between *r* and *g* by claiming that *g* will never catch up with *r* and thus we must reduce *r*. And he makes the moral claim that to reduce $r > g$ is equality. The moral source of this claim is the French Revolution's embrace of equality and Rawls theory of justice. While Piketty often links justice and efficiency, with a touch of transparency and democracy, my thought is that, if a priority has to be made, justice trumps if a priority. Europe, Piketty says, has never ben so rich. “What is true and shameful, on the other hand, is that this vast national wealth is very unequally distributed. Private wealth rests on public poverty.” (567) But the solution must be made “after democratic debate.” (567) I end on that paradoxical note.