Professor Piketty Fights Orthodoxy and Attacks Inequality

Posted by MLToday | Mar 14, 2014 |

Capital in the Twenty-First Century, by Thomas Piketty, Cambridge: The Belknap Press of Harvard University Press, 2014. $39.95.

Reviewed by Charles Andrews

This book by Thomas Piketty has caused a stir, which it deserves. Capital 21, as we will abbreviate the title, grapples with a prominent current issue – outrageously unequal incomes and wealth. It is a data-rich, wide-ranging investigation over 570 pages of text written in the smooth, often ironic, and occasionally elevated French manner. It breaks with the sterile theology that dominates bourgeois economics today. Finally, it proposes a new solution to the inequality problem at a time when many question whether capitalism can ever return to partial mass prosperity.

The concept in the title is capital, but it ties with inequality for the most page references in the index, including immediate variations. If you want data on the income and wealth of the top ten-thousandth, one-hundredth, and one-tenth of the population, use this book as well as the online database compiled by Piketty, Emmanuel Saez, and colleagues.

Tailored concern with inequality
However, Piketty's concern over inequality of income and wealth is rather tailored. The rich who upset Piketty most are very wealthy rentiers. They cannot possibly consume more than a smidgeon of the return on their investments, so every year the latter grow and stand to capture more wealth the next year. In contrast, entrepreneurs are good and necessary, and they need and deserve the incentive of financial success.

Piketty notes the bittersweet dilemma that successful entrepreneurs become rentiers in their own lifetime. Bill Gates' $50 billion or so of "wealth has incidentally continued to grow just as rapidly since he stopped working." (p. 440) Still, it would be a disaster in Piketty's view to adopt policies so egalitarian that "there would be no more entrepreneurs." (p. 572)

Capital 21 makes a trenchant critique of the outlandish pay of corporate executives. (pp. 331-335, 510) Piketty approves, though, when you get a fat income because you are a genuine entrepreneur or a highly skilled professional. He accepts the bourgeois economic doctrine of the so-called marginal productivity of skilled labor, and with it a considerable amount of income inequality.

Piketty has little interest in the inequality suffered around and below the median income (the amount in the middle of a list of everyone's incomes from highest to lowest). Although he gives one or two figures on per capita income in France and Britain, he never examines what income equality could be in the absence of capitalists.

Piketty worries about the survival of democracy in the advanced capitalist countries of the Western world. It may be swamped by the revival and steep growth of "patrimonial capitalism," his term for societies dominated by rentier wealth. We must deal with the threat "if democracy is someday to regain control of capitalism." (p. 570) That is the main reason for his focus on inequality.

Analysis of 1913-1950

Piketty's research finds that capital's share of national income stayed high in capitalist countries up to 1913. Capital's share, and inequality, fell from then to 1950. After that inequality began to climb, and in the twenty-first century seems likely to soar higher than ever in history.

According to Piketty, the 1913-1950 period was exceptional and accidental, unlike history before and since. The causes were largely the two world wars, which destroyed enormous wealth; then democratic governments responded to the shocks with policies that contained rentier capital.

This movie short has several problems. First, the world wars were themselves not accidental. The first world war was an inevitable outcome of early monopoly capitalism, and the second world war was a continuation of the first as well as capital's attempt to obliterate the first socialist society. They were the only way capitalists and their states could resolve problems far deeper than a skewed distribution of income and the dead weight of rentiers.

Second, Piketty's almost exclusive metrics are inequality of income and wealth. They are important, to be sure. Let us remember, though, that despite less inequality, most of the period 1913-1950 was hellish for the masses in the capitalist world. They died by millions in the first world war, made little economic progress in the 1920s, suffered the hunger of the Great Depression in the 1930s, and died by millions more in the second world war. On the other hand, while inequality was high in the late nineteenth century and up to 1913, the working class did make advances, by militant class struggle largely under the socialist banner, in obtaining fruits of industrial progress.

And there is justified nostalgia today for the era *after* Piketty's exceptional period. In the 1950s and 1960s life got better for a majority of the working people in the United States, Britain, and western Europe. The peak of working-class progress was 1973 – after Piketty's focus and years before neoliberalism, financialization, and globalization. Since 1973, real median earnings in the U.S. have stagnated and fallen. *That* turning point is the fact that demands explanation and action.

Piketty recalls the two world wars often. He buries the fact that World War One triggered the first successful socialist revolution in Russia, and the second world war provided openings for anti-imperialist and sometimes socialist revolutions, most notably in China and Vietnam. (In addition, it appears that revolution was possible in France and Italy in 1945, but the Communist Parties there decided against it – and had earned the political authority within the working class to make their decision stick.)

The theory in Capital 21

In order to measure capital and hence ratios of return on it, you must say what it is. "In this book, capital is defined as the sum total of nonhuman assets that can be owned and exchanged on some market. Capital includes all forms of real property (including residential real estate) as well as financial and professional capital (plants, infrastructure, machinery, patents, and so on) used by firms and government agencies." (p. 46) This is a concept of distribution, not a relationship in production. Capital is for Piketty a so-called factor of production that captures a return, the usual notion of bourgeois economics. Capital assets, real and paper, yield profits, dividends, rents, royalties and so on; that is why someone "invests" in them. Private ownership is fused into the concept.

How much capital is there? "All forms of wealth are evaluated in terms of market prices at a given point in time. This introduces an element of arbitrariness (markets are often capricious), but it is the only method we have for calculating the national capital stock: how else could one possibly add up hectares of farmland, square meters of real estate, and blast furnaces?" (p. 149) Piketty scatters dismissive swipes at Marx from the beginning to end of Capital 21.

Displaying woeful miscomprehension or propagating deliberate disinformation, he says, "Marx totally neglected the possibility of durable technological progress and steadily increasing productivity." (p.10) So when it comes to measuring capital, Piketty does not dare mention the labor theory of the value of commodities, including when they function as capital.

A science requires core concepts and relationships of necessity among them. Newtonian physics relates force and mass by an arithmetical law. Chemistry relates atoms bonded in geometric graph combinations. Evolution relates genetic variation and environmental action on organisms to the changing makeup of species. Marxist economics of capitalism relates value, labor (concrete and abstract), and surplus-value in relations of exploitation and accumulation.

The conceptual things might be observable by the unaided eye and ear and finger, or "observable" with the aid of instruments, or not observable at all. The atom is in the second of these situations now but it was unobservable in the nineteenth century, which did not stop chemists from isolating elements and discovering the laws of their combination (Mendeleev's periodic table).

A scientific theory of necessary relationships must, of course, lead us to observed things, events, and relationships. The theory must not deduce observations in contradiction to what we observe. We understand problems and see new possibilities in the necessary results of causes.

After Marx developed the labor theory of value to a science, academic economists shunned it in horror. They first substituted a theology of marginal utility, and other churches for the worship of capitalism followed. For half a century or so the field has retreated from language to ever more elaborate mathematics. Like all theologies, the economic ones do not offer you shoes that fit; they wrench and crunch reality into their shoes.

Piketty leads by example in a rebellious economics. He and his colleagues put together wide aggregations of statistical data. Every one of the 97 charts in Capital 21 plots data. A handful of them venture to project lines into the future or include a simulated series as well as the data line. None are graphs of hypothetical supply and demand or other mystical variables neatly intersecting where the author wants them to meet. Piketty's method is a refreshing break from orthodoxy.

However, Piketty arrives not to bury bourgeois economics but to revive it. He accepts most of the dogma: its concept of capital, which finds capitalist capital operating in disguise in every society from the most primitive (p. 213) to the former Soviet Union (p. 215); production functions, although not always Cobb-Douglas (p. 215-217); Solow's neoclassical side of the Cambridge capital controversy (p. 231); and the "central and irreplaceable role in the history of economic development" of stock and bond markets, banks, and financial investors. (p. 214)

Piketty is imbued with the bourgeois notion that some magic in nonhuman things creates income, which someone must receive. He actually declares with a straight face that "the evolution of technology … has also increased the need for … patents." (p. 234)

Piketty does not discard the equations of neoclassical economics (Capital 21's book jacket photo shows him in front of a whiteboard of equations), but he insists on actual information. In effect, Piketty tells his fellow professors of economics: Pure mathematics derived from unsupported axioms no longer fools people. Give up the empty certainty, the "immoderate use of mathematical models… masking the vacuity of the content. … It is not the purpose of social science research to produce mathematical certainties that can substitute for open, democratic debate." (p. 574, 571)

He also shuns computation of regressions and other statistical parameters that best fit reality to a model. Instead, Piketty shows bourgeois economists how they should observe ratios in data, then apply loose reasoning and lots of qualifiers to argue likely conclusions about the future.

Piketty and his colleagues certainly collect and regularize a mountain of data, setting new standards in the field. If he were an admirer of Mao Zedong, which he most surely is not, he could tell his professional colleagues: no investigation, no right to speak. The problem is that while he criticizes the fetish of mathematical certainty, he also finds no relationships of material necessity. Plausible, often roughly constant, contributing factors and arithmetic scenarios with the rate of return and the rate of growth do not add up to an explanation.

Brief comparison with Marxist economics

Of course, theory cannot explain events as though circumstance and accident played no role in their timing and specific shape. They do. Nonetheless, history while made up of events obeys laws. Marxist economics explains at least three necessities in the capitalist mode of production.

First, it demonstrates the impossibility of full employment for more than a brief moment. The specter of no job and hence no income matters to all working people, not only the unemployed. Class struggle is incessant under capitalism.

Second, it demonstrates that industrial capitalism suffers recurring slumps. The conditions that trigger them vary, as do their depth, duration, and spacing, but they are inevitable.

Third, it concludes that capitalist accumulation runs into a historical barrier. The relative mass prosperity that the working class was able to win by struggle within capitalism goes away. Middle-income comfort becomes impoverishment; career security becomes precarious employment; and labor is degraded.

How does Marxism arrive at these conclusions? We can assemble facts by diligent investigation, but we do not assemble truth by correlating observed data. We compare facts with each other and ponder with imagination. Piketty does that much, but science requires a leap of cognition to conceive fundamental entities in law-governed motion. Then, of course, we must verify, use, and extend the laws. Newton and Einstein, Darwin, and Marx did it, and so can we.

The general formulation of the third conclusion is Marx's famous statement, "At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production… From forms of development of the productive forces these relations turn into their fetters. Then begins an era of social revolution." (Preface, "A Contribution to the Critique of Political Economy," *Collected Works*, vol. 29, New York: International Publishers, 1987, p. 263. Today, we can analyze the laws of accumulation at the end of capitalism.)

In tsarist Russia and dynastic-warlord China, socially aware people knew overthrow was necessary. The people of the United States have started a painful, liberating process of discovering the same thing about capitalism today. By temperament if not conscious decision, Piketty wrote a long book running away from what is for him a rough beast, apprehensive that its hour has come round at last, mortified that it slouches toward us to be born.

Piketty's anti-communism is overt, proving his credentials to the capitalists he begs to tax. "I … came of age listening to news of the collapse of the Communist dictatorships and never felt the slightest affection or nostalgia for … the Soviet Union." (p. 31)

"Private property and the market economy … play a useful role in coordinating the actions of millions of individuals… The human disasters caused by Soviet-style centralized planning illustrate this quite clearly." (531f.) You see, it was not the open drive to overthrow the Soviet government that lay behind the difficulties of the 1930s. It was not the Nazi invasion of the Soviet Union, with its barbarous squads assigned to assassinate civilians, that brought human disaster. Blame it all on five-year plans.

The practical goals of Capital 21

Piketty advocates policies that he thinks can rescue capitalism from its rentier, oligarchic tendency. "To regulate the globalized patrimonial capitalism of the twenty-first century … The ideal tool would be a progressive global tax on capital … It is perfectly possible to move toward this ideal solution step by step. … The largest fortunes are to be taxed more heavily." (pp. 515-517)

Secondarily, Piketty advocates restoring a very high marginal tax on the highest incomes, aimed mainly at the exorbitant pay of top corporate executives. (p. 512) The purpose of the tax rate is not to generate revenue but to make such pay futile.

Although Piketty comments on a wide variety of governmental economic policies, his practical emphasis is on the progressive capital tax, not on programs that its estimated yield of around two percent of gross domestic product could finance. He takes the social state (his term for the package of programs enacted during the New Deal, for example) as a good thing, but his tax on big wealth is unlikely to rally mass support by itself.

Reforms like a big increase of the minimum wage, tough laws against employers firing workers who exercise free speech in favor of a trade union, the extension of Medicare by reducing the age requirement until everyone is covered – reforms like these mean something to people. However, when the main content of a policy downplays definite benefits to specific groups of people, when a policy aims “higher” to make capitalism fair and democratic, people have healthy skepticism.

A tax on capital, calibrated so that it limits rentier wealth but does not suffocate entrepreneurs – this is Piketty’s finale to a historical survey of steep inequality that prevailed for centuries with one amazing exception of 37 years. Perhaps communists make a strategic political mistake. They frankly tell people that the capitalist mode of production must be overthrown. Yes, this will be a world-historic feat, and contradictions in capitalism have developed to the point that such a change is both necessary and achievable.

Revival of social democracy?

Piketty talks to a specific audience. Perhaps he hopes enough capitalists will be far-sighted and realize that open oligarchy may stimulate mass rebellion. He thinks there are good people like himself who care about democracy and understand that it must be paired with capitalism. In U.S. terminology, he is a liberal, on its left flank. The people next to them on the political spectrum hold the same beliefs but profess socialism in one or another cloudy version. These are the social democrats.

They have had a rough time for a couple of generations. Capital, weakened by fundamental problems in its economy, became heavy-handed in a drive to raise the rate of exploitation. It dumped the old generation of social democrats whom it had coddled, the admirers of Walter Reuther, Michael Harrington and Tom Hayden. A section of progressives are excited about Capital 21 because it might help revive social democracy.

For the rest of us, Capital 21 provides solid data about the very rich. Piketty’s work is a demonstration of the adage, follow the money. Good advice. But when you need deep understanding of society, follow the labor.

Charles Andrews is the author of No Rich, No Poor (Needle Press, 2009).