DOWNLOAD PDF PIKETTY CAPITAL IN THE 21ST CENTURY

Chapter 1 : Thomas Piketty: New thoughts on capital in the twenty-first century | TED Talk

Capital in the Twenty-First Century is a book by French economist Thomas Piketty. It focuses on wealth and income inequality in Europe and the United States since the 18th century. It was initially published in French (as Le Capital au XXIe siÃ¨cle) in August ; an English translation by Arthur Goldhammer followed in April

Open-minded readers will surely find themselves unable to ignore the evidence and arguments he has brought to bear. Capital in the Twenty-First Century contains four remarkable achievements. First, in its scale and sweep it brings us back to the founders of political economy. The result is a work of vast historical scope, grounded in exhaustive fact-based research, and suffused with literary references. It is both normative and political. Piketty rejects theorising ungrounded in data. Second, the book is built on a year programme of empirical research conducted in conjunction with other scholars. Its result is a transformation of what we know about the evolution of income and wealth which he calls capital over the past three centuries in leading high-income countries. That makes it an enthralling economic, social and political history. Among the lessons is that there is no general tendency towards greater economic equality. Another is that the relatively high degree of equality seen after the second world war was partly a result of deliberate policy, especially progressive taxation, but even more a result of the destruction of inherited wealth, particularly within Europe, between and Some argue that rising human capital will reduce the economic significance of other forms of wealth. But inequality within generations remains vastly greater than among them. Yet others suggest that intragenerational mobility robs rising inequality of earnings of significance, particularly in the US. This, too, is false: High-school dropouts rarely become chairman of GE. An important finding is that the ratio of wealth to income in Europe has climbed back above US levels, notably in France and the UK. Another is the notably big recent rise in the income shares of the top 1 per cent in English-speaking countries above all, the US since Third, Piketty uses simple economic models to explain what is going on. He notes, for example, that the huge rise in labour earnings at the top of US income distribution is overwhelmingly explained not by sports stars or entertainers but by increases in remuneration of managers. He argues that this is the result of the falls in marginal taxation, which have increased the incentive to bargain for higher pay, reinforced by changes in social norms. The alternative view â€” that the marginal productivity of top managers has exploded â€” is, he asserts, unpersuasive, partly because the marginal product of a manager is unmeasurable and partly because overall economic performance has not improved since the s. This, he holds, has normally been the case. The only exceptions from the past few centuries are when a sizeable part of the return on wealth is expropriated or destroyed, or when an economy has opportunities for exceptionally fast growth, as in postwar Europe or the emerging economies today. This theory is built on two pieces of evidence. One is that the rate of return is only modestly affected by the ratio of capital to income. In the long run, this seems plausible. Indeed, an age of robotics might further raise the elasticity. The other is that, at least in normal times, capitalists save a sufficiently large share of their returns to ensure that their capital will grow at least as fast as the economy. This is especially likely to be true of the seriously wealthy, who are also likely to enjoy the highest returns. Small fortunes are eaten; big ones are not. The tendency for capital to grow faster than the economy is also more likely when the growth of the economy is relatively slow, either because of demographics or because technical progress is weak. Capital-dominated societies also have low-growth economies. In particular, he calls for a return to far higher marginal tax rates on top incomes and a progressive global wealth tax. The case for the latter is that the reported incomes of the richest are far smaller than their true economic incomes the amount they can consume without reducing their wealth. The rich may even take themselves outside any fiscal jurisdiction, so enjoying the fiscal position of aristocrats of pre-revolutionary France. Yet the book also has clear weaknesses. The most important is that it does not deal with why soaring inequality â€” while more than adequately demonstrated â€” matters. Essentially, Piketty simply assumes that it does. One argument for inequality is that it is a spur to or product of innovation. The contrary evidence is clear: Another argument is that the product of just processes must be just. Yet even if the processes driving inequality were themselves just which is doubtful , this is not the only principle of distributive justice. For me the most convincing argument against the ongoing rise in economic inequality is that it is incompatible with true equality as citizens. If, as the ancient Athenians believed, participation in public life is a fundamental aspect of human self-realisation, huge inequalities cannot but destroy it. In a society dominated by wealth, money will buy power. Inequality cannot be eliminated. It is inevitable and to a degree even desirable. But, as the Greeks argued, there needs to be moderation in all things. We are not seeing moderate rises in inequality. We should take notice.

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Chapter 2 : Book review: Capital in the 21st Century by Thomas Piketty | Prospect Magazine

In Capital in the Twenty-First Century, Thomas Piketty analyzes a unique collection of data from twenty countries, ranging as far back as the eighteenth century, to uncover key economic and social patterns. His findings will transform debate and set the agenda for the next generation of thought about wealth and inequality.

David Ricardo identified three classes of producer, landlords, capitalists and workers. Each of these classes owned a factor of productionâ€"land, capital and labour. With land and capital scarce relative to labour, landlords and capitalists could claim a disproportionate share of the produce that they and the workers jointly produced. Classical socialism, as Karl Marx conceived it, was a branch of this tree. But towards the end of the 19th century, discussion of the class inequality of rewards faded away. This new, marginal analysis was intended to bypass the unsettling distributional issues raised by the classical economists. The claim that the market paid every producer what he was worth undercut the socialist argument for redistribution. His thesis is simple. The growing concentration of capital in fewer hands has enabled its owners to keep it relatively scarce and thus valuable. Agricultural land has dropped out as a factor of production, but urban real estate has taken its place. Capitalist societies therefore have a natural tendency to generate a highly unequal distribution of wealth and income. This natural tendency to inequality was suppressed in the period between and , as the two world wars and the Great Depression destroyed a mass of inherited capital, while trade union pressure, progressive taxation and welfare prevented its reconstitution. But from the late s, with the decay of these countervailing forces, the natural inequality of the system has reasserted itself, so that today it is almost as great as it was before So what we need is another bout of social democracy especially in the form of progressive taxation. This would be wrong. But his main ideas do tend to be drowned by the data. Readability is sometimes sacrificed to authority. Piketty defines capital as any non-human asset that can be borrowed or exchanged on some market, which is different from the textbook definition, where capital is just the tools used for production. So capital, or wealth, can include residential property and financial assets. Income from capital is not simply profit, but also rent, dividends and so forth. Income from labour is the usual: A big change from earlier times is that today, high income earners also tend to have a lot of capital. People earning high wages invest their money in property, stocks, and other assets, which yield a return. So high incomes from work are a means to capital accumulation. Before the First World War, this was not so true: This was the rentier economy of the late Victorians so eloquently depicted by John Maynard Keynes, in which income came from rents and dividends. The job was then to preserve the family fortune by marrying well; real work was for the poor. Piketty points out that capital ownership has always been quite concentrated. A century ago, the richest 10 per cent in Europe owned about 90 per cent of the wealth. In the early s, they owned about 60 per cent of wealth in Europe, and 70 per cent in the US. Despite the media hype surrounding the super-rich, this is considerably less than before, but it remains very significant. Inequality of capital ownership is even more striking at the level of centiles: It was the decrease in capital ownership for the richest 10 per cent, and especially for the top 1 per cent in the era of the two world wars, during which time much capital was destroyed, that enabled a middle class to emerge. Before the wars, the middle 40 per cent and bottom 50 per cent were indistinguishable in terms of capital ownershipâ€"each owned approximately 5 per cent of total wealth. But as a result of the wars the middle 40 per cent accrued more wealth, and the income to which it gave rise. Extreme income inequality can arise in two ways. In this type of society inherited wealth, accumulated over several generations, attains extreme levels. Total income is then dominated by a small number of people getting very high incomes from capital. This was the pattern before the First World War. However, from the s, the very rich started to race away not just from the middle but from the rich. But the income of the top 1 per cent has risen substantially faster than that of the rest. So what does explain the extravagant rewards of the very rich? And one may add that where social superiority is conferred by birth, as it was in the past, one has less need to affirm it by conspicuous earnings and consumption. However, all of this is just a way of saying that distribution is increasingly fixed by power, not by the market. Although inequality has returned, the structure of contemporary inequality is differentâ€"hard work finally pays more than inheritance. Piketty concludes that it will not, because the stock market euphoria prior to the crash was not the structural cause of increased inequality. Inequality will continue to increase, because inheritance will become increasingly important. Demography plays an important role here. One explanation is that certain investments, such as expensive property, are accessible only to the super-rich. Another is that only the wealthiest can afford to hire the best portfolio managers. So if the return on capital is high for rich people, inequality will have a tendency to rise explosively. And the return to low growth, including low demographic growth, means that inequality will rise even more. Piketty predicts that growth will not exceed Even if the total volume of inheritance regains past levels, it will not necessarily play the same social role as before. His story is about the super-rich racing ahead of the rich and everyone else since the s. He explains this by the power of the rich to set their own pay and the ease with which they can transform their super-salaries into capital. But there may be another explanation, which is that digital technology actually increases the marginal product of the top performers in all fields of endeavour, creating a global elite of superstars who are distinguished from the rest by their exceptional talents. Digital technology can also boost rewards to superstar writers and performers. However, this may be a transient opportunity, for one would expect that their supercharged salaries will eventually be competed away. Everyone agrees that inequality has been growing. But does the growth of inequality matter? The quick answer is that it is bad economically and socially.

Chapter 3 : Capital in the Twenty-First Century : Thomas Piketty :

In Capital in the Twenty-First Century, Thomas Piketty analyzes a unique collection of data from twenty countries, ranging as far back as the eighteenth century, to uncover key economic and social patterns.

His parents had been involved with a Trotskyist group and the May protests in Paris, but they had moved away from this political position before Piketty was born, and a visit to the Soviet Union in was enough to make him a firm "believe[r] in capitalism, private property, the market". In , she sued him for domestic violence. His economic research focusses mainly on wealth inequalities and the use of capital in the 21st century. Piketty has long-standing ties to the London School of Economics and he completed his PhD studies at the university in the early s. In addition to his research, Piketty also teaches post-graduate students at the LSE. His teaching and research approach is inter-disciplinary and he has been involved in the teaching of the new MSc degree in Inequalities and Social Science at the London School of Economics. Research[edit] Piketty specializes in economic inequality , taking a historic and statistical approach. His novel use of tax records enabled him to gather data on the very top economic elite, who had previously been understudied, and to ascertain their rate of accumulation of wealth and how this compared to the rest of society and economy. His most recent book, Capital in the Twenty-First Century , relies on economic data going back years to show that an ever-rising concentration of wealth is not self-correcting. To address this problem, he proposes redistribution through a progressive global tax on wealth. Extreme inequality is useless for growth A research project on high incomes in France led to the book Les hauts revenus en France au XXe High incomes in France in the 20th Century, Grasset, , which was based on a survey of statistical series covering the whole of the 20th century, built from data from the fiscal services particularly income tax declarations. He argues that this was due to a decrease in estate inequalities, while wage inequalities remained stable. The shrinking inequality during this period, Piketty says, resulted from a highly progressive income tax after the war, which upset the dynamics of estate accumulation by reducing the surplus money available for saving by the wealthiest. This trend will lead to the rise of what he calls patrimonial capitalism, in which a few families control most of the wealth. In collaboration with other economists, particularly Emmanuel Saez , he built a statistical series based on a similar method used in his studies of France. This research led to reports on the evolution of inequalities in the US, [37] and on economic dynamics in the English-speaking world and continental Europe. The surveys found that following the Second World War , after initially undergoing a decrease in economic inequality similar to that in continental Europe, English-speaking countries have, over the past thirty years, experienced increasing inequalities. Growth started at the beginning of the industrial revolution, and slackened off later due to the reallocation of the labor force from low productivity sectors like agriculture to higher productivity sectors like industry. According to Piketty, the tendency observed by Kuznets in the early s is not necessarily a product of deep economic forces e. Instead, estate values, rather than wage inequalities, decreased, and they did so for reasons that were not specifically economic for example, the creation of income tax. Consequently, the decrease would not necessarily continue, and in fact, inequalities have grown sharply in the United States over the last thirty years, returning to their s level. Other work[edit] Besides these surveys, which make up the core of his work, Piketty has published in other areas, often with a connection to economic inequalities. His work on schools, for example, postulates that disparities among different schools, especially class sizes, is a cause for the persistence of inequalities in wages and the economy.

Chapter 4 : Thomas Piketty - Wikipedia

Capital in the Twenty-First Century, written by the French economist Thomas Piketty, was published in French in and in English in March The English version quickly became an unlikely.

But what do we really know about its evolution over the long term? Do the dynamics of private capital accumulation inevitably lead to the concentration of wealth in ever fewer hands, as Karl Marx believed in the nineteenth century? Or do the balancing forces of growth, competition, and technological progress lead in later stages of development to reduced inequality and greater harmony among the classes, as Simon Kuznets thought in the twentieth century? What do we really know about how wealth and income have evolved since the eighteenth century, and what lessons can we derive from that knowledge for the century now under way? These are the questions I attempt to answer in this book. Let me say at once that the answers contained herein are imperfect and incomplete. But they are based on much more extensive historical and comparative data than were available to previous researchers, data covering three centuries and more than twenty countries, as well as on a new theoretical framework that affords a deeper understanding of the underlying mechanisms. Modern economic growth and the diffusion of knowledge have made it possible to avoid the Marxist apocalypse but have not modified the deep structures of capital and inequalityâ€"or in any case not as much as one might have imagined in the optimistic decades following World War II. When the rate of return on capital exceeds the rate of growth of output and income, as it did in the nineteenth century and seems quite likely to do again in the twenty-first, capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based. There are nevertheless ways democracy can regain control over capitalism and ensure that the general interest takes precedence over private interests, while preserving economic openness and avoiding protectionist and nationalist reactions. The policy recommendations I propose later in the book tend in this direction. They are based on lessons derived from historical experience, of which what follows is essentially a narrative. A Debate without Data? Intellectual and political debate about the distribution of wealth has long been based on an abundance of prejudice and a paucity of fact. To be sure, it would be a mistake to underestimate the importance of the intuitive knowledge that everyone acquires about contemporary wealth and income levels, even in the absence of any theoretical framework or statistical analysis. Film and literature, nineteenth-century novels especially, are full of detailed information about the relative wealth and living standards of different social groups, and especially about the deep structure of inequality, the way it is justified, and its impact on individual lives. Both novelists were intimately acquainted with the hierarchy of wealth in their respective societies. They grasped the hidden contours of wealth and its inevitable implications for the lives of men and women, including their marital strategies and personal hopes and disappointments. These and other novelists depicted the effects of inequality with a verisimilitude and evocative power that no statistical or theoretical analysis can match. Indeed, the distribution of wealth is too important an issue to be left to economists, sociologists, historians, and philosophers. It is of interest to everyone, and that is a good thing. The concrete, physical reality of inequality is visible to the naked eye and naturally inspires sharp but contradictory political judgments. Peasant and noble, worker and factory owner, waiter and banker: Hence there will always be a fundamentally subjective and psychological dimension to inequality, which inevitably gives rise to political conflict that no purportedly scientific analysis can alleviate. Democracy will never be supplanted by a republic of expertsâ€"and that is a very good thing. Expert analysis will never put an end to the violent political conflict that inequality inevitably instigates. Social scientific research is and always will be tentative and imperfect. It does not claim to transform economics, sociology, and history into exact sciences. But by patiently searching for facts and patterns and calmly analyzing the economic, social, and political mechanisms that might explain them, it can inform democratic debate and focus attention on the right questions. Nevertheless, the distribution question also deserves to be studied in a systematic and methodical fashion. Without precisely defined sources, methods, and concepts, it is possible to see everything and its opposite. Some people believe that inequality is always increasing and that the world is by definition always becoming more unjust. Others believe that inequality is naturally decreasing, or that harmony comes about automatically, and that in any case nothing should be done that might risk disturbing this happy equilibrium. Given this dialogue of the deaf, in which each camp justifies its own intellectual laziness by pointing to the laziness of the other, there is a role for research that is at least systematic and methodical if not fully scientific. It can help to redefine the terms of debate, unmask certain preconceived or fraudulent notions, and subject all positions to constant critical scrutiny. In my view, this is the role that intellectuals, including social scientists, should play, as citizens like any other but with the good fortune to have more time than others to devote themselves to study and even to be paid for itâ€"a signal privilege. There is no escaping the fact, however, that social science research on the distribution of wealth was for a long time based on a relatively limited set of firmly established facts together with a wide variety of purely theoretical speculations. Before turning in greater detail to the sources I tried to assemble in preparation for writing this book, I want to give a quick historical overview of previous thinking about these issues. Malthus, Young, and the French Revolution When classical political economy was born in England and France in the late eighteenth and early nineteenth century, the issue of distribution was already one of the key questions. Everyone realized that radical transformations were under way, precipitated by sustained demographic growthâ€"a previously unknown phenomenonâ€"coupled with a rural exodus and the advent of the Industrial Revolution. How would these upheavals affect the distribution of wealth, the social structure, and the political equilibrium of European society? For Thomas Malthus, who in published his Essay on the Principle of Population, there could be no doubt that the primary threat to European society was overpopulation. For Thomas Malthus, who in published his Essay on the Principle of Population, there could be no doubt: Young wrote of the poverty of the French countryside. His vivid essay was by no means totally inaccurate. France at that time was by far the most populous country in Europe and therefore an ideal place to observe. The kingdom could already boast of a population of 20 million in , compared to only 8 million for Great Britain and 5 million for England alone. There is every reason to believe that this unprecedentedly rapid population growth contributed to a stagnation of agricultural wages and an increase in land rents in the decades prior to the explosion of Although this demographic shift was not the sole cause of the French Revolution, it clearly contributed to the growing unpopularity of the aristocracy and the existing political regime. The great agronomist found the inns in which he stayed thoroughly disagreeable and disliked the manners of the women who waited on him. Although many of his observations were banal and anecdotal, he believed he could derive universal consequences from them. He was mainly worried that the mass poverty he witnessed would lead to political upheaval. In particular, he was convinced that only the English political system, with separate houses of Parliament for aristocrats and commoners and veto power for the nobility, could allow for harmonious and peaceful development led by responsible people. He was convinced that France was headed for ruin when it decided in â€" to allow both aristocrats and commoners to sit in a single legislative body. It is no exaggeration to say that his whole account was overdetermined by his fear of revolution in France. Whenever one speaks about the distribution of wealth, politics is never very far behind, and it is difficult for anyone to escape contemporary class prejudices and interests. Like his compatriot, he was very afraid of the new political ideas emanating from France, and to reassure himself that there would be no comparable upheaval in Great Britain he argued that all welfare assistance to the poor must be halted at once and that reproduction by the poor should be severely scrutinized lest the world succumb to overpopulation leading to chaos and misery. The Principle of Scarcity In retrospect, it is obviously easy to make fun of these prophecies of doom. It is important to realize, however, that the economic and social transformations of the late eighteenth and early nineteenth centuries were objectively quite impressive, not to say traumatic, for those who witnessed them. Indeed, most contemporary observersâ€"and not only Malthus and Youngâ€"shared relatively dark or even apocalyptic views of the long-run evolution of the distribution of wealth and class structure of society. This was true in particular of David Ricardo and Karl Marx, who were surely the two most influential economists of the nineteenth century and who both believed that a small social groupâ€"landowners for Ricardo, industrial capitalists for Marxâ€"would inevitably claim a steadily increasing share of output and income. Like Malthus, he had virtually no genuine statistics at his disposal. He nevertheless had intimate knowledge of the capitalism of his time. Born into a family of Jewish financiers with

Portuguese roots, he also seems to have had fewer political prejudices than Malthus, Young, or Smith. He was influenced by the Malthusian model but pushed the argument farther. He was above all interested in the following logical paradox. Once both population and output begin to grow steadily, land tends to become increasingly scarce relative to other goods. The law of supply and demand then implies that the price of land will rise continuously, as will the rents paid to landlords. The landlords will therefore claim a growing share of national income, as the share available to the rest of the population decreases, thus upsetting the social equilibrium. For Ricardo, the only logically and politically acceptable answer was to impose a steadily increasing tax on land rents. This somber prediction proved wrong: Writing in the s, Ricardo had no way of anticipating the importance of technological progress or industrial growth in the years ahead. Like Malthus and Young, he could not imagine that humankind would ever be totally freed from the alimentary imperative. His insight into the price of land is nevertheless interesting: This could well be enough to destabilize entire societies. The price system plays a key role in coordinating the activities of millions of individualsâ€"indeed, today, billions of individuals in the new global economy. The problem is that the price system knows neither limits nor morality. It would be a serious mistake to neglect the importance of the scarcity principle for understanding the global distribution of wealth in the twenty-first century. In both cases, if the trend over the period â€" is extrapolated to the period â€" or â€", the result is economic, social, and political disequilibria of considerable magnitude, not only between but within countriesâ€"disequilibria that inevitably call to mind the Ricardian apocalypse. To be sure, there exists in principle a quite simple economic mechanism that should restore equilibrium to the process: If the supply of any good is insufficient, and its price is too high, then demand for that good should decrease, which should lead to a decline in its price. In other words, if real estate and oil prices rise, then people should move to the country or take to traveling about by bicycle or both. Never mind that such adjustments might be unpleasant or complicated; they might also take decades, during which landlords and oil well owners might well accumulate claims on the rest of the population so extensive that they could easily come to own everything that can be owned, including rural real estate and bicycles, once and for all. It is much too soon to warn readers that by they may be paying rent to the emir of Qatar. I will consider the matter in due course, and my answer will be more nuanced, albeit only moderately reassuring. But it is important for now to understand that the interplay of supply and demand in no way rules out the possibility of a large and lasting divergence in the distribution of wealth linked to extreme changes in certain relative prices. But nothing obliges us to roll the dice. The most striking fact of the day was the misery of the industrial proletariat. Despite the growth of the economy, or perhaps in part because of it, and because, as well, of the vast rural exodus owing to both population growth and increasing agricultural productivity, workers crowded into urban slums. The working day was long, and wages were very low. A new urban misery emerged, more visible, more shocking, and in some respects even more extreme than the rural misery of the Old Regime. It is quite difficult to say where this trajectory would have led without the major economic and political shocks initiated by the war. With the aid of historical analysis and a little perspective, we can now see those shocks as the only forces since the Industrial Revolution powerful enough to reduce inequality. In fact, all the historical data at our disposal today indicate that it was not until the second halfâ€"or even the final thirdâ€"of the nineteenth century that a significant rise in the purchasing power of wages occurred. This long phase of wage stagnation, which we observe in Britain as well as France, stands out all the more because economic growth was accelerating in this period. The capital share of national incomeâ€"industrial profits, land rents, and building rentsâ€"insofar as can be estimated with the imperfect sources available today, increased considerably in both countries in the first half of the nineteenth century. The data we have assembled nevertheless reveal no structural decrease in inequality prior to World War I. What we see in the period â€" is at best a stabilization of inequality at an extremely high level, and in certain respects an endless inegalitarian spiral, marked in particular by increasing concentration of wealth. In any case, capital prospered in the s and industrial profits grew, while labor incomes stagnated.

Chapter 5 : Capital in the Twenty-First Century Quotes by Thomas Piketty

Capital in the 21st century Thomas Piketty Paris School of Economics. March

The very title is a provocation. Piketty is anything but an orthodox Marxist, or anything orthodox at all. His dismissal of the concept of the labor theory of value would upset traditional Marxists, and his conclusions on the natures of capitalist free market systems would anger the neo-Classicals and Austrians. Many of his citations lead to an external database, which can be found here. One of the chief struggles in economics is the split between developing theoretical models and statistical analysis. Piketty refuses to build the theory first, and much of the book is structure around the data. The primary focus of his study is France. This is not from national chauvinism, but from the wealth of well-maintained data which dates back to the revolutionary era in the s. He does also refer to other developed countries in Western Europe and the United States. The scale and nature of his methods indicate the scale of his topic - inequality. The first part of the book is a framing of how markets and national economies work. He begins with a historical examination of other theories, start with the early classical economist David Ricardo and ending with the modern development theories of Simon Kuznets. Piketty focuses on a re-examination of the role between assets and income, and how much capital growth increases faster than the growth of the rest of the economy. If capital incomes are more concentrated than those from labor, then those who get income from stored capital instead of their labor will have their income increase faster than the national growth rate. This leads to a reinterpretation of the past two centuries of economic history. The most stunning conclusion is that the nature of industrial capitalism will necessarily contribute to further income inequality. The only exception to this rule has been the 30 years after the end of WWII and ending with the oil shock and end of the gold standard. It was primarily the result of the long period of turmoil between , which destroyed many of the entrenched fortunes of Europe and left the survivors with an interest in instituting progressive policies in order to prevent social instability. All positive development in social issues was the result of this dismantling of inequality. After the s, the progressive welfare states were dismantled, and capitalism returned to a similar form it took in the 19th century. However, there is still a high concentration of wealth which is still inherited, and the percentage of personal assets which is inherited in Western Europe today is still comparable to that of one hundred years ago. In this approach, Piketty clashes with the current orthodoxy on income inequality and capitalism. Piketty notes that there are three political factors which go against income inequality - wars which physically destroy stored capital, taxes which redistribute it, and inflation which destroys financial capital. So what happens to developing countries? The Chinese will reach the Western European economy within the next century, having achieved years of development through 75 years of pain. So speaking of the future, what will happen to the United States and Europe? Will there be a reversal? Piketty differs from the apocalyptic predictions of Marx, and instead firmly says that the future is unpredictable. But economic theories change with the times, as Piketty notes in his introduction. Those theories which hail the endless growth of markets yesterday seem awfully out of date today. In terms of redistribution of capital and re-instituting further recovery, he advocates progressive income taxation, estate taxes, and capital gains taxes. The problem, of course, is political implementation, as these plans are only barely more popular than the alternatives of wars or massive inflation. But still he has hopes for a broader international scheme to shutter tax havens. The only thing missing is a discussion of the effects of income inequality - why is it so bad in the first place? Those who are in favor of it point to the idea of a meritocracy and rewarding entrepreneurial incentive. Even if you say that inequality is not a bad thing, lack of opportunity or social mobility more certainly is. There is also the lack of incentive for financial regulation and continued innovation if the highest managerial classes can reward themselves for their own failings. The book ends with an appeal to the state of economics, and a plea to refer to data and away from the crystal palaces of theoretical models. It is a fitting end to this learned and absorbing book which challenges seemingly all aspects of modern economics. Like Edward Gibbon, Piketty saves infinite scorn for his footnotes. This book has important things to say, and I recommend you read it even if you find his arguments repulsive, for at least you should know what he says.

Chapter 6 : Thomas Piketty - capital21cen

In his massive book, Capital in the 21st Century, Thomas Piketty, a professor at the Paris School of Economics, revives the economics of David Ricardo and Karl Marx. His thesis is simple. His thesis is simple.

Share via Email Grand ambition about inequality â€¦ Thomas Piketty. Nearly everyone agrees about that. At first it was important because it was a big book on a big subject: Writing a bestselling economics book is usually a good way to make other economists hate you. Say what you like about the theory, the argument went, you had to thank him for the numbers. Indeed for some, not having read it was a badge of pride. Maybe he has now. There are many claims in the odd pages, but let me highlight some of the important ones, before moving on to whether â€" and why â€" any of this matters. Claim one is that income inequality has increased sharply since the late s, with a particularly dramatic rise in the share of total income going to the very highest earners. The most quoted Piketty statistic here is one that no one, to my knowledge, has questioned: These are remarkable numbers. Even in the US, it has been driven by soaring salaries at the top end of the pay scale, not rising incomes from capital. That rather large complication to the story does not stop Piketty focusing the rest of the book on capital, which he says has also become more unequally distributed since the s, not just in the US but in Europe too. He believes this trend toward greater wealth inequality is very likely to continue, because the returns from capital are likely to grow faster than the economy itself, and faster than the owners of that wealth are likely to be able to spend it. This is the "central contradiction of capitalism", which he summarises with a Marxian turn of phrase: Once constituted, capital reproduces itself faster than output increases. The past devours the future. Their share of the total pie might even decrease. That is actually what has happened in the UK recently. In the boom years after the mid 90s, the owners of capital took a larger share of national income, and the labour share tended to decline. But the trend reversed itself when the economy hit the skids in , and the labour share is back to where it was in the early 70s. Income inequality has also fallen slightly over this period, at least in the UK. Piketty has some interesting analysis demonstrating that wealth begets more wealth: This rings true and also has some economic logic to it. The more money you have to invest, the more â€" in cash terms â€" you can afford to spend on finding the best opportunities, without materially cutting into your returns. It matters if small investors are going to be systematically disadvantaged in making these long-term investments. But fewer than a 10th actually did so. Given what has been happening to incomes at the top, you would expect to have seen more concentration of wealth than we can find in the data. That might be â€" as Piketty suggests â€" because rich people are good at hiding their money from the taxman. But it might also be because they are very good at spending their money, and their children even more so. Say we agree with Piketty, and conclude that wealth has become more concentrated, his own numbers show this is a fairly recent phenomenon. He describes the emergence of this class in the middle years of the 20th century as a transformation that "deeply altered the social landscape and the political structure of society and helped redefine the terms of distributive conflict". That may well be true. We know that families with that little to fall back on are much more likely to fall into long-term cycles of dependency and poverty. But he never really makes the case. That is remarkable omission for a book of such magisterial sweep. When I was first learning economics in the late 80s and 90s, the UK was just getting used to the free-market idea that higher incomes at the top did not have to mean lower incomes at the bottom. To ensure growth in the economy, the message went, you had to give the "wealth creators" the incentive to increase both the pie and their slice of it. Many people are worried about the slow rate of growth in the developed economies since the financial crisis in Many are also worried about rising inequality. At first glance, Capital seems to offer an elegant way to explain both. But, by his own admission, the world is a lot more complicated than talk of a "central contradiction to capitalism" might suggest. So is the relationship between capital accumulation and growth. Like Miliband, Piketty sees a clear difference between the wealth creators and the asset strippers â€" between the fat cat "rentier" capital that devours the future and the more socially useful capital of the entrepreneur. Piketty deserves huge credit for kickstarting a debate about inequality and illuminating the distribution of income and wealth. But when it comes to the forces driving growth and wealth accumulation in our modern economy what he has probably done most to bring out into the open is our collective ignorance and confusion.

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Chapter 7 : Capital in the Twenty-First Century: Introduction | Harvard University Press

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Cracking the Money Code , from the top of the US best-seller list. He analyzes inheritance from the perspective of the same formula. Inequality tended to drop in the middle of the century but has increased in the past several decades. The book argues that there was a trend towards higher inequality which was reversed between and due to unique circumstances: The fast, worldwide economic growth of that time began to reduce the importance of inherited wealth in the global economy. His data show that over long periods of time, the average return on investment outpaces productivity -based income by a wide margin. Piketty himself recognized that there is a common sense "that inequality and wealth in the United States have been widening. Piketty rather "placed an unexploded bomb within mainstream, classical economics," he concludes. He also offers what amounts to a unified field theory of inequality, one that integrates economic growth, the distribution of income between capital and labor, and the distribution of wealth and income among individuals into a single frame. Capital in the Twenty-First Century is an extremely important book on all fronts. Capital in the Twenty-First Century He has proved it. According to Financial Times columnist Martin Wolf , he merely assumes that inequality matters, but never explains why. He only demonstrates that it exists and how it worsens. This book wants you to worry about low growth in the coming decades not because that would mean a slower rise in living standards , but because it might Gissurarson asserts that Piketty is replacing American philosopher John Rawls as the essential thinker of the left. Diverting more resources from the voluntary, "generally efficient" private sector and into the coercive, "generally inefficient" government sector, he says, was a bad trade-off, especially for poorer people. A declining ratio of savings to wealth would also set upper limits on inequality in society. Galbraith criticizes Piketty for using "an empirical measure that is unrelated to productive physical capital and whose dollar value depends, in part, on the return on capital. Where does the rate of return come from? In his opinion the work was written with the attitude "Empirical work is science; theory is entertainment" and therefore an example for Mathiness. Both of us are very liberal in the contemporary as opposed to classical sense , and we regard ourselves as egalitarians. We are therefore disturbed that Piketty has undermined the egalitarian case with weak empirical, analytical, and ethical arguments. Homburg argues that wealth does not only embrace capital goods in the sense of produced means of production , but also land and other natural resources. Homburg argues that observed increases in wealth income ratios reflect rising land prices and not an accumulation of machinery. Stiglitz endorses this view, pointing out that "a large fraction of the increase in wealth is an increase in the value of land, not in the amount of capital goods". Rognlie also found that "surging house prices are almost entirely responsible for growing returns on capital. Piketty defines capital as the stock of all assets held by private individuals, corporations and governments that can be traded in the market no matter whether these assets are being used or not. And he has certainly not produced a working model for capital of the twenty-first century. For that, we still need Marx or his modern-day equivalent". The FT found mistakes and unexplained entries in his spreadsheets, similar to those which last year undermined the work on public debt and growth of Carmen Reinhart and Kenneth Rogoff. For example, The Economist , a sister publication to the Financial Times, wrote: Piketty has been as good or better than anyone at both making all his data available and documenting what he does generally". The values Piketty reported for the twentieth century â€" are based on more solid ground, but have the disadvantage of muting the marked rise of inequality during the Roaring Twenties and the decline associated with the Great Depression.

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Chapter 8 : Capital in the Twenty-First Century - Wikipedia

Thomas Piketty's Capital in the 21st Century is the most important economics book of the year, if not the decade. It's also pages long, translated from French, filled with methodological.

But it is the way Thomas Piketty says it â€” subtly but with relentless logic â€” that has sent rightwing economics into a frenzy, both here and in the US. Carrying it under your arm has, in certain latitudes of Manhattan, become the newest tool for making a social connection among young progressives. Meanwhile, he is been condemned as neo-Marxist by rightwing commentators. Wealth will concentrate to levels incompatible with democracy, let alone social justice. Capitalism, in short, automatically creates levels of inequality that are unsustainable. To understand why the mainstream finds this proposition so annoying, you have to understand that "distribution" â€” the polite name for inequality â€” was thought to be a closed subject. This "Kuznets Curve" had been accepted by most parts of the economics profession until Piketty and his collaborators produced the evidence that it is false. In fact, the curve goes in exactly the opposite direction: Piketty accepts that the fruits of economic maturity â€” skills, training and education of the workforce â€” do promote greater equality. Thomas Piketty in his office in Paris. Ed Alcock for the Guardian If Piketty is right, there are big political implications, and the beauty of the book is that he never refrains from drawing them. The book has, in addition, mesmerised the economics profession because of the way Piketty creates his own world, theoretically. He defines the two basic categories, wealth and income, broadly and confidently but in a way nobody had really bothered to before. From page one he illustrates with visceral reminders of the unfair world we live in: That it has become so again busts the central myth of, and moral justification for, capitalism: The Bank of England, standing in the heart of the City. Bloomberg via Getty Images Put crudely, if growth is high and the returns on capital can be suppressed, you can have a more equal capitalism. If he is right, the implications for capitalism are utterly negative: Is Piketty the new Karl Marx? Anybody who has read the latter will know he is not. Where Marx saw social relationships â€” between labour and managers, factory owners and the landed aristocracy â€” Piketty sees only social categories: Marxist economics lives in a world where the inner tendencies of capitalism are belied by its surface experience. So the charges of soft Marxism are completely misplaced. Piketty has, more accurately, placed an unexploded bomb within mainstream, classical economics. If the underlying cause of the bank catastrophe was falling incomes alongside rising financial wealth then, says Piketty, these were no accident: The crisis is the product of the system working normally, and we should expect more. He notes that redistribution has become a question of "rights to" things â€” healthcare and pensions â€” rather than simply a problem of taxation rates. The policy logic for the left is clear. For much of the 20th century, redistribution was handled through taxes on income. In the 21st century, any party that wants to redistribute would have to confiscate wealth, not just income. This, Piketty demonstrates, is mistaken. It is easier to imagine capitalism collapsing than the elite consenting to them. His book Postcapitalism will be published by Penguin in early

Chapter 9 : Capital in the Twenty-First Century â€” Thomas Piketty | Harvard University Press

"We are now in the realm of speculation, however, and that is a world in which Piketty, notwithstanding his headline-grabbing predictions, is uncomfortable. That is the novel strength of Capital in the Twenty-First Century.