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Bigger than Marx

A wonky book on inequality becomes a blockbuster

http://www.economist.com/news/finance-and-economics/21601567r

5/1/2014

IT IS the closest thing to a pop-culture sensation heavyweight economics will ever provide. “Capital in the Twenty-First Century”, a vast work on the past and future of inequality by Thomas Piketty, a French economist, has become the best-selling title at Amazon.com. In America the online retailer has run out of the 700-page hardcover, which it sells for $25.

“Capital” has many virtues. It is a clear and thorough analysis of one of the foremost economic concerns of the day. It provides readers with a simple explanation for rising inequality. Wealth generally grows faster than the economy, Mr Piketty argues. What is more, there are few economic forces that counteract its natural tendency to become concentrated, as greater wealth brings greater opportunity to save and invest. In the absence of exceptionally rapid growth or a nasty period of geopolitical instability like that between 1914 and 1945, inequality therefore grows.

The book has attracted much criticism, however. The most common complaints fall into four broad categories. The first concerns Mr Piketty’s tone, beginning with the title. A deliberate allusion to Karl Marx’s magnum opus, it suggests both immodesty and an innate antipathy to markets. Some critics object to Mr Piketty’s use of words like “appropriation” to describe the rising share of income going to the rich. Writing in the Wall Street Journal, Daniel Shuchman, a fund manager, fumed at the book’s “medieval hostility to the notion that financial capital earns a return”.

This is not just a matter of presentation. There is no disguising that Mr Piketty is keener on redistribution than many of his critics. Clive Crook, a columnist at Bloomberg (and former deputy editor of The Economist), asks whether the levels of future inequality the book predicts are really as "terrifying" as Mr Piketty claims.

Others find fault with the book's economics. The statement "r > g" (meaning that the rate of return on capital is generally higher than the rate of economic growth) is central to the book's argument that wealth tends to accumulate over time. But some complain that r is too mushily defined, especially by comparison with the calculus-strewn pages of much economics research. Writing in Foreign Affairs, Tyler Cowen of George Mason University reckons Mr Piketty sees capital as a "growing, homogeneous blob", and so fails to take account of the variation, across time and investments, in the returns to wealth.

Happily, "Capital" is not written in economist-ese. There is relatively little mathematics; Mr Piketty uses 19th-century literature to illustrate many of his points. He freely acknowledges that riskier ventures are more lucrative than safer bets like government bonds. But he is less interested in individual investment choices than in the overall growth in value of an economy's wealth, including everything from industrial machinery to summer homes and art collections. His data suggest that, with the exceptions mentioned, wealth of this sort does tend to grow faster than the economy as a whole. Since 1700, he reckons, wealth globally has enjoyed a typical pre-tax return of between 4% and 5% a year—considerably faster than average economic growth.

Doubting Thomas

Other critics claim that Mr Piketty ignores bedrock principles of economics. Those dictate that the return on capital should fall as it accumulates. The 100th industrial robot does not provide nearly the same boost to production as the first. Kevin Hassett, of the American Enterprise Institute, a free-market think-tank, reckons the return should fall fast enough as wealth builds that the share of income that goes to the owners of capital should not rise (as Mr Piketty suggests it does).

This disagreement is partly a problem of definitions. Capital in Mr Piketty's book includes forms of wealth, such as land, that would not figure in economists' models of production; his rate of return is the pace at which such wealth grows rather than the benefit to firms of investing it. Mr Piketty's data appear to justify this approach: in the past, at least, the rich have been able to shift resources into higher-yielding forms of wealth when over-investment slashes the return. Mr Piketty also argues that the return on capital can be propped up by technology, which could lead to new ways of substituting machines for people.

A third category of criticism focuses on whether Mr Piketty overstates the extent to which the future is likely to resemble the past. Mr Cowen wonders whether r, however defined, is likely to continue to be higher than the rate of economic growth. Writing in the National Review, Jim Pethokoukis predicts that the same excessive pessimism about economies' capacity for growth that sank Marx's prophecies would also undermine Mr Piketty's.

In a similar vein, some critics question the parallel between today's wealth (which is mostly the product of soaring labour incomes) and that of the “idle rich” of the 19th century, living off inheritance. The long-run relationship between r and g has little to do with the fortunes accumulated by Bill Gates and Jeff Bezos.

Mr Piketty acknowledges the point, but does not let it distract him from his broader emphasis on the long-run returns to wealth. That is not an absurd decision. Some fortunes, like Warren Buffett’s, seem a confirmation of the contention that r is greater than g. Mr Piketty rightly points out that self-made riches may become tomorrow’s family fortune, given the propensity of wealth to perpetuate itself.

The book’s final section, on how policy should respond to rising inequality, has provoked the most disagreement. Mr Piketty’s proposal for a global tax on wealth is widely written off as politically impossible (which he concedes). Critics like Mr Cowen and Greg Mankiw, an economist at Harvard University, argue that his recommendations are motivated by ideology more than economics.

“Capital” does give unduly short shrift to conservative concerns. Mr Piketty glosses over the question of whether attempts to redistribute wealth will weaken growth. He also assumes, rather blithely, that growing inequality leads to instability. Yet that is not always the case: many democracies have managed such challenges without upheaval. Given the mass of data Mr Piketty has assembled, he might profitably have analysed in what circumstances inequality generates conflict. Then again, the success of his book, and the ever-expanding commentary it has provoked, will doubtless inspire others to do so soon.