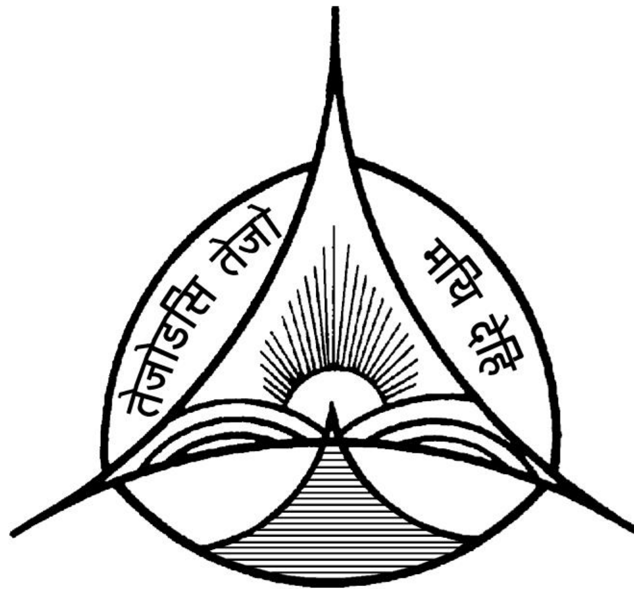
THE JMC REVIEW

An Interdisciplinary Social Science Journal of Criticism, Practice and Theory



Volume 1

2017

Capital in the Twenty-First Century by Thomas Piketty; Translated by Arthur Goldhammer, Cambridge, Massachusetts: Harvard University Press, 2014

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This book deals with one of the most discussed themes of development related issues which not only occupied a pivotal position in the writings of early classical economists like Smith, Ricardo and Marx, but also in the works of modern development economists like Kuznets, Kaldor, Lewis and others. The book, however, stands out particularly in its novelty of treatment as well as its richness of data that it uses as evidence in support of its arguments. Further, the arguments have deeper theoretical underpinnings, giving equal focus to both developed as well as developing countries. This is unlike most modern development literatures, the scope of which largely remains confined to the former. Most importantly, it emphasises that the problem of burgeoning inequality over the long span of time is in fact systemic and embedded inherently in the capitalist economy. Thus, his argument in this regard puts him closer to Marx than any other classical economist, particularly in terms of identifying the root of the problem, though not in providing the solution.

The book is arranged thematically in four parts. The first part deals with global income and output trends over almost the last two centuries. Piketty describes diffusion of knowledge and domestic investment in both physical and human capital, coupled with the ability to mobilise finances and institutional efficiency as factors responsible for convergence. He further emphasises that none of the Asian countries that has moved closer to the developed world has benefitted from large foreign investments. In order to explain the dynamics of growth and inequality, he proposes two fundamental laws of capitalism. The first law states that if r is the rate of return on capital, α is the share of income from capital in national income, and β is defined as capital/income ratio, then the following relationship will hold as accounting identity; $\boldsymbol{\alpha = r \times \beta}$**.**

The second part deals with the changing nature of capital and the dynamics of capital/income ratio over the long run. During the 20th century, the capital/income ratio followed a nearly 'U' shaped path, fell between 1914 and 1945, and rose sharply thereafter. The fall during the first period is mainly attributed to physical destruction of assets during two World Wars, collapse of a foreign portfolio, a very low saving rate, low asset price, financing of Wars through saving, etc. However, the rebound in the subsequent period is primarily accounted for in what he calls the second fundamental law of capitalism ($\boldsymbol{\beta = s/g}$**,** where s is saving rate and g is the growth rate), i.e., slower growth rates and higher saving rate. He further predicts that this ratio will rise in the twenty first century. He opines that Marx's idea of falling rate of profit will not hold true as it did not include productivity growth.

In part three he talks about inequality of income which rose between the early nineteenth century and 1914. Though he believes that 'Ricardian Equivalence' never remained smooth, public debt played a crucial role in rising inequality during this period. However, from 1914 to 1970, there was a sharp reduction in inequality in most of the developed countries. This, according to him, was primarily due to the collapse of capital/income ratio, initiation of taxes on capital, income etc. during this period. However, since 1970 there has been a reversal of trends. Thus, he reduces Kuznets 'inverted U' shaped curve which showed the relationship between growth and inequality based on tax data between 1913 to mid-1950 as the exception rather than the rule.

He finds a divergence between r and g (i.e., $r > g$), a 'central contradiction of capitalism' responsible for rising inequality across the globe. According to him, $r > g$ implies 'that wealth accumulated in the past grows more rapidly than output and wages', and thus contributes significantly to rising inequality of global income. For the 20th century, he predicts that output growth will be limited between 1 and 1.5 per cent, and return on capital between 4 and 5 per cent, and therefore inequality will rise further. Thus, there is an inherent tendency of rising inequality in the capitalist system as long as $r > g$ inequality holds.

In the last part of the book, he prescribes solutions for the problem of rising inequality. He proposes progressive annual tax on capital, the success of which requires a high level of international cooperation and regional political integration. Neither promotion of perfect competition nor control over capital is desirable in this scenario.

Vast empirical data, lucid explanations and references from literary classics written in different political regimes with inexorable analysis undoubtedly make this book nothing short of a classic. Needless to say, in the process of explaining long-term trends, this book raises questions about empirical validity of several notions (as propounded by Ricardo, Malthus, Marx and Modigliani) which have since long occupied a prominent place in the development discourse related to global inequality.

Nevertheless, there are certain issues that need careful attention. For instance, in his second fundamental law of capitalism, capital/output ratio is determined by the s/g ratio. He has used Harrods's equation by making capital/income ratio a variable and reverses the direction of causality. This is undoubtedly questionable. On the contrary, if at any point of time there is higher capital/income ratio, it implies lower income of wage earners. So there might be the possibility of demand contraction in the economy, which may lead to lower growth rate in the next period. Thus, reverse causality seems more logical and endowed with large theoretical justifications. Second, even if we assume relatively higher rate of return on capital as compared to growth rate of output, one remains doubtful about its sustainability in the long run. This is because low growth rate and higher return on capital necessarily imply squeeze in wage income and therefore a fall in overall demand in the economy. Further, a higher level of accumulation of capital may lead to diminishing returns of capital. Even if capital can be used in many ways, it has to ultimately comply with rising demands in the economy. Besides, there are also diminishing returns to technological progress and limits to productivity growth, at least in the

long run. Therefore, whatever be the extent of these effects, in the long run profitability as well as return on capital is bound to decrease and consequently will give rise to either a break in the aforementioned inequality or a collapse of the production chain. Third, very surprisingly, he has shown that there has been a rise in the capital/income ratio and a fall in the growth rate during the last couple of decades. However, the share of wage in total income as shown in Chapter six of the book remained nearly stable during the same period, and this, nevertheless, is a contradictory result.

Piketty discusses public debt as one of the important reasons behind rising global inequality, particularly during the 19th century. His data shows that during the last couple of decades, there has been a sharp decline in public debt in developed countries, while in the developing countries it has been growing significantly during the same period. Thus, his argument implies that this may result in further burgeoning of inequality in the latter. This proposition is indeed doubtful. Given the limitations of demand in the developing countries, one may expect higher value of Keynesian multiplier and therefore rise in government expenditure. But, even if financed by public debt, the increased public expenditure may not unambiguously lead to rising inequality in the long run. However, his prescription regarding refinancing these debts by imposing higher tax on capital seems suitable for contemporary emerging economies like India.

In regard to policy suggestions, Piketty rightly points out the need to have coherent and progressive tax on capital; however, he himself accepts the fact that it would not be effective without international cooperation. We may look at this suggestion from two angles. First, since structure/size of capital is highly differentiable across countries, the feasibility of all countries accepting such a cooperative arrangement remains questionable. Second, imposing progressive tax on capital not only has economic logic, but also political dimensions. One should not ignore the extent to which capital is influential in determining the domestic as well as international policies in the contemporary world. Thus, any suggestion calling for the unification of the entire world against capital loses significance, at least as a policy prescription.

Further, it is also important to see the analysis in the book as a postcolonial critique. For instance, after the dominance of British and French economists for centuries, American economists like Kuznets, Samuelson, Fischer, Friedman and many others have challenged the supremacy of European economists, including Keynes, particularly since the middle of the 20th century. This book, to a large extent, provides a critique of most of these American theorists who remained noteworthy during the last couple of decades. In doing so, it remains extremely successful in putting a serious question mark against the empirical validity of these theories. However, in terms of providing theoretical justification for his arguments, in my opinion, this book far from establishes itself as an alternative framework to address the fundamental issues central to contemporary development discourses.