Piketty #2!

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*This post represents the second installment of our special review section on **Capital in the Twenty-First Century.** First and third installments available here and here.*

Piketty, Thomas. 2014. Capital in the Twenty-First Century. Harvard: Harvard University Press. 696 pp. Hc: $39.95. ISBN: 9780674430006.

These are wild times and people have wild luck. Fortunes have been made, unmade, and taken away due to a severe shift within the capitalist world system, which became manifest to the wider public as a result of the so-called financial crisis that began in 2008. Since then, an understanding of capitalism as a rather unsustainable way of being human has been gaining significant traction within the social sciences.

One of capitalism's most powerful guises is, however, to dress luck and fortune as fate. In "Capital in the Twenty-First Century", Thomas Piketty takes on what is probably the most significant twentieth century theorem in the academic ivory-tower inhabited by economists: Simon Kuznets' 1950s theory that "income inequality would automatically decrease in advanced phases of capitalist development, regardless of economic policy choices or other differences between countries, until eventually it stabilized at an acceptable level" (Piketty 2014, 11).

Kuznets, who at the time held a chair for statistical economics at the University of Pennsylvania, is one of the most influential economists at the twentieth century, which means that a few words about him are in order. He is credited for introducing the concept of a Gross National Product (GNP), which became a standard global measurement for annual growth in national economies and was first applied by the US Department of Commerce. GNP measurement of national "wealth" has been widely criticized since the early 1970s. Still Kuznets was given a chair for political economy in Harvard and the Sveriges Riksbank Price in Economic Sciences in Memory of Alfred Nobel (often mistaken as the economists' equivalent of the Nobel Price for Peace because both are named after a Swedish weapons manufacturer and designer of explosives) in 1971 for his contribution to the discipline.

> *The Kuznets Curve, according to Piketty, was a watershed moment in economics, giving the discipline an apparatus for replacing the nineteenth century views that saw capitalism as the trigger for ever-increasing inequality, or worse, as having an intrinsic drive towards concentrating ever more in ever fewer hands and thereby digging its own grave.*

An anthropological view on this may state that Kuznets' work laid the foundation for an epistemic community in opposition to the Marxian crisis theorists searching for signals of capitalism's autumn and winter stages in global economic developments. Economists now had their counter-belief: that eventually, all would be well. Piketty poignantly cites their mantra from the 1950s: "Growth is a rising tide that lifts all boats" (Piketty 2014, 11).

There is an obvious Achilles Heel to this – "growth". Indeed, much of Piketty's book is devoted to attacking Kuznets' mantra from various angles. His most powerful critique is that what Kuznets took for a rising-tide-capacity of growth was in fact a historical exception. For this he serves us a formula that may soon attain the sex appeal so far reserved for "$e=mc^2$" – "r>g", which says that the return on capital (r) is always higher than the growth rate (g). This r>g is "fundamental" among the many forces pushing for a divergence in the "process by which wealth is accumulated and distributed." Piketty is anxious to point out that this "… has nothing to do with any market imperfection, [but that] the more perfect the capital market (in the economist's sense), the more likely r is to be greater than g." (Piketty 2014, 24).

Exceptionally high growth rates, instead, are a force for convergence as they allow for a high return on capital and at the same time bring down the capital/income ratio – $\beta = r/g$. Growth, in other words, impacts on the "first fundamental law of capitalism", which is $\alpha = r \times \beta$ (Piketty 2014, 52-5). α here stands for the share of capital in national income, meaning that if in a given national economy the rate of return on capital is 5 per cent and the capital/income ratio is 600 per cent, the share of capital in national income will be 30 per cent. This is further reflected in the "second fundamental law of capitalism", which says that the capital/income ratio is the savings rate s divided by the growth rate g (Piketty 2014, 166-70).

> *It is only on the basis of these two fundamental laws that the r>g formula develops its iconoclastic potential, which led to the frantic, hopeless Financial Times effort to undercut Piketty's dataset in late May 2014, – at which point the book was already an international best-seller with first indications of an influence on national economic policies.*

Piketty's prediction is that persistent slow growth rates under capitalism may result in a capital/income ratio of 700 per cent at the end of the twenty-first century (Piketty 2014, 196). This is the norm rather than the exception for the period from 1700 to 2012, the furthest stretch of Piketty's impressive dataset. The book's explosive potential derives from the fact that Piketty shows how the dataset on which Kuznets Curve was founded reflects merely those historically exceptional years from 1913 to 1948, when there was a "compression of high US incomes" (Piketty 2014, 13). Kuznets' Curve was sustainable on empirical grounds because all industrially advanced national economies had very high growth-rates in the decades after the end of the Second World War. This was the second historical window of opportunity for the Kuznets-Curve-mantra-driven epistemic community of economists, and let them push the boat out, so to say, call for growth-stimulating measures by governments and have everyone wait, until this very day, for the tide to rise and wash away severe inequality.

Against this, Piketty pits that the slowing of growth rates since the 1970s has brought about a much higher capital/income ratio – r>>g. To this he adds that inherited wealth has much more weight in times of slow growth, which is why future social mobility will be very limited. One may add here the question of if it was not always so: dishwasher to millionaire and other rags-to-riches stories may always be arranged for because they work so well in keeping the 'anything goes fiction alive on which capitalism strives so much.

> *Obviously, there is a lot more to say about this book of encyclopedic size and weight. Among the fifty or so reviews on the book, I recommend Benjamin Kunkel's piece in the London Review of Books and James K. Galbraith's in Dissent Magazine, which has an excellent discussion of Piketty versus Marx.*

Although neither Piketty nor indeed his translator Arthur Goldhammer manage to maintain the very accessible style of the initial 108 pages (equal to "Part I"), there is a lot to gain from the entire 655 text (including insightful footnotes). I personally enjoyed the richness of datasets and analysis and was often surprised by the attention to detail throughout the book; the pricing of slaves from Quentin Tarrantino’s “Django Unchained”, for example, were verified as a historically sound in Piketty’s analysis of the impact of slavery in historical US economy on the capital/income ratio (Piketty 2014, 163). Similarly, I enjoyed learning about the “Two Cambridges” debate between economists from Harvard University and Cambridge University, in which the two sides quarreled over whether “the capital/income ratio adjusts to the savings rate and structural growth rate of the economy rather than the other way around” (Piketty 2014, 231). Likewise, Piketty’s discussion of the “Rise of the Supermanager” in the Anglo-Saxon world is as insightful as his account of the 2013 Cyprus crisis, in which he indicates that the “Troika” of the International Monetary Fund, European Commission and European Central Bank never really had the means to intervene properly (Piketty 2014, 314-25; 553-6 respectively).

If ours were a world of pre-neoliberal universities and without rushed Bologna-Reform degrees, I would now say that Piketty’s book should soon be core

> *reading for any Anthropology Masters Programme with a focus on economics and development. As long as Bologna lasts, university lecturers may benefit from using Piketty's graphs, perhaps to illustrate, for example, the linkages between global population growth, changing economic output since 1700 and how global income has been split between continents over the past centuries (see Piketty 2014, 60).*

Unfortunately, Piketty's book is not the strongest in its predictions for the twenty-first century, nor in the cures he suggests for preventing r>>g and maintaining r>g at a sustainable level. Indeed, there is nothing much novel about his calls for a global tax on wealth in the third and final part of the book, which in many ways echo the long-held demands of the Association pour une taxation des transactions financières pour l'aide aux citoyens (ATTAC). Yet Piketty's suggestion that in an era of slow growth it is only political interventions that can maintain a reasonable r>g may, however, be well received in circles that needed to be convinced that Kuznets Curve was a fiction. Others have rightly felt inclined to critique Piketty for wanting to preserve a status quo by serving an enormous pile of "facts" (see Engelen and Williams 2014). To this I would add that the issue with capitalism is not only the way wealth is distributed and redistributed but also the way wealth is generated under increasingly super-exploitative conditions under which tens millions of workers generate the global output in garments and light-consumer electronics, for example (Neveling 2014; 2015). Piketty's focus on growth (and his insistence that there was none before 1700) and how this relates to inequality may add to a somewhat worrying trend in other disciplines, such as global economic history, where the analysis of capitalism increasingly neglects exploitation and accumulation and instead equates capitalism with economic growth per se (Schenk 2014).

Harvard University Press and Belknap's decision for the book-design may well add ammunition to such criticism. The two presses deliver a book cover screaming, “here is ontological security” in the reader’s face: the word “Capital” is written in carmine letters with golden borders. The back of the inside cover shows Piketty sitting with legs and arms crossed on what looks like a university lecture room table with a whiteboard filled with formulas behind him – as if he was the “cleaner” impersonated by Harvey Keitel in Tarantino’s “Pulp Fiction” who can sort things out for all of us, and foremost for economics. The blurbs on the back of the book, finally, are printed on a golden background, implying that all is well again, now that the cleaning is done and we have regained trust in capitalism – as long as it does not come in the r>>g version.

> *In my view the revolutionary ‘finding’ of the book is that academic mantras such as Kuznets Curve emerge if a discipline turns presentist and does not cross-reference data with longer-term developments.*

In this sense, mainstream anthropology shares much with economics – think of the 1990s globalisation debate, which took centuries-old phenomena for a radically novel present. For anthropologists then, Piketty’s project to reposition “economics as a subdiscipline of the social sciences, alongside history, sociology, anthropology, and political science” (Piketty 2014, 573) may serve as an invitation to break our self-imposed chains and (re-)turn the discipline to the social sciences as well – and away from an overemphasis on the marginal, the present, and the ontic other.

> *Once this has happened, anthropologists and economists will have a lot to catch up on.*

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