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The accidental controversialist: deeper reflections on Thomas Piketty's *Capital*

Piketty, Thomas. 2014. *Capital in the Twenty-First Century.* Cambridge: Massachusetts: Harvard University Press. 685 pages. 978-0674430006

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Thomas Piketty's *Capital in the Twenty-First Century* is a six hundred and eighty-five page tome that definitively characterizes the empirical pattern of income and wealth inequality in capitalist economies over the past two hundred and fifty years, and especially over the last one hundred. It also documents the grotesque rise of inequality over the past forty years and ends with a call for restoration of high marginal income tax rates and a global wealth tax.

His book has tapped a nerve and become a phenomenon. In laying a solid blow against inequality, Piketty has also become an accidental controversialist. That is because his book has potential to unintentionally trigger debate over so-called "free market" capitalism. The big question is will that happen?

To get some perspective on its phenomenon status, consider the following. The book (at time of writing this article) is number one on Amazon.com's best seller list, beating out the likes of Lynn Vincent's *Heaven is for Real: A Little Boy's Astounding Story of His Trip to Heaven and Back*; George Martin's *A Game of Thrones 5-book boxed set*; Erlend Blake's *Never Work Again: Work less, Earn More and Live Your Freedom*; and Dale Carnegie's *How to Win Friends & Influence People*.

The usually sober Sunday *New York Times* had a long article accompanied by a side-bar placing Piketty's book alongside Adam Smith's (1776) *The Wealth of Nations*; Thomas Malthus' (1798) *An Essay on the Principle of Population*; John Stuart Mill's (1848) *Principles of Political Economy*; Karl Marx's (1867) *Das Kapital*: and John Maynard Keynes' (1936) *The General Theory of Employment, Interest and Money*. I think it fair to say phenomenon is no exaggeration.

Piketty's book consists of four sections. The first provides a theoretical framework, the second two provide empirical documentation, and the fourth provides a policy framework for reversing the surge in inequality of the past forty years. By all accounts from those who know, the empirical work is superb in scope and detail and it is praised as part of a new economic scholarship that explores "big" data sets. In Piketty's case the big data is individual tax returns.

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The book's timing is near-perfect because of awakened political interest in inequality, but its empirical findings are not revolutionary and rising income and wealth inequality have been documented for years, albeit less comprehensively. Beginning in 1988 with the first edition of *The State of Working America*, Larry Mishel and his co-authors at the Economic Policy Institute in Washington DC have biennially documented the problem of wage stagnation and rising income inequality in the US - and they too use big data from the Current Population Survey. Jamie Galbraith substantially confirmed that picture in his 1998 book *Created Unequal: The Crisis in American Pay*. Moreover, he too used biggish data on the distribution of manufacturing wages, and he subsequently extended his research to cover the international economy.

Another economist who documented rising US income and wealth inequality is Edward Wolff in his 2002 co-authored book *Top Heavy: The Increasing Inequality of Wealth in America and What Can Be Done About It*, and his 2008 book *Poverty and Income Distribution*. With regard to global patterns, Branko Milanovic has been the preeminent contributor with his 2002 article "True World Income Distribution, 1988 and 1993: First Calculations Based on Household Surveys Alone" and his 2005 book *Worlds Apart: Measuring International and Global Inequality*. Other renowned contributors include Anthony Atkinson and François Bourguignon. And of course, Piketty has also contributed with his masterly 2003 article, co-authored with Emmanuel Saez, on US income inequality from 1913 to 1998. Indeed, his book is in part an extension of the methodology developed therein.

Given this, it is interesting to ask why Piketty has broken through where others have failed. In my view, one reason is political. Mishel, Galbraith, and Wolff are progressive left economists. Though their books are not theoretical or comprehensive policy treatments of the problem, their implicit theoretical logic emphasizes economic and political power. That logic is explicitly developed in my 1998 book *Plenty of Nothing: The Downsizing of the American Dream and the Case for Structural Keynesianism*.

The important point is mainstream economics has difficulty acknowledging work from such sources because to acknowledge is to legitimize. That creates the strange situation in economics whereby something is not thought or known until the right person says it. This pattern applies to income inequality, the macroeconomics of debt deflation, the economics of international capital controls, and Phillips curve inflation theory, to name a few instances.

These observations lead to a second concern which is, after the initial fuss dies down, Piketty's book may end up being gattopardo economics that offers change without change (Palley, 2013). The public discourse on income and wealth inequality has been increasingly owned by progressive economists, both because of their early identification of the issue and the logical coherence and empirical consistency of their explanation. That has placed mainstream economics on the political defensive. Piketty provides a mainstream neoclassical explanation of worsening inequality in the first section of his book. That creates a gattopardo opportunity whereby inequality is folded back into mainstream economic theory which remains unchanged.

Using a conventional marginal productivity framework, Piketty provides an explanation of rising inequality based on increases in the gap between the marginal product of capital, which determines the rate of profit (r), and the rate of growth (g). Because capital ownership is so concentrated, a higher profit rate or slower growth rate increases inequality as the incomes of the wealthy grow faster than the overall economy.

The conventional character of Piketty's theoretical thinking rears its head in his policy prescriptions. His neoclassical growth framework leads him to focus on taxation as the remedy. There is little attention to issues of economic institutions and structures of economic power because these are not part of the neoclassical framework. That substantially explains progressive economists' diffident embrace of the book. Furthermore, even if technically feasible, Piketty's tax prescriptions are politically naïve given capital increasingly controls the political process.

These features have led some critics to raise old "Cambridge" arguments about the intellectual incoherence of marginal productivity income distribution theory. Critics also assert Piketty conflates physical and financial capital, overlooking the role of finance in determining rates of return and patterns of income and wealth distribution. There are two problems with these responses. First, mainstream economists determined long ago to turn a blind eye and deaf ear to such arguments. Second, these arguments miss the bulls-eye which is the nature of capitalism.

A better response is for critics to stick with the rate of profit versus growth argument while dumping the neoclassical marginal productivity aspect of Piketty's theoretical argument. Mainstream economists will assert the conventional story about the profit rate being technologically determined. However, as Piketty occasionally hints, in reality the profit rate is politically and socially determined by factors influencing the distribution of economic and political power. Growth is also influenced by policy and institutional choices. That is the place to push the argument, which is what critics of mainstream economics have been doing (unsuccessfully) for decades. The deep contribution of Piketty's book is it creates a fresh opportunity in this direction.

Mainstream academic economists will try to block that and push the gattopardo tactic. My prediction is "r minus g" algebra will make its way into the curriculum, with the profit rate explained as the marginal product of capital; Chicago School economists will counter the economy has mechanisms limiting prolonged wide divergence of r and g; and Harvard and MIT graduate students will have opportunities to do market failure research arguing the opposite. The net result is economics will be left essentially unchanged and even more difficult to change.

Piketty's phenomenal success raises excruciating dilemmas for progressive economists. His book has raised the political profile of inequality; he seems admirably modest; he insistently expresses solid liberal views regarding the toxic effect of gilded age inequality on democracy; and he recommends wealth taxation. Criticism of any kind can appear as churlishly raining on his parade. Identical dilemmas hold regarding economists like Paul Krugman who is brilliantly reliable in his critique of Republicans, less reliable in his critique of Democrats, and unreliable in his critique of mainstream economics. To criticize risks undercutting these sources of allied support.

Nevertheless, these things need to be said. Shared values and shared analysis are different. Shared values can create short-term agreements that obscure long-term conflicts inherent in differences of reasoning. Ideas matter and failure to articulate ideas truthfully can have dire consequences. Academic economists have an obligation to state the theoretical issues clearly. Piketty's book is an academic treatise with public policy implications, which means it is right to point out its neoclassical tendencies and gattopardo dangers.

The book has already had an enormous positive political impact. In my view, speaking truth about its limitations will not diminish that impact. Neoclassical economists have always talked of capital (K). The forbidden subject is capitalism. Piketty has whetted the public's appetite with his talk of capital. Friendly criticism may get the public thinking about capitalism and what is needed to make capitalism deliver shared prosperity.

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