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Reading Piketty in Athens

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> When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues (John Maynard Keynes).

I have been reading Thomas Piketty this past week in Athens, where I came back to assess how Greece is faring half a decade after its economy imploded, initially as a consequence of its own ills and then – in an act of monumental malpractice by Germany, the ECB, and the IMF – the cure imposed.[1]

Signs of recovery are few.

It is hot here, as Mediterranean summers always are – but as thick as the heat is, an air of solemnity and defeat lies far more thickly over this concrete-gray capital and its now concrete-gray people, for whom what we know as the Great Recession has been their Great Depression, where the GDP has contracted 40% in five years and more than a quarter of its workforce can find no paid employment.

Four years ago, tens of thousands of Greeks would turn up regularly, week after week, at Syntagma Square in the heart of Athens to protest, again and again, the terms of the European-and-IMF-designed austerity regime that was the price Greece was being made to pay for loans meant to keep its government and economy afloat.

The streets lack protestors now, filled instead by tourists (more than 20 million visitors are expected this year, nearly two tourists for every Greek citizen) but also with drunks, junkies, and beggars out in alarming numbers of their own. Syntagma Square – jammed when I was here in 2011 with the tents and makeshift lean-tos of young protestors – has been scrubbed clean, the grass and flowers replanted, and new marble steps and benches replacing the stonework that had been chipped and broken to provide rocks to hurl at riot police.[2]

But cross the street from Syntagma Square and walk into the five-star Hotel Grande Bretagne and you suddenly encounter the tangible meaning of “unequal privilege” and what the incomes of the One Percent buy today – the quiet, the coolness, the sheen and rich color of the marbled floors and brocaded chairs and banquettes, the glistening reflection of silver tableware and brass sconces, the comforting thickness of the imported carpets, the watchful eye of both waiters and security guards – all take on a jarring immediacy that is, for me, sensory and ethical at once.

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[1] I served as an economic advisor to Prime Minister Papandreou, 2009-2012.
[2] A wealthy Greek banker told me that the owner of the Grande Bretagne, Athens’ most famous luxury hotel, and which sits on one edge of Syntagma Square, had paid more than 2 million Euros to repair the park because neither the city nor the national government had funds to do so.

In Athens today, because you can in 30 seconds walk out of a world of beggars and into that of bankers, you can't help but reflect on how vividly Piketty's dry-as-bone wealth and income tables and graphs can translate into human experience. This makes reading *Capital in the Twenty-First Century* in Athens profoundly immediate and unsettling.

Yet simultaneously the various aspects of deep inequality in Athens – of wealth, of income, of opportunity, of hope, of trust – everywhere underscore the oddly-disconnected (even sometimes ethereal) feeling *Capital* conveys, although Piketty goes to great length to emphasize his own connectedness to human life through his empiricism, both in terms of the data he's assembled and in its rootedness in a historian's vivid chronology of politics and societal change rather than an economist's usual ordered placement of such data in the sterile ahistoricity of time series.

The fundamental genius of *Capital in the Twenty-First Century*, though, lies in its mapping and detailed decomposition of the great U-curve track income and wealth distribution have followed over the 20th century – first, sharply declining inequality, especially during the thirty or so years from World War II's end up to the mid-1970s (what the French, Piketty reminds us, nostalgically still call "les trentes glorieuses"), then inequality's equally-sharp rise from the 1970s to today. It's what gives the book a monumental facticity of unusual scale and scope that, in no small part, explains the attention Piketty's work has garnered these past few months.

Yet that attention is also thanks to the moment in which the book has appeared. Just as Keynes's *General Theory* struck with such force because it was published in 1936 – and not 1926 or 1916 – so Piketty's *Capital*, by appearing (in English translation) in 2014 – and not 2004 or 1994, has arrived at a pitch-perfect message to be heard.

Capital's **prominence**

In truth, *Capital* is not quite as path-breaking as many believe. A fair-sized body of work on rising inequality – much of it quite good – had already been generated by other economists during the past 40 years.[3] But most of that work went to press without an economics mainstream (let alone a ready public audience) able to see its importance thanks in no small part to the profession's monocular preoccupations with "growth" in aggregate, shorthanded in the annual performance of GDP.

Not so long ago, the idea that aggregate national economic growth – denominated by GDP and the percentage changes of it – represented *the* 20th century's solution to elemental human tensions of class, interest group, and nation reigned, in imaginative terms, with the thoroughness equal to that which Roman Catholicism exercised in medieval Europe. Indeed, for the first 25 years after World War II, the conjunction of growth with clearly-declining inequality served as unalloyed reason to celebrate the ever-rising GDP – it was, quite simply, in fact a tide that was lifting (almost) all boats.

[3] I'm thinking, for example, of work by James Galbraith, Robert Kuttner, the Economic Policy Institute, Edward Wolff, et al. Gabriel Kolko, *Wealth and Power in America,* is among the very earliest, published in 1962.

But in the 1970s, as growth faltered across the developed world – and with it, the Keynesian consensus – the new demands to restore growth through pre-Keynesian means subordinated any serious reconsiderations of inequality's unique importance or relations to not only the market's growth but democracy's health to the "larger" imperative of GDP's restoration. Keynesianism, its many conservative critics insisted, had clearly shown it wasn't really the means to, but the enemy of, growth – and that only by extensive deregulation of markets and deep cuts in taxation (especially of capital and the incomes it generated) could we restore what had been lost.[4]

Ronald Reagan famously encapsulated the new consensus in a sentence: "Government is not the solution to our problem; government is the problem." Faced with humiliating confusions and ferocious accusations, some shaken Keynesians themselves now even postulated an inverse growth-equality relationship – "equity vs. efficiency" – as the trade-off needed to recover GDP health.[5]

GDP growth, more importantly, for much of the Cold War was frequently cast not just as a desideratum in terms of our economic well-being but a necessity in terms of our survival. In the 1950s and 1960s, the CIA had repeatedly warned that the Soviets and Chinese seemed capable (perhaps even on the verge) of "burying" capitalist democracies thanks to Moscow's and Beijing's superiority at solving growth equations for their military-industrial economies. Inevitably the CIA's assessments leaked, stirring great public alarm – and, not unexpectedly, produced expanded American defense budgets.[6]

All that, of course, changed in the late 1980s when the Berlin Wall fell, leaving capitalism the seeming sole inheritor of the earth. After Lehman fell in 2008, however, the West's questions (and doubts and angers) about growth all of a sudden sprang not from a fear of communism but a new-found fear of capitalism. The Great Recession – in sum, not just Lehman's collapse, but the Occupy movement in America, Europe's frightening swoon after Greece's collapse, the need for multi-trillion-dollar rescue of markets by states, capped by the ongoing worldwide failure of GDP to recover meaningfully or unemployment to recede significantly, plus the failure to craft a strong architecture of remedy or prevention for Wall Street's inevitable future excesses, and beneath all of that, the ongoing profound absence of confidence about the future after the greatest global contraction since the 1930s – has delegitimized for millions the fundamental "growth" consensus that had reigned since World War II.

What if anything will replace that consensus, when and how, is not at all apparent, of course – and not least explains the excited reception given to *Capital in the Twenty-First Century*. Some have been so excited that they've even compared *Capital* to *The General Theory*, and

[4] In Robert Lucas's famous phrase, Keynesians by the late 1970s were worse than defeated; they were laughing stock. "At research seminars," he said, "people don't take Keynesian theorizing seriously anymore; the audience starts to whisper and giggle to one another." His Chicago colleague John Cochrane generously explained that Keynesian ideas were "fairy tales that have been proved false. It is very comforting in times of stress to go back to the fairy tales we heard as children, but it doesn't make them less false."
[5] Robert Collins, *More: The Politics of Growth in Postwar America* (Oxford, 2002).
[6] Liberal Keynesians, nostalgic for the long era of growth-with-equality, often overlook or elide acknowledgement that for most of those first 30 years after World War II, the Pentagon consumed half of the federal budget.

Piketty to Keynes, in terms of its insights and influence – claims that to me seem premature, though in some attenuated way possible.[7]

It's clear that Piketty has done two *very important things*: first, *he has forced us to look anew at income and wealth distribution by drawing our attention away from GDP growth as such*; second, he has refocused us away from just the recent past toward *la longue duree* that simultaneously points to a long, rather than near, future. In so doing, he has leapfrogged – at least for his admirers – the staleness of both America's gridlocked politics and Europe's policymaking briar patch, and pointed us toward an authentically-fresh research as well as a fresh policy and political agenda that must henceforth focus binocularly on growth and inequality. In this, his admirers can fairly draw comparisons to Keynes's impact because he has hinged *Capital in the Twenty-First Century* to wealth and income distribution as surely as *The General Theory* was hinged to aggregate demand.

Rather than rehashing the endless debates of the past 30 years about the relative merits of markets and states, Piketty in short shows us how to see the fluctuations (and constancies) of inequality over the past two centuries – and suggests what we might anticipate about its future. He reminds us that, as Old Europe's monarchies and empires gave way after World War I, the rise of Bolshevism, Fascism, and Nazism overturned long-established patterns of social, political, and economic order and organization – not least, as he is at pains to point out, patterns and sources of wealth and income inequality that made the 19th century different from the emerging 20th.

But because the Great War's great *boulversements* led from shattered empires to violent revolutions (and equally-violent ultramontane reactions), and then soon enough to the Great Depression and a second world war – the century's "great levy" of blood, fortune, power, and rank – by 1945 meant that the West was brought to a singular juncture.

Right after the end of World War II, relying on the still-powerful capacities of industrial capitalism, and counter-posing the threat of Stalinist expansion to the promise of democratic affluence for most (if not all), elites in the West, with American elites in the lead, during an extraordinary few years re-patterned the course of our history. We today are still living out the disrupted final stages of the new age they created as the world prepares to enter a subsequent age led by new hegemonic powers and alliances.

Piketty is keen to reframe that re-patterning in terms of a V-shaped turn of income and wealth distribution rather than simply the rising tide of postwar GDP – and rightly so, given all the benefits early growth-with-redistribution brought. (In the US at least, initially these gains came about through the legacy of wartime "wage compression" policies, then after the legendary Treaty of Detroit in 1950, the Big Business-Big Labor concordat that shared productivity gains in exchange for labor peace, and vast expansion of federal spending, first on the military, then finally after the JFK-LBJ years expanded social welfare, increasingly through public transfers rather than market-based allocations.)

[7] If precedents to *Capital* are needed, I'd sooner point to Milton Friedman and Anna Schwartz's *A Monetary History of the United States, 1867-1960*. Both works are densely empirical and historically grounded (which *The General Theory* was not), with extensive tabular and graphic presentations, and the authors' conclusions about the economic patterns they observe are generalized into focused economic rules – in Friedman's case, the crucial role of monetary policy (rather than Keynesian fiscal policy), in Piketty's, that of income and wealth distribution (compared to aggregated GDP), for determining what each considers optimal growth paths.

For the first time in history, at least in North America and Western Europe[8], the majority was now living a life of relative plenty and security, with its continuance seemingly insured and its constant improvement promised – the new world John Kenneth Galbraith legendarily named “The Affluent Society”. The old apocalyptic threats to humankind of famine, civil war, disease, gross injustice at the hands of authorities and one’s “betters” (and, of course, poverty) receded after World War II from the experience – even the memories – of several hundred million fortunate North Americans and Western Europeans.

Operationalizing an inequality focus

But that’s to look backward – when the more important challenge Piketty poses, it seems to me, is to look forward. He himself famously does so in two ways in *Capital:* first, by postulating r>g as a new economic “law” to explain why returns to capital will continue indefinitely to exceed GDP growth rates, and then by suggesting a global wealth tax as partial remedy for the alleged invariability of r>g. Each of these has attracted much comment from reviewers as well as controversy – r>g for its claim to being a “law,” the global wealth tax for what many take to be its utopianism.

Resolving whether r>g is in fact a new economic law or an empirical pattern based on trend lines that are capable of shifting or even reversing – just as inequality trends first declined, then reversed, after World War II – remains, in some sense, for the future rather than blackboard modeling to tell. (Older economists may want to reflect here on the claims to law-like status accorded the Phillips Curve in the 1960s or Supply Side’s bell curve in the 1980s.) Implementation of an effective global wealth tax meanwhile, as Piketty fully understands, is not even a matter for economic modeling but of making rather heroic assumptions about earnest economists’ policy persuasiveness and enormous changes in the likely political/ideological landscapes of the decades ahead.

Without solving either of these Pikettyan meta-issues, the question arises: Are there other things we as economists can do if, like Piketty, we’re concerned (alarmed? appalled?) about current levels and trends of inequality? How – absent meta-solutions – should we or could we move an inequality-reduction agenda forward? What issues or strategies or agendas might help advance absorption of Piketty’s focus on distribution and reframe a mainstream professional and public discourse still fixed almost monocularly on aggregated, rather than a distributionally-differentiated, GDP?

As I contemplated that question in Athens this summer, several possible projects occurred to me as worth at least consideration and debate. Some readers will no doubt find these suggestions too small, too pallid, too technical, or too bureaucratic, but I’m motivated to raise them – rather than more sweeping or heroic responses to *Capital* – in part by my reading of the ways *The General Theory’s* lessons were absorbed, initially by academics, then policymakers, and then by elements of the press and wider public, during the first 25 years or so after its publication (about which more shortly).
What academic, government, and policy NGO economists could, in my opinion, usefully do or call for over the next several years includes, at very least, the following:

[8] A few Western-settled outposts such as Australia and New Zealand and white South Africa can be appended to this short list.

1) Academic economists could begin teaching macro courses (undergraduate and graduate) as well as a research and publishing program focused on the big distributional questions, or at least the old growth questions reframed and disaggregated by distributional ones, in order to ground our students and our colleagues in the relationships between growth and inequality.

2) Behavioral economists in particular could expand their own teaching and research on, for example, the field's early findings about the effects of positional goods and relative incomes. As one example, David Moss at Harvard Business School and the Tobin Project are here already doing some pioneering work.[9]

3) Cross-disciplinary teaching and research – in cooperation with political scientists, sociologists, social psychologists, historians, and moral philosophers – present a fertile range of opportunities for teaching and research. I've participated for several years, for example, in the multi-disciplinary Harvard Inequality and Social Policy program, just one model of how this could be done or approached.[10]

4) Academic and policy NGO economists could start calling on government colleagues and statistical agencies to do (including spending) more to improve their collection and processing of income and wealth distribution data worldwide, given the myriad inherent limits of tax returns, social security files, and household survey data now in use. As we enter the era of Big Data – for better or worse – the sheer quantity of information available that could vastly supplement and enrich our attempts to measure and answer distributional questions – as well as the graphical means to make our findings more easily understood to audiences outside our profession – seem untapped.

5) Organized calls from economists and other social scientists could press the IMF, OECD, Eurostat, the UN and the like to prioritize greater harmonization of the definitions and indices of inequality, to allow more meticulous comparison internationally. Mme. Lagarde has already publicly said that the IMF must "do more" about inequality (though without much precision about what it might do)[11]; one precedent here is the pioneering role the UN and IMF played in spreading national income accounting around the globe in the early 1950s.

6) It seems important to me to find ways to elevate and "normalize" public reporting of the distribution issue in a super-condensed headline form, aimed not at economists but at the press, politicians, and the public. Let me call this simply the need, for want of a more elegant formulation, for "*GDP-plus-Gini*" – in lieu of GDP alone as *the* single-number metric of a nation's economic performance.

   The Gini coefficient has numerous problems of which we're all aware, of course, though in this it is no different than GDP. Its advantage lies, I would argue, in the power of that one number's ability to reach a wider public and to shape policy and politics beyond our own limited world of classroom and peer journals. No president or prime minister runs on a platform promising to lower or even maintain current GDP.

[9] On Moss and the Tobin Project, see "How Income Inequality Shapes Behavior" at http://hbswk.hbs.edu/item/7283.html

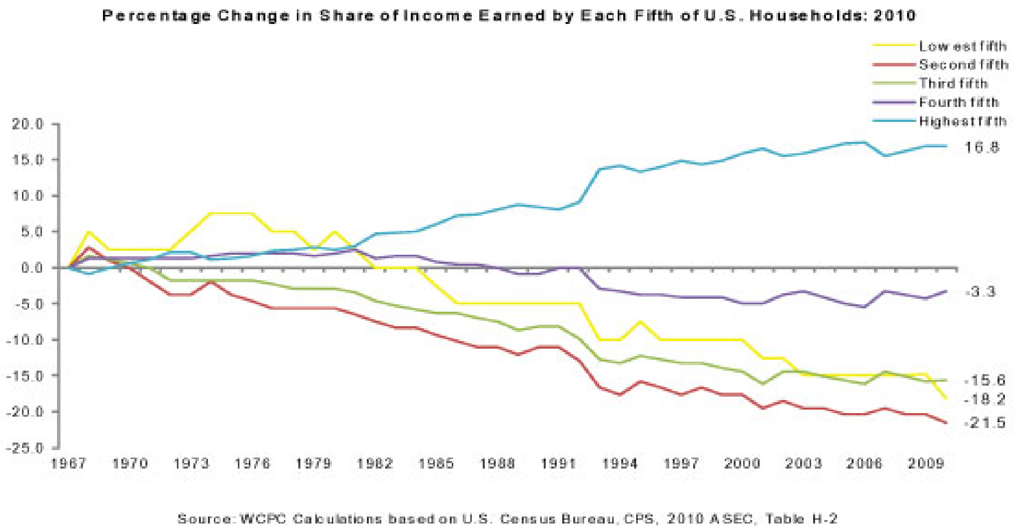
[10] On the Harvard Inequality and Social Policy, see http://www.hks.harvard.edu/inequality/index.htm

[11] See Lagarde, "Economic Inclusion and Financial Integrity – an Address to the Conference on Inclusive Capitalism", at https://www.imf.org/external/np/speeches/2014/052714.htm

How might we best get a one-number summary of inequality before the public as GDP has done for aggregate growth? The World Bank, among others, already regularly ranks countries by their Gini coefficients – and its website allows users an easy choice of display as table, graph, or map.[12] There, one can quickly learn that the Bank ranks Sweden at 0.25 as the world's most egalitarian nation, South Africa at 0.63, the most inegalitarian.[13] The United States, at 0.41, hunkers down among a host of developing economies such as Turkey, China, and several West African states – and, needless to say, far behind every other high-income developed country (Germany is at 0.28, France and Canada both at 0.33, the European Union as a whole, at 0.31).

The merit of such rankings – if they were presented annually by national statistical authorities alongside GDP performance – is the way Gini's simple single number translates rankings into performance that can, alongside traditional GDP, be reported on the evening news or Internet or debated in the halls of Congress. (Piketty himself has casually noted his own preference for calculation of two separate Gini coefficients – one based on labor income, one on capital income; on this, I'm for now agnostic though I take his important point.)

A graphic supplement to such Gini ranking would be to disaggregate annual income and wealth changes by quintile or decile (with special attention to the top 1% and 0.1%, a la Piketty). There are already many variants of such presentations (see below); the point would be to elevate them to the prominence that reporting of GDP itself enjoys today.



7) Far more research and debate on the intersections of growth and equality is capable of leading in turn to our clearer understanding of what a band of "democratic growth" or "egalitarian growth" paths among the variety of growth paths might look like, calculated

[12] World Bank Gini rankings at http://data.worldbank.org/indicator/SI.POV.GINI/countries/all?display=graph
[13] I omit here a number of micro-states.

both in terms of private income and wealth distribution and the divide between public and private income and spending. Jonathan Ostrey and colleagues, to cite one example, have already published three quite solid IMF papers ("Redistribution, Inequality, and Growth", "Inequality and Unsustainable Growth," and "Efficiency and Equity") that have begun opening up this sort of research, in a rich but preliminary way, to serious academics and policymakers. (I mention only these because fully enumerating the various strategies and sub-topics in this field would require its own separate paper.)

Lessons from early Keynesianism

Why should such seemingly prosaic and rather bureaucratic efforts to change economic teaching, government statistics, and research agendas matter? History offers a clue. Young economists tend to know very little about how early Keynesian thought evolved and took hold in both mainstream economics and public policy – or how hotly contested the process was – in the first decades after *The General Theory*'s publication and then after Keynes' death in 1946.

It was a process not dissimilar to the agenda steps I've described, of what in many cases seemed rather small contributions by academic and government economists and policymakers – of courses offered, textbooks written, and articles published, that were then over time noticed by more senior policy figures in Washington, then some in the press, then slowly and unevenly by politicians, business, and labor leaders, and only much later by the informed public.

In the late 1930s, the initial US shift toward Keynesian thinking gestated in a handful of university economics departments – with Harvard and Alvin Hansen in leading roles – and among a tiny but strategically-placed group of young Washington economists, mainly in Treasury, Commerce, and the Bureau of the Budget, who were loosely connected (and sometimes had been recruited) by Lauchlin Currie. Currie himself had been pushed out of Harvard for his proto-Keynesian views in the early 1930s but by 1938 had become FDR's chief economic advisor (this nearly a decade before the Council of Economic Advisors was created).[14]

It then gathered momentum as a few journalists at influential papers and magazines began to take note (Henry Luce, through *Time*, *Life*, and *Fortune*, perhaps the most influential).[15] Small conferences were convened by interested institutes or foundations (such as the Council on Foreign Relations, Committee on Economic Development, and Twentieth Century Fund), and then in some ways most importantly, as wartime attempts to use GDP estimates to calculate the size and shape of the post-war economy drew the attention of business, labor, and politicians to the new way of thinking.

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[14] See John Kenneth Galbraith, "How Keynes Came to America" (Boston, 1965), for a condensed – and entertaining – version of Keynesianism's early US advances; see Albert Hirschman, "How Keynes Was Spread From America," *Challenge*, November 1988, and for greater detail, Peter Hall, *The Political Power of Economic Ideas: Keynesianism Across Nations* for a broader multinational survey.

[15] Luce, a deeply Republican figure, nonetheless in 1943 hired a young John Kenneth Galbraith as economics editor of *Fortune* in order to familiarize – and win over – its powerful audience of business leaders to the heresy of postwar US government macro-management of the American (and in several ways the world) economy. On the crucial but barely-known role of American big business in promulgating Keynesianism – and the reasons, see Robert Collins, *The Business Response to Keynes, 1929-1964*.

After the war, the creation of the Council of Economic Advisors – and the early chairmanship of Leon Keyserling – planted Keynesian approaches in Washington, albeit through the new role federal macro-management and growth stimulation would play with the sudden emergence of the Cold War. America's Military-Industrial Complex would now justify previously-elusive bipartisan support for the federal government's rapid expansion and economic interventions. (One can only guess at what Keynes would have thought of this guns-make-butter use of his thought; what it did do, for different reasons, was make both liberal Keynesians and traditional market conservatives deeply apprehensive. Liberals hated what the money was spent on but loved the jobs federal spending and policies generated, while conservatives embraced America's new military power even as they feared the amounts spent, with their attendant risks of inflation and deficits.) Military Keynesianism – a concept never proposed or even imagined by Keynes – became, it's often forgotten, the means by which Keynesianism moved into the Western mainstream of thought and public policy. (An Oxford tutor of mine long ago slyly remarked that Stalin had done for early Keynesianism what Constantine did for early Christianity.)[16]

Whether China's ascendency to world's largest economy and its emerging role as the West's new "frenemy" – or the likely ongoing[17] costs of combatting political Islam – might at some point play a role in generating a new era of redistributive politics in the West is an intriguing question. Both the Chinese and political Islamic challenges emerged during the West's post-1970s decades of rising inequality(with China's low-wage exports arguably exacerbating Western inequalities), and in America's case since the first Gulf War a quarter-century ago, of ever-rising military expenditures – now in the trillions of dollars – that might otherwise have been funds diverted to other, better ends than war.

The point here is two-fold: first, that the early efforts to install and expand Keynesian thinking were in many ways mundane and routine, concerned with the "bureaucratization" of this new economic policy strategy, the deepening of its research foundations, and the spread of its applications. Then suddenly events and shifting views arising in the political world created the opportunity to "operationalize" Keynesian precepts through the new bureaucratic tools and communities that the earlier efforts had fostered.

One can't with any certainty say what "events and shifting views" in the 21st century might operationalize Pikettyan views on how to lessen income and wealth inequality. But without the bureaucratic and academic substructures in place beforehand, there will be little likelihood that in the political world, where operationalization will necessarily take place – through tax policy changes, for example, or new rules on financial systems, or cross-border agreements on tax havens, or changes in rules governing executive compensation on one end or minimum wages on the other – far less will happen than we might desire.[18]

[16] He'd then added, with a touch of English wistfulness, that as Keynesianism in Neoclassical Synthesis form replaced early Keynes, "power in postwar economics shifted in the 1950s from the Jerusalem of England's Cambridge to the Rome of America's Cambridge, with the Master's teachings now filtered and interpreted through the teaching of St. Paul".

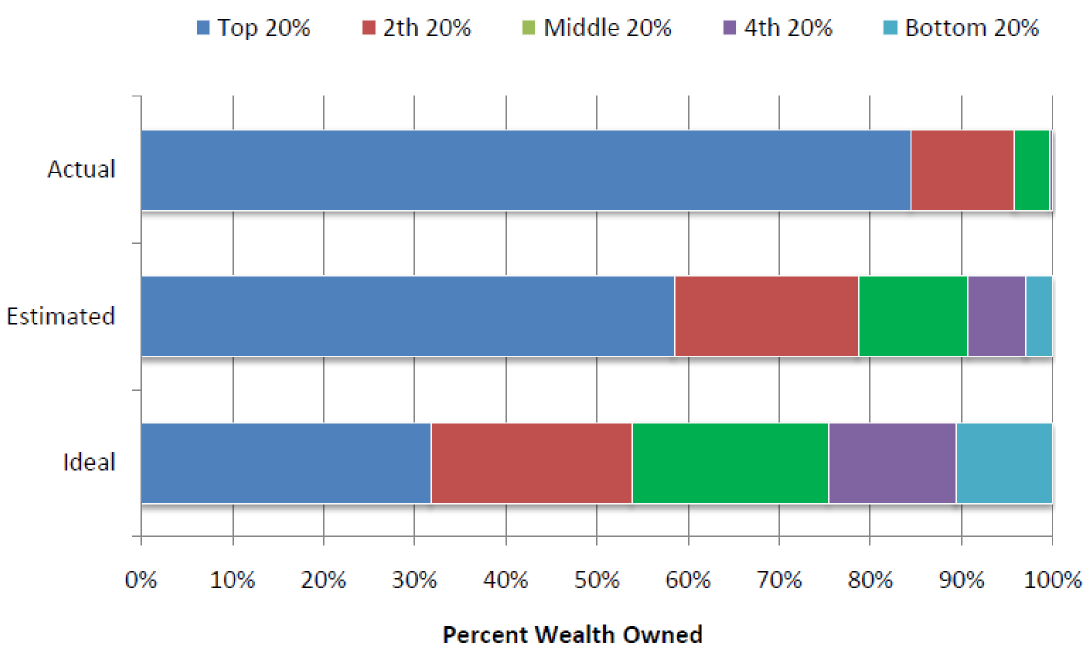
[17] Small digression: It strikes me that one here could argue for the observed existence of a Piketty-like law – call it M>g – to denote the V-shaped curve of once-declining but now rapidly-rising American military costs at rates that are steadily exceeding GDP growth.

[18] I would offer one warning to future Pikettyans: pay attention to the moment when your success in establishing Pikettyanism seems to be finally embraced at the heights of power. The first American president to publicly declare "I am a Keynesian" was Richard Nixon, thirty-five years after *The General Theory* first appeared. Disappointments followed.

Capital in context: perceptions and data

It's easy for Piketty enthusiasts – given the enormous attention and praise Capital has garnered to imagine either that "everyone" now grasps the outlines of his data and conclusions, or that it is only a matter of time before they do. That seems to me implausible.

For one, although *Capital* may be an easy read for economists, it has turned out, by one analysis, to be "the most unread best-seller of 2014".[19] Even among well-educated Americans, the grasp of Piketty's data is weak at best. In my Harvard economics policy course, when I turn to wealth and income distribution, I like to show students the chart below, which distinguishes what *US wealth distribution actually is*, what Americans *estimate it to be*, and finally *what they think it ought to be* – just to underscore for them that the public's estimates and Piketty's findings vary enormously (and yet how both favor an "ideal distribution" of much greater equality):



There are many reasons why such gaps between understanding and ideal norms abound, not least the under-reporting for so long of distributional data as far as the public is concerned. But even economists versed in reading quantitative presentations display surprising limits to their familiarity with the data.

One factor is, as I've noted, the longstanding monocular focus of the profession on GDP growth as such, understandable in the first decades after World War II because greater equality seemed a byproduct of Keynesian-led growth strategies. Even though the 1960s' "rediscovery" of poverty in America meant acknowledging that growth's impact on inequality had been real and extensive but far from universal, the mainstream profession's response was to intensify Keynesian claims to solve the problem through targeted programs (the War on Poverty) alongside intensified economy-wide efforts to reach near-full employment (the Kennedy-Johnson tax cut). If growth's results crimped the decade's confidence in rising tides

[19] See Emily Cohn, "Not Many People Got Past Page 26 Of Piketty's Book", at http://www.huffingtonpost.com/2014/07/07/piketty-book-no-one-read_n_5563629.html

lifting all boats, to the shipwright-economists of the Neoclassical Synthesis-era, solutions seemed within their command.

By the late 1970s, the Keynesians were being driven from the boatyards of policy, supplanted by supply-siders, tax-cutters, and deregulators who looked on the Keynesians with the arrogance new steamship builders once looked on the old makers of sails. When by the late 1980s, the process of globalization seemed somehow connected to falling wages and collapsing firms across the nation's broad industrial heartland, and the new world of deregulated finance began throwing up fortunes not seen since the Gilded Age, questions of inequality started surfacing only to be met with claims either to their transience (as the economy "adjusted" to new global realities) or necessary ("getting incentives and rewards right"). Remedy lay, it was claimed, in re-education and intensified competition, not downward redistribution of the new distributional realities.

And there the debate remained – until the Great Recession. In the six years since, there has been a sudden new interest in inequality, though much of it has been surprisingly inconclusive or contradictory in analysis and (where offered) prescription. Thrust into that welter (quite similar in many ways to the New Deal's own often-confused and contradictory debates and policies before *The General Theory*), the arrival of *Capital in the Twenty-First Century*, with its singular scale and scope, has forced a new framework onto the debates, its monumentality alone reason it can't be ignored.

Yet even so, in our era of headlong globalization, Piketty's cross-national data is striking for how few countries they cover (basically France, Great Britain, and the United States), how limited the sets are in duration, how variable in collection quality and depth, how dependent the data are on the means of collection (mainly tax returns and/or household surveys, with all their own attendant methodological problems), and how infrequently distribution issues have been linked to growth paradigms. This, one hastens to add, is not for lack of effort by Piketty and his colleagues, but measure of how little serious attention has historically been paid to collection, let alone, analysis of the necessary data.

There are, of course, other data sets besides Piketty's – the Luxembourg Income Study perhaps the best known to economists (though unknown to the general public) – that cover more countries than Piketty's, but the number of countries covered is still small, less than 30 in a world of nearly 200 independent nations. However, the LIS lacks the historical depth that Piketty uses to such advantage with the US, UK, and France.

The United Nations University's WIDER project collects data through its World Income Inequality Database (WIID) from substantially more countries that the LIS, especially developing and transitional states. James Galbraith and his coworkers have for more than a decade also been analyzing, with great success, global income distribution patterns in the University of Texas Inequality Project.
The World Bank's work on inequality, much of it done by Branko Milanovic and colleagues between 1990 and 2010,[20] has so far been the most extensive in its country coverage – 119 at last count, containing over 80% of the world's populace and 95% of global GDP.[21] Milanovic, however, has been frank about the quality and consistency limits of the national surveys he's collected – some measure income, others expenditure, some are calculated by

[20] Milanovic has left the Bank, and now teaches at the City University of New York
[21] Milanovic and Yitzhaki, "Decomposing World Income Distribution: Does the World Have a Middle Class?"

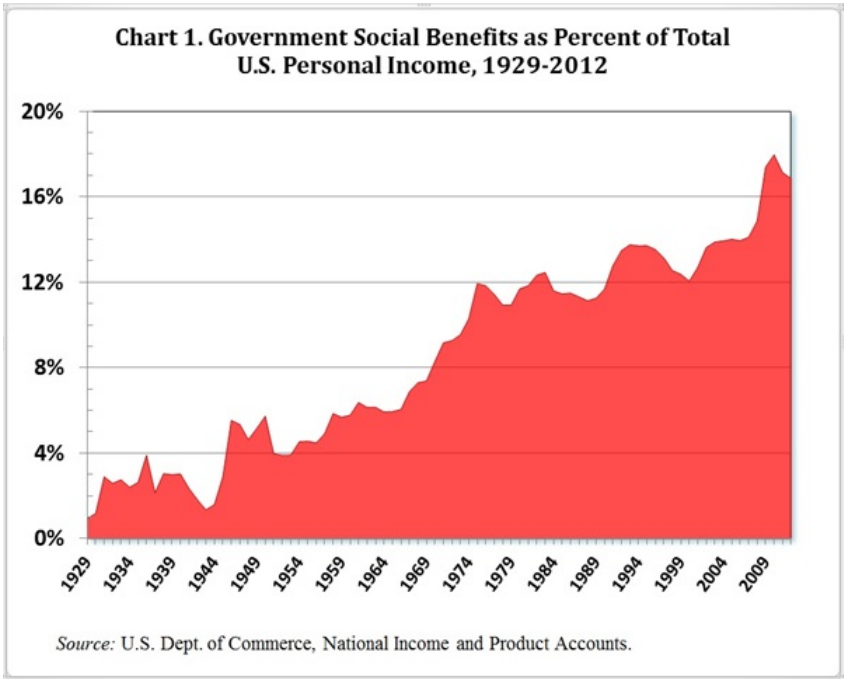
individual, some by household, some by family. He's quite clear also that little can be said reliably about global income distribution before the late 1980s, given the lack, or highly uneven quality, of data before then.[22]

What all this work underscores is not just that better, more systematic, and richer data is needed to carry forward Piketty's focus, and why better standardization of definitions and metrics is needed as well.[23] In the late 1940s and early 1950s, the GDP concept gained crucial traction in terms of its adoption worldwide first through the UN's income- accounting standards-setting in 1947 followed by the IMF's own standardization measures in 1951 and thereafter. Refining cross-national standardization for collection and measurement of income and wealth distribution should be made a priority for both agencies over the next few years.

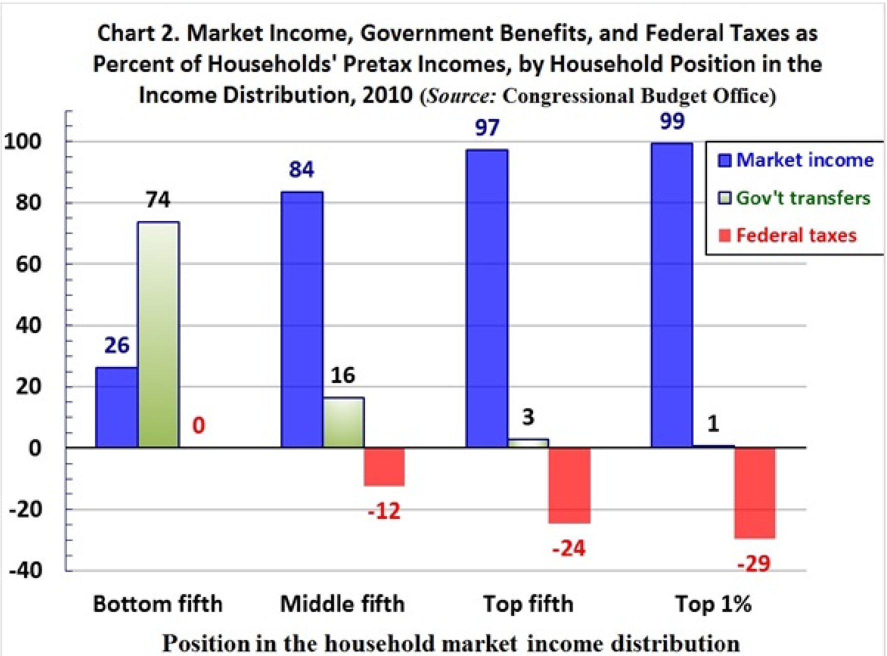
Apart from improving accuracy of measurements, we will also need greater accuracy and agreement about what it is we want to measure. When Piketty visited Harvard last spring, I asked him at the end of his talk why he'd analyzed only pre-tax, pre-transfer "market income" in *Capital.* He replied, with a Gallic shrug, that "measuring the distribution of tax and transfer consequences is very difficult" – and then encouraged me and others to take up the challenge. But others have already: conservatives in particular have made much of the significant impact government transfers of all kinds have on mitigating Piketty's finding of rising inequality of pre-tax, pre-transfer income.[24]

There is no doubt that government social welfare programs of all kinds have grown since the 1920s to have a significant distributional effect on final household incomes, as this chart, for example, shows for the US:

[22] "Sources of data" in Milanovic and Yitzhaki, "Decomposing World Income Database"; Milanovic, "Global Inequality in Numbers: In History and Now," *Global Policy*, May 2013, gives narrative overview of measurement issues.
[23] The many problems of incompatible definitions and metrics is, I must stress, exist not just in cross-national comparisons but in national analyses. For an introduction to several large problems in US income distribution measurement, from tax units versus households, pre- and post-tax-and-transfer income, household size, tax filers and non-filers, see Burkhauser et al., "A 'Second Opinion' on the Economic Health of the American Middle Class," at http://www.nber.org/papers/w17164
[24] For example, Alan Reynolds, "The Misuse of Top 1 Percent Income Shares as a Measure of Inequality", at www.cato.org/workingpapers



Conservatives aren't, however, the only ones pointing to governments' already significant redistributive impact – and on the significance of Piketty's focus on pre-tax-and-transfer income. Gary Burtless of the Brookings Institution has cited Congressional Budget Office studies, for example, showing that the bottom US income quintile, measured (as Piketty does) by pre-tax "market" income, receive three-quarters of its total post-tax-and-transfer income from the government rather than the market. Even for the middle quintile, the post-tax-and-transfer income is one-sixth of total income, as this table shows:[25]



[25] See Gary Burtless, "Has Rising Inequality Brought Us Back to the 1920s? It Depends on How We Measure Income", at http://www.brookings.edu/blogs/up-front/posts/2014/05/20-rising-inequality-1920s-measuring-income-burtless

Measurement of tax and transfer is inordinately difficult – but inescapably important in the 21st century,[26] especially (but not only) in OECD countries where non-means-tested transfers for health, education, and retirement account for over 20%, sometimes as much as 30%, of GDP – compared to, at most, 2-5% a century ago.[27]

Wealth analysis – a subject that Piketty has rightfully elevated to attention after years of neglect by economists – is equally complicated by government transfers. *Capital*, for example, doesn't incorporate the value of government-provided retirement income and health care, which are of course distributed across all classes in the OECD countries, and which ought to be counted, however calculated, as assets. (Because of complex variations in tax-advantaged personal retirement savings schemes such as 401-k's and IRAs in the US, Piketty also underreports their effect on wealth distribution.

Closing comments

Let me close by sharing a final concern, relevant both to Piketty's work itself – and to reading Piketty in Athens.

The topic: corruption's role in the distribution of wealth and income. Piketty knows full well its importance, but discusses it only briefly in the closing pages of *Capital*. I briefly want to raise the issue of corruption, but specifically in one particular (but by no means corruption's only) form: systematic tax evasion, and most especially evasion through "off-shoring". You will, I hope, understand why it is on my mind here in Athens.

Off-shoring, we all know, distorts (by under-reporting) the measurement of income and wealth (which is both a technical issue, in the narrowest sense, and – as Piketty has so brilliantly shown, a window onto much larger issues). It also short-changes public revenues (a broader macroeconomic question in its own right) *and* erodes public confidence in the integrity of government and markets alike (a very broad and very, very important issue).[28]

I hardly need point to Russian oligarchs, the new billionaire relatives of Chinese Communist leaders, or Third World kleptocrats of myriad ilk to make the point; here in Athens, shipowners often are the first mentioned. Across human history (as earlier Greeks tell us – among them, Solon, Thucydides, Socrates, Herodotus come to mind effortlessly), corruption has always been a significant factor in income and wealth distribution, more so in some countries and some times than others. But public attention today – and public alarm that demands changes – is rising even faster than inequality, although it's not yet at a point that leads to large-scope national (let alone international) reforms.

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[26] NYU economist Edward Wolff and colleagues are among those who are working to measure income and wealth more comprehensively, including tax and transfer impacts, through the Levy Institute Measurement of Economic Well-Being program. See http://www.levyinstitute.org/pubs/lmw_feb_09.pdf for both an introduction to their conceptual framework and its application to US income distribution n, 1959-2004. For a full range of Wolff's papers in the Levy program, see http://www.levyinstitute.org/publications/edward-n-wolff.

[27] For country and OECD social spending,, see http://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG

[28] Transparency International's surveys of perceptions of corruption in countries around the world are a starting point for understanding how widespread the problem is, and its multi-dimensional consequences. See http://www.transparency.org/research/cpi/overview

Let me here just underscore one enormous aspect to provoke attention: the "offshoring" of income and wealth in tax havens with strict secrecy laws or opaque institutional protections. The Cayman Islands, Monaco, Switzerland, the Isle of Man are all among the 80 or so mostly small, even micro, states involved.

If these offshore havens are small in size, the amounts they're holding are not, as Gabriel Zucman, a young LSE-based protégé of Piketty, has recently shown. In a forthcoming paper (which Piketty generously shared with me this summer)[29], Zucman estimates that 8% of the world's total personal financial wealth is now held offshore, costing governments at minimum $200 billion annually in lost public revenue.[30] Additionally, he finds that offshoring lets 20% of US corporate profits escape American taxation each year – a tenfold increase in (legal) tax evasion in the past fifteen years that accounts for seven of the ten percentage points by which corporations have reduced their effective tax rates on average from 30% to 20%.

One might note here – although Zucman politely doesn't – that over those same fifteen years, the cumulative public debt of the US government, and hence the ultimate tax liabilities of its citizens, trebled from roughly $7 trillion to $21 trillion.[31] One should also note that Zucman's work joins that of a number of NGOs which have been researching and advocating reforms for more than two decades. (In contrast to the NGOs, academic economists have given almost no attention to off-shoring – or to corruption more generally. Searching the top five American economics journals over the past five years[32], and using any combination of the terms 'corruption,' 'tax haven' and 'offshore', I found just six papers; five – the exception, an earlier Zucman paper – touch only tangentially on the issues.)

Significantly, although economists aren't paying attention, a growing number of governments are listening, some inspired by criminal concerns, others more pragmatically focused on the governments' revenue losses from taxes evaded.

That governmental attention has in turn led to some barely-known legal and administrative advances in a number of countries, including Germany and France, and even Italy and Greece, where tax evasion approaches a way of life.[33] The United States has quietly entered this arena as well, most recently in 2009 with passage of the suggestively-initialed FATCA (for Foreign Account Tax Compliance Act), which though barely known by the public or the economics profession, now requires 77,000 non-US banks to regularly report transactions of US account holders to US tax authorities. The bill, while weak in several respects, has shown its bite. Credit Suisse, in the largest (but by no means only) FATCA settlement to date, earlier this year agreed to pay $2.6 billion to settle its role in helping American account holders evade US taxes.

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[29] For "Taxing Across Borders", forthcoming in *The Journal of Economic Perspectives*, as well as several other papers authored by Zucman (including some with Piketty), see http://gabriel-zucman.eu/.
[30] The NGO Tax Justice Network estimates that in toto some $21-32 trillion in financials assets may currently be held offshore.
[31] On gross federal debt, 1999-2014, see http://www.usgovernmentdebt.us/spending_chart_1999_2014USr_15s2li111mcn_H0t
[32] The search was done using Google Scholar's ranking of economic journals at http://scholar.google.com/citations?view_op=top_venues&hl=en&vq=bus_economics
[33] For a summary of EU and member countries' efforts, see the 2013 European Parliamentary study "European Initiatives on Elimination of Tax Havens and Offshore Financial Transactions and the Impact of These Constructions on the Union's Own Resources and Budget" at http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/490673/IPOL-JOIN_ET%282013%29490673_EN.pdf

Yet the scale of estimated offshoring vastly exceeds enforcement penalties, and Zucman and the NGOs are finding that serious tax haven depositors are responding with clever new means for concealing their wealth and income.

I've raised corruption here as a coda, to underscore just how broadly issues of income and wealth distribution extend beyond their central role as measures of how societies allocate material reward among its members.

In that, I mean to expand our imaginative horizons as we think about how, over the coming years, we might contribute to building on the questions Thomas Piketty has so usefully placed in front of us.

What we will do with that gift remains our challenge as much as his.

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