Economics Ideas

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PiKetty:Capital

Piketty: *Capital in the Twenty-First Century*. The focus is rising inequality. The rise in inequality is about the top 0.1%. The essential point of Piketty is that inherited wealth is making a comeback. Martin Woolf summarises Piketty's book as:

- No tendency towards economic equality
- Fall in inequality after 1945 was due to deliberate policy and the destruction of established establshed wealth between 1914 and 1945
- nonhuman capital appears to be indespensible today as ever - disabusing the idea that human capital will become more important.
- Wealth to income in Europe has risen above US levels in Europe (particularly France and UK)
- The rise of the *supermanager* in the US and the return of *patrimonial capitalism* in the US.
- Increase in US top earnings is explained by managers not sports or entertainment stars
- The case against increased managerial earnings being the result of marginal product is made by the lack of evidence in any underlying economic improvement since the 1960s.
- It appears to be more about lower tax and changes in social norms.

At the heart is a view of capital accumulation.

- The ratio of capital to income will rise without limit so long as the rate of return is higher than economic growth
- This is usually the case (outside of destruction or appropriation of wealth or the burst of economic growth in post-war Europe or today's emerging economies)
- Two reasons:
  - The rate of retun is only modestly related to the ratio of capital-to-income. The *elasticity of substitutio* between capital and labour is greater than one.
  - In normal times, capitalists save a sufficient proprtion of their income to ensure that captial grows faster than the economy. The most wealthy enjoy the highest returns.