# Thomas Piketty: Capital in the Twenty-First Century

*Dante Tam, 8/12/2017*

Piketty's bestseller Capital in the Twenty-First Century opens readers' eyes to the great inequalities in the distribution of wealth forming globally.
It is thoroughly dense, yet approachable for most readers. The arguments are well-organized and supported by strong data and methodology.
Yet, it has been named the nation's most unread bestseller, weighing at 600 pages; so, in this review, we condense his thesis and evidence.

> When the rate of return on capital exceeds the rate of growth of output and income...
> capitalism automatically generates arbitrary and unsustainable inequalities
> that radically undermine the meritocratic values on which democratic societies are based.
>
> There are nevertheless ways democracy can regain control over capitalism
> and ensure that the general interest takes precedence over private interests,
> while preserving economic openness and avoiding protectionist and nationalist reactions,
> [namely a progressive global wealth tax]. (Piketty 1)

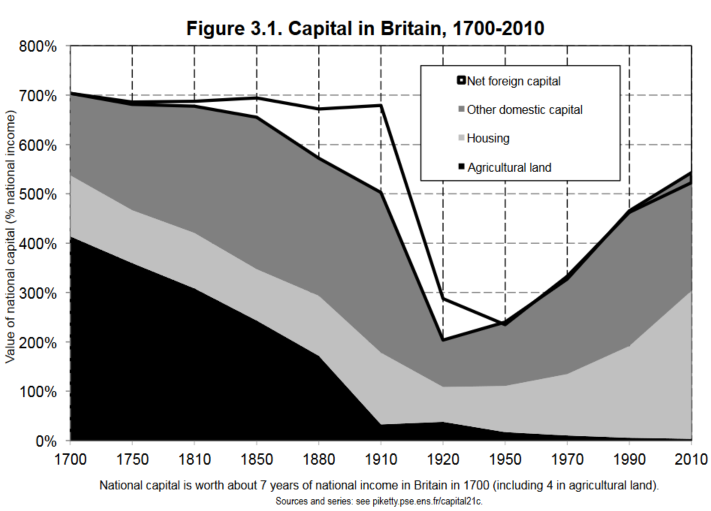
Piketty's argument is more of a restatement of past history and observation of the fundamental, intuitive nature of wealth:
those who accumulate income from capital will concentrate more wealth than laborers working for wage income.
It is also summed up in the inequality

$$r > g$$

where r is the rate of return on capital, and g is the rate of economic growth.
Compounded over time, the r-g gap creates a great difference in income from capital and income from labor.

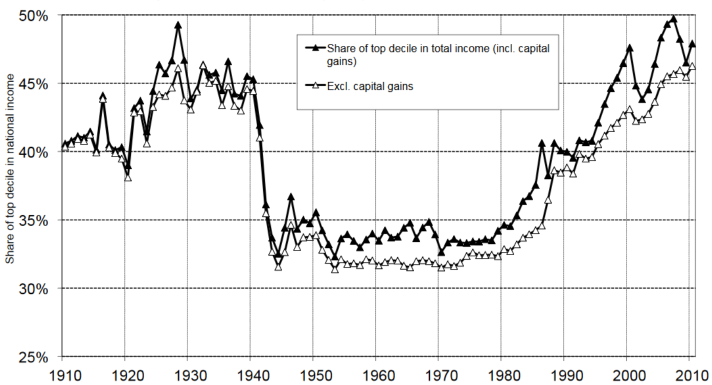
We can see this gap with the real growth of wealth and income in recent decades:
the top decile's share of income and wealth has gone up, while the bottom wages have stagnated.
The wealth of capital owners at the top will skyrocket, while the poorer half of society will have almost nothing.
A society with little growth will place an importance in already existing, inherited, and accumulated wealth.
This society becomes greatly inegalitarian, less democratic and meritocratic, and more unstable.

The historical data used in Piketty's argument can be summed up as follows:
the Industrial Revolution led to a massive concentration of wealth, and income inequality,
as well as a high capital to income ratio (meaning that most of the income came from financial assets and investments;
the World Wars destroyed most capital and led to high growth, progressive income taxes, and government policy (intervention to statism);
and, a conservative revolution further away from WWII, with the law above in mind, led to deregulation and wealth concentration.



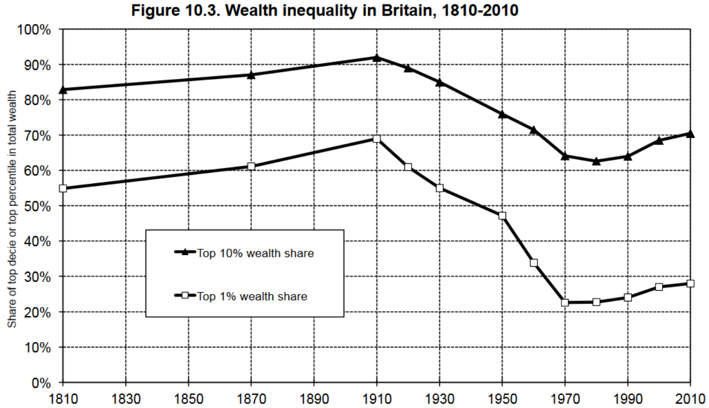
This leads to massive wealth and income inequality, with the top centile in the UK,
owns 30% of all wealth, implying that an individual in this group owns 30x the average wealth.

**Figure 8.5. Income inequality in the United States, 1910-2010**




The top decile income share rose from less than 35% of total income in the 1970s to almost 50% in the 2000s-2010s.
Sources and series: see piketty.pse.ens.fr/capital21c.

**Figure 10.3. Wealth inequality in Britain, 1810-2010**




The top decile owns 80-90% of total wealth in 1810-1910, and 70% today.
Sources and series: see piketty.pse.ens.fr/capital21c.

Using the postwar taxes and regulations as a base, Piketty argues that a global, progressive wealth tax can greatly reduce inequality.
To review: a high saving and reinvestment rate leads to the accumulation of capital over time, causing an 'endless inegalitarian spiral'.
A progressive wealth tax slows the saving rate and accumulation, and shifts capital into public hands.

The biggest takeaway from the data and arguments, and the least controversial, is that wealth inequality will continue to worsen,
and people need to take action. In this sense, Piketty sets in motion a groundwork for studying the causes and data of inequality.

Piketty, T., & Goldhammer, A. (2014). *Capital in the Twenty-First Century.* London: The Belknap Press of Harvard University Press.