# A Lonergan Institute Seminar St Anselm's Abbey

THOMAS PICKETTY

CAPITAL IN THE TWENTY-FIRST CENTURY

# Who is Thomas Picketty?


- French economist, Professor of Economics at the School for Advanced Studies in the Social Sciences (EHESS),
- Associate Chair at the Paris School of Economics and Centennial Professor of Economics in the International Inequalities Institute at the London School of Economics.
- Focuses on public economics, in particular income and wealth inequality.
- Best-selling book Capital in the Twenty-First Century (2013), which emphasizes the themes of his work on wealth concentrations and distribution over the past 250 years.
- Argues that the rate of capital return in developed countries is persistently greater than the rate of economic growth, and that this will cause wealth inequality to increase in the future.
- To address this problem Piketty proposes redistribution through a progressive global tax on wealth.

# Discussion Question

Do the dynamics of private capital accumulation inevitably lead to the concentration of wealth in ever fewer hands, as Karl Marx believed in the nineteenth century?

Or do the balancing forces of growth, competition, and technological progress lead in later stages of development to reduced inequality and greater harmony among the classes, as Simon Kuznets thought in the twentieth century?

*Poverty and Wealth, by William Powell Frith*

# From Capital in the Twenty First Century:

“When the rate of return on capital exceeds the rate of growth of output and income, as it did in the nineteenth century and seems quite likely to do again in the twenty-first, capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based.”

“The concrete, physical reality of inequality is visible to the naked eye and naturally inspires sharp but contradictory political judgments. Peasant and noble, worker and factory owner, waiter and banker: each has his or her own unique vantage point and sees important aspects of how other people live and what relations of power and domination exist between social groups, and these observations shape each person’s judgment of what is and is not just.”

*Mechanism of a Capitalist, by Julio De Diego*

# From Capital in the Twenty First Century:

"For Thomas Malthus, who in 1798 published his Essay on the Principle of Population, there could be no doubt: the primary threat was overpopulation."

"One particularly important influence was the travel diary published by Arthur Young, an English agronomist who traveled extensively in France, from Calais to the Pyrenees and from Brittany to Franche-Comté, in 1787–1788, on the eve of the Revolution. Young wrote of the poverty of the French countryside."

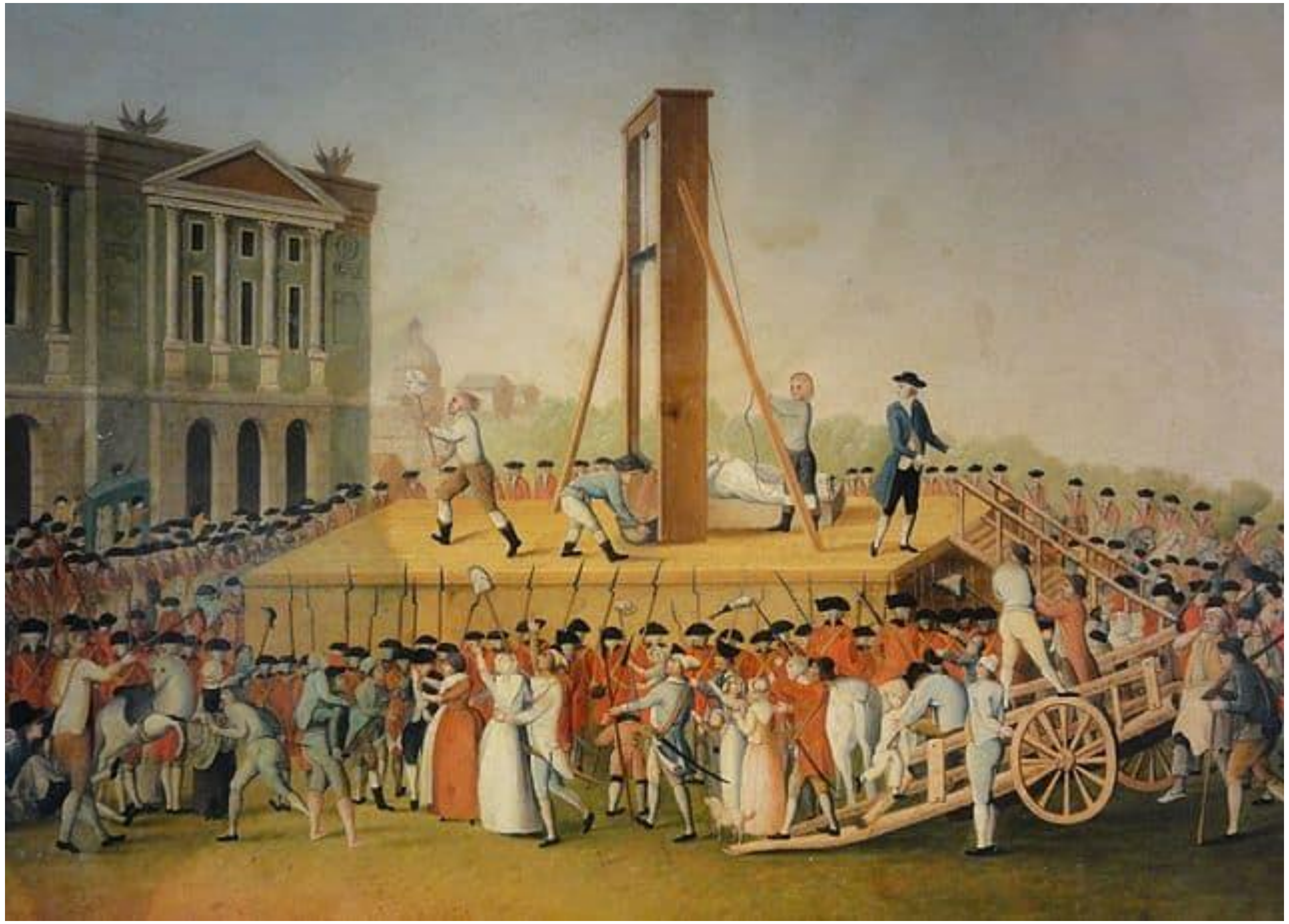
*Family of Country People, by Louis Le Nain, 1640, French Baroque*

# From Capital in the Twenty First Century:


*Liberty Leading The People: Delacroix*

"He was mainly worried that the mass poverty he witnessed would lead to political upheaval. In particular, he was convinced that only the English political system, with separate houses of Parliament for aristocrats and commoners and veto power for the nobility, could allow for harmonious and peaceful development led by responsible people. He was convinced that France was headed for ruin when it decided in 1789–1790 to allow both aristocrats and commoners to sit in a single legislative body."

# From Capital in the Twenty First Century:



"The power of population is indefinitely greater than the power in the earth to produce subsistence for man." -- Thomas Malthus

"[Young] was very afraid of the new political ideas emanating from France, and to reassure himself that there would be no comparable upheaval in Great Britain he argued that all welfare assistance to the poor must be halted at once and that reproduction by the poor should be severely scrutinized lest the world succumb to overpopulation leading to chaos and misery."

*Marie Antoinette exécution in 1793 at the Place de la Révolution*

# From Capital in the Twenty First Century:

*Irish Land League 1887  And The Rent War In Ireland Priest Chained To Gate To Prevent Entrance Of Evicting Party Members Of The Irish Land League Trying To Prevent An Eviction,  Wood Engraving English 1887*

## David Ricardo: The Principle of Scarcity

"For Ricardo, who published his Principles of Political Economy and Taxation in 1817, the chief concern was the long-term evolution of land prices and land rents."

"He was above all interested in the following logical paradox. Once both population and output begin to grow steadily, land tends to become increasingly scarce relative to other goods."

# From Capital in the Twenty First Century:

"The law of supply and demand then implies that the price of land will rise continuously, as will the rents paid to landlords. The landlords will therefore claim a growing share of national income, as the share available to the rest of the population decreases, thus upsetting the social equilibrium. For Ricardo, the only logically and politically acceptable answer was to impose a steadily increasing tax on land rents."

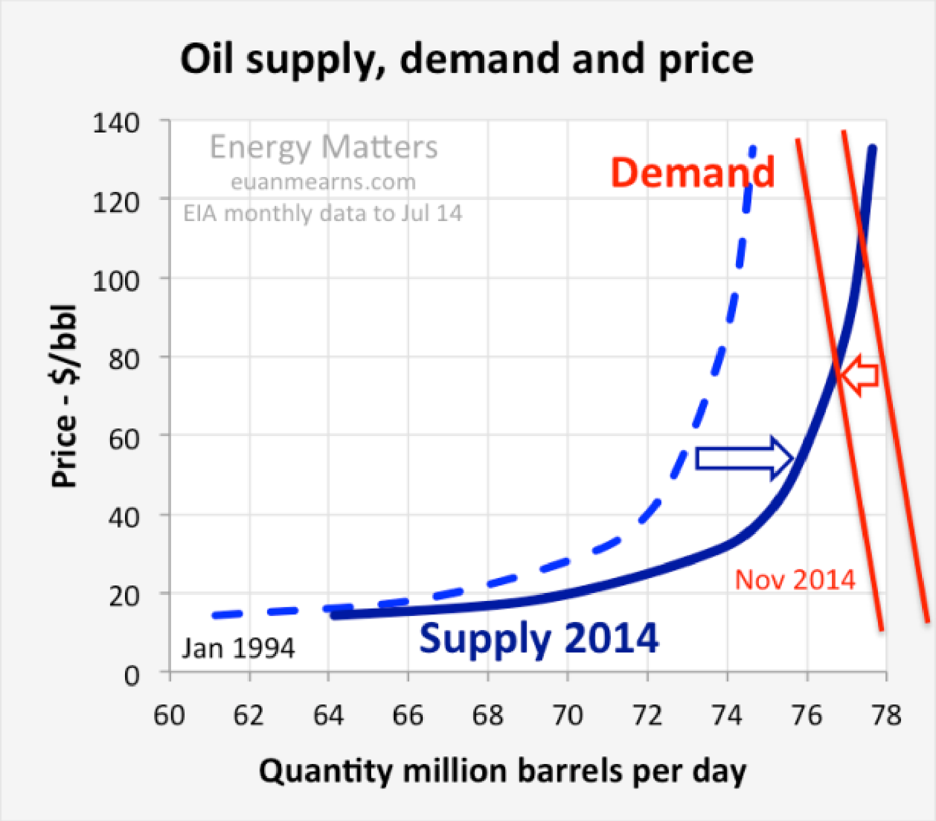

*Citizens protesting in favor of rent control*

# From Capital in the Twenty First Century:

“His insight into the price of land is nevertheless interesting: the “scarcity principle” on which he relied meant that certain prices might rise to very high levels over many decades. This could well be enough to destabilize entire societies. The price system plays a key role in coordinating the activities of millions of individuals—indeed, today, billions of individuals in the new global economy. The problem is that the price system knows neither limits nor morality.”

*Shays' Rebellion of 1786, Early American History*

# From Capital in the Twenty First Century:




"To be sure, there exists in principle a quite simple economic mechanism that should restore equilibrium to the process: the mechanism of supply and demand. If the supply of any good is insufficient, and its price is too high, then demand for that good should decrease, which should lead to a decline in its price. In other words, if real estate and oil prices rise, then people should move to the country or take to traveling about by bicycle (or both). Never mind that such adjustments might be unpleasant or complicated; they might also take decades, during which landlords and oil well owners might well accumulate claims on the rest of the population so extensive that they could easily come to own everything that can be owned, including rural real estate and bicycles, once and for all. As always, the worst is never certain to arrive."

# From Capital in the Twenty First Century:

***18th century London workhouse.*** *(Credit: Corbis via Getty Images)*

Karl Marx: The Principle of Infinite Accumulation

"By the time Marx published the first volume of Capital in 1867, exactly one-half century after the publication of Ricardo's Principles, economic and social realities had changed profoundly: the question was no longer whether farmers could feed a growing population or land prices would rise sky high but rather how to understand the dynamics of industrial capitalism, now in full blossom."

"The working day was long, and wages were very low. A new urban misery emerged, more visible, more shocking, and in some respects even more extreme than the rural misery of the Old Regime."

# From Capital in the Twenty First Century:

*World War I Trench Warfare*

"What we see in the period 1870–1914 is at best a stabilization of inequality at an extremely high level, and in certain respects an endless inegalitarian spiral, marked in particular by increasing concentration of wealth. It is quite difficult to say where this trajectory would have led without the major economic and political shocks initiated by the war. With the aid of historical analysis and a little perspective, we can now see those shocks as the only forces since the Industrial Revolution powerful enough to reduce inequality.

"In any case, capital prospered in the 1840s and industrial profits grew, while labor incomes stagnated. This was obvious to everyone, even though in those days aggregate national statistics did not yet exist. It was in this context that the first communist and socialist movements developed."

# From Capital in the Twenty First Century:

*Russian Revolution and Lenin*

"This was the task Marx set himself. In 1848, on the eve of the "spring of nations" (that is, the revolutions that broke out across Europe that spring), he published The Communist Manifesto, a short, hard-hitting text whose first chapter began with the famous words "A specter is haunting Europe—the specter of communism." The text ended with the equally famous prediction of revolution: "The development of Modern Industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie therefore produces, above all, are its own gravediggers. Its fall and the victory of the proletariat are equally inevitable."

# From Capital in the Twenty First Century:

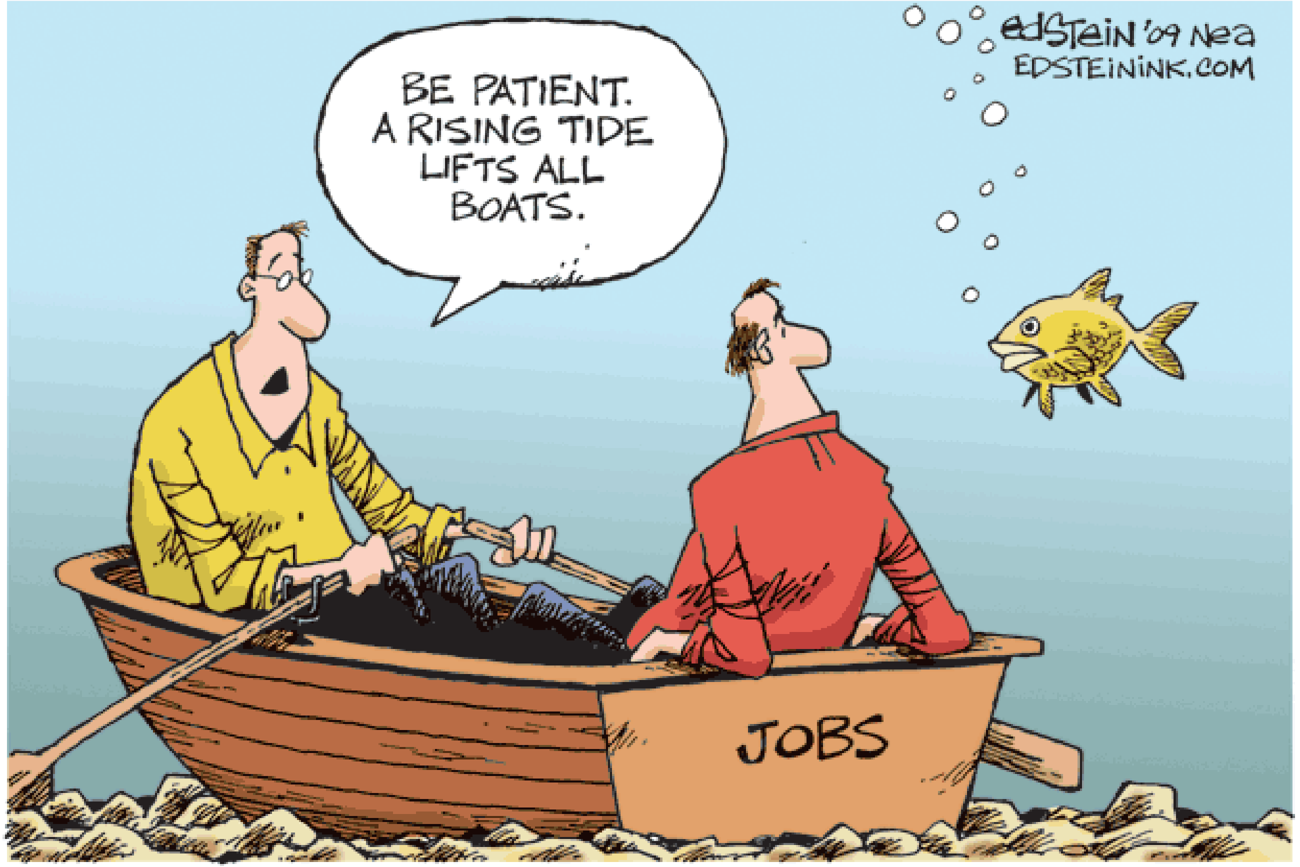
*Discussion Question:*
*How would you envision the end of capitalism playing out?*

"In short, Marx took the Ricardian model of the price of capital and the principle of scarcity as the basis of a more thorough analysis of the dynamics of capitalism in a world where capital was primarily industrial (machinery, plants, etc.) rather than landed property, so that in principle there was no limit to the amount of capital that could be accumulated. In fact, his principal conclusion was what one might call the "principle of infinite accumulation," that is, the inexorable tendency for capital to accumulate and become concentrated in ever fewer hands, with no natural limit to the process. This is the basis of Marx's prediction of an apocalyptic end to capitalism: either the rate of return on capital would steadily diminish (thereby killing the engine of accumulation and leading to violent conflict among capitalists), or capital's share of national income would increase indefinitely (which sooner or later would unite the workers in revolt). In either case, no stable socioeconomic or political equilibrium was possible."

# From Capital in the Twenty First Century:

"According to Kuznets's theory, 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."

"Growth is a rising tide that lifts all boats."



# From Capital in the Twenty First Century:

"The data that Kuznets collected allowed him to calculate the evolution of the share of each decile, as well as of the upper centiles, of the income hierarchy in total US national income. What did he find? He noted a sharp reduction in income inequality in the United States between 1913 and 1948. More specifically, at the beginning of this period, the upper decile of the income distribution (that is, the top 10 percent of US earners) claimed 45–50 percent of annual national income. By the late 1940s, the share of the top decile had decreased to roughly 30–35 percent of national income. This decrease of nearly 10 percentage points was considerable: for example, it was equal to half the income of the poorest 50 percent of Americans. The reduction of inequality was clear and incontrovertible."


FIGURE I.1. Income inequality in the United States, 1910–2010

# From Capital in the Twenty First Century:

"According to Kuznets, a first phase of naturally increasing inequality associated with the early stages of industrialization, which in the United States meant, broadly speaking, the nineteenth century, would be followed by a phase of sharply decreasing inequality, which in the United States allegedly began in the first half of the twentieth century."

"The idea was that inequalities increase in the early phases of industrialization, because only a minority is prepared to benefit from the new wealth that industrialization brings. Later, in more advanced phases of development, inequality automatically decreases as a larger and larger fraction of the population partakes of the fruits of economic growth."

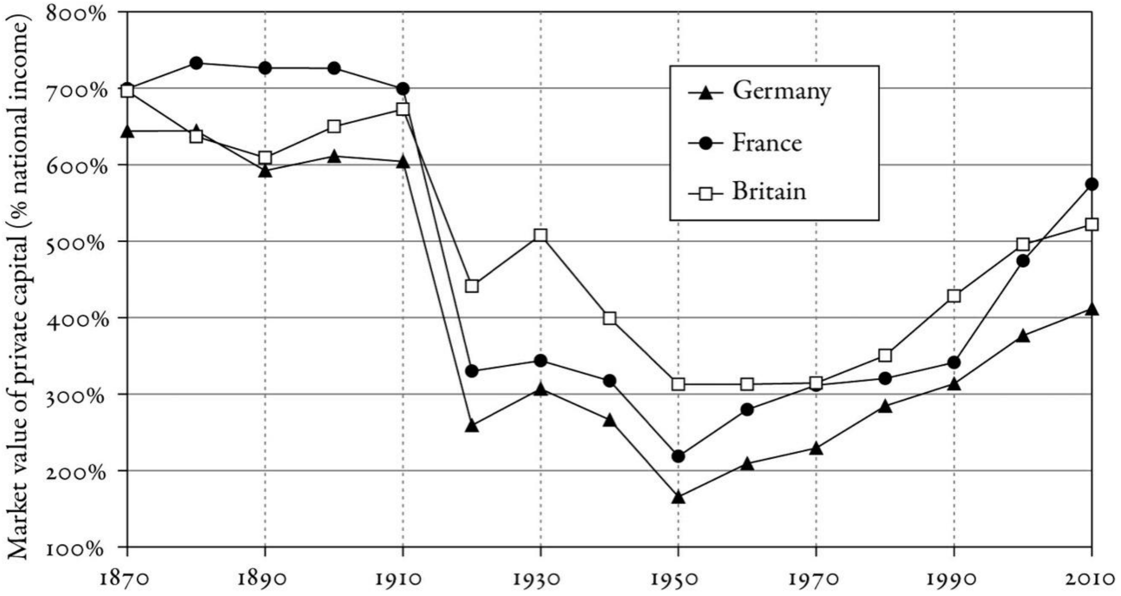



FIGURE I.2. The capital / income ratio in Europe, 1870–2010

# From Capital in the Twenty First Century:

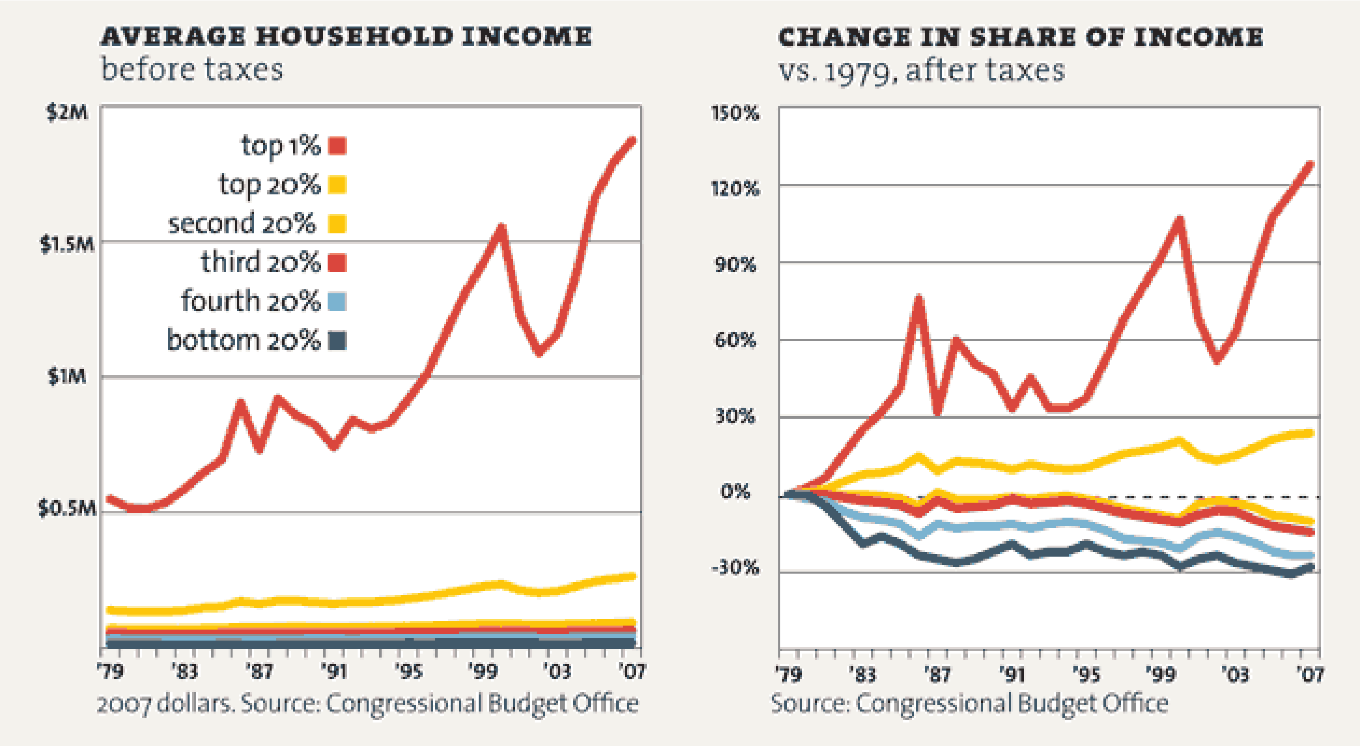
*World War II*

“The “advanced phase” of industrial development is supposed to have begun toward the end of the nineteenth or the beginning of the twentieth century in the industrialized countries, and the reduction of inequality observed in the United States between 1913 and 1948 could therefore be portrayed as one instance of a more general phenomenon, which should theoretically reproduce itself everywhere, including underdeveloped countries then mired in postcolonial poverty.”

“Nevertheless, the magical Kuznets curve theory was formulated in large part for the wrong reasons, and its empirical underpinnings were extremely fragile.”

“The sharp reduction in income inequality that we observe in almost all the rich countries between 1914 and 1945 was due above all to the world wars and the violent economic and political shocks they entailed (especially for people with large fortunes). It had little to do with the tranquil process of intersectoral mobility described by Kuznets.”

# From Capital in the Twenty First Century:




"Since the 1970s, income inequality has increased significantly in the rich countries, especially the United States, where the concentration of income in the first decade of the twenty-first century regained—indeed, slightly exceeded—the level attained in the second decade of the previous century. It is therefore crucial to understand clearly why and how inequality decreased in the interim."

"There is no fundamental reason why we should believe that growth is automatically balanced."

# From Capital in the Twenty First Century:

*History of Labor Conflict in the U.S.*

"The second conclusion, which is the heart of the book, is that the dynamics of wealth distribution reveal powerful mechanisms pushing alternately toward convergence and divergence."

"Furthermore, there is no natural, spontaneous process to prevent destabilizing, inegalitarian forces from prevailing permanently."

"The main forces for convergence are the diffusion of knowledge and investment in training and skills. One might, for example, assume that production technologies tend over time to require greater skills on the part of workers, so that labor's share of income will rise as capital's share falls: one might call this the "rising human capital hypothesis."

# From Capital in the Twenty First Century:

**Marie Antoinette And Her Children, 1787 by Elisabeth Louise Vigee Le Brun**

"In other words, the progress of technological rationality is supposed to lead automatically to the triumph of human capital over financial capital and real estate, capable managers over fat-cat stockholders, and skill over nepotism."

"There is little evidence that labor's share in national income has increased significantly in a very long time: "nonhuman" capital seems almost as indispensable in the twenty-first century as it was in the eighteenth or nineteenth, and there is no reason why it may not become even more so."

# From Capital in the Twenty First Century:

“It is obvious that lack of adequate investment in training can exclude entire social groups from the benefits of economic growth.”

“When the rate of return on capital significantly exceeds the growth rate of the economy (as it did through much of history until the nineteenth century and as is likely to be the case again in the twenty-first century), then it logically follows that inherited wealth grows faster than output and income. People with inherited wealth need save only a portion of their income from capital to see that capital grow more quickly than the economy as a whole.”

***Allegory of Poverty, about 1630s. Adriaen van de Venne (Dutch, 1589–1662).***

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