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The future of capitalism

What can Piketty’s book tell us about the future of capitalism itself? The crucial question for the future of capitalism is how we can achieve a more balanced wealth distribution without impeding the growth of capital. Remarkably, this question is seldom considered.

By Paul de Beer

Thomas Piketty’s Capital in the Twenty-First Century is a book full of paradoxes and incongruities, starting with the title. Actually, the book is neither about capital nor really about the twenty-first century, but mainly about wealth in the 19th and 20th century. Moreover, what many consider to be the central message of the book – that the inequality of wealth is again approaching the concentration among the happy few that characterised the 19th century – is in no way supported by Piketty’s own data. For example, the share in total wealth of the richest 1% in the United Kingdom increased from 23 percent in 1970 to 28 percent in 2010, while it stood at 69 percent around 1910. What he does show is that the income share of the top 1% is now, at least in the US and the UK, of similar size to what it was in the early 20th century. But, although he presents a much discussed theory about the growth and concentration of wealth, he has nothing new to add to the already abundant literature on increasing income inequality. And his theory of wealth accumulation and concentration has been rightfully criticized by many commentaries as overly simple and even naïve. Asking the question of how to cope with Piketty’s conclusions should then always be preceded by the question to what extent those conclusions are accurate and why they seem to be so widely supported.

So, what is the fuss all about? Why is this book such a huge success? And why do some of the world’s most famous economists – Krugman, Stiglitz – praise the book and hardly conceal their envy that they haven’t written it? I think the book offers two important contributions. First, Piketty has collected, in collaboration with some other economists, a very rich data set — wealth and income data spanning over a century. Secondly, he offers an explanation for the trend in wealth and income, and, thus, for the evolution of capitalist society itself, over a period of two centuries. Even though his theory may be wrong, or at least incomplete, the attempt shows that it is still possible to tell a grand story of global developments. In this respect, the book could be compared to Fukuyama’s The End of History, which appealed to a widely felt need for a new interpre-
tation of the world after the fall of the communist system.

Now, what can Capital teach us about the future of capitalism? Although Piketty has been criticized for his determinism, his book actually offers a strong argument for the power of politics, and for the great role of unforeseen historical events. The strong decline of the inequality of wealth and of income in the Western world during the 20th Century – between 1910 and 1970, to be more precise – is, according to Piketty, partly explained by events, such as the two World Wars, the Great Depression of the 1930s and the strong economic growth and high inflation after the Second World War, and partly by deliberate policies, in particular the imposition of very high tax rates on top incomes, large fortunes and bequests in the post-war period. It is particularly interesting to note that the period of declining inequality coincided with a period of unprecedented economic growth. Therefore, the message that has been transmitted by economists for a long time, that there is a tradeoff between equality and efficiency (or economic growth), is clearly at odds with these figures. If current policies are continued, Piketty anticipates that the development in the next decades will be the mirror image of the post-war period, that is, sluggish economic growth will be accompanied by increasing disparities in income and wealth. However, this is certainly not a predetermined future.

In my view, other policy options are more promising. These are related to one of the points I made at the start, that Piketty’s book is not about capital but about wealth. While wealth refers to the value of someone’s possessions, less the value of their debts, capital concerns the value of the means of production, such as machinery, factories, offices, computers, raw materials as well as non-physical means of production, such as intellectual property rights. A considerable part of wealth consists of the direct or indirect possession of capital goods, which explains why both terms are often conflated. A progressive wealth tax would put a brake on the accumulation of wealth. If we look at the other side of wealth — capital — it is questionable whether that is desirable. As a production factor, capital is, after all, an important source of prosperity. The more capital we have, the less effort in terms of labour would be required to produce the same output. However, at the same time, the employees would have less influence on the company’s decisions. They would be more dependent on external capital providers, who are often more interested in short term yields. Thus, collective employee share ownership might result in a more equitable distribution of company profits.

Therefore, the crucial question for the future of capitalism would thus be how we can achieve a more balanced wealth distribution without impeding the growth of capital.

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