

Book Review

Thomas Piketty
Capital in the Twenty-first Century
Cambridge, MA: Cambridge University Press, 2014

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Every so often, a book that shouldn't be winds up being a smash hit. Or, rather, becomes an unexpected success given that its subject matter is far from the celebrity/political biographies, heart-throbbing romances, heart-stopping crime/spy novels or fatuous self-help books that pretty much define popular literary taste. Thomas Piketty's *Capital in the Twenty-first Century* is such a book.

Earlier examples might include John Kenneth Galbraith's *The New Industrial State* (1967) and Allan Bloom's *The Closing of the American Mind* (1987). Agree with them or not, they became best-sellers and, though many of the purchasers may not have actually read them, they did attract the attention of countless critics and raised debates among innumerable media pundits and public intellectuals taking sides on the important issues they addressed.

Although it is fashionable to say that book publishing is in decline, books by economists, historians, psychologists and others do, in fact, frequently catch the public's fancy and, in the future, there may even be more of them topping best-seller lists, though for shorter periods of time and with proportionately less enduring public impact than in the era before the Internet.

In any case, it is clear that Piketty's book has not only become a major international cultural phenomenon, but that it has the potential to be around for a while, stirring up contrarian thinking on all sides of the question of what is happening with or, perhaps, to the economy.

Brought down to its simplest elements, *Capital in the Twenty-first Century* is an attempt to bring Karl Marx's three-volume capstone project, *Das Kapital*, up to date. It fails, of course, because it has neither the ambition, nor the breadth and depth or the revolutionary zeal of the original. Although I won't be around to pay off if I'm wrong, I don't think it will be read by critics as we segue into the twenty-second century with anything close to the passionate or even the antiquarian interest that Marx's *magnum opus* attracts even today in what some people wistfully imagine to be the "post-Marxist era."

That said, Piketty has not authored a minor, superficial, or insignificant book. Someone, of course, had to take up the challenge of rehearsing Marx's project at roughly this time (about a century after his ideas inspired the first successful revolution that bore

his name), and this effort is certainly a meritorious attempt to fill the need. It comes, of course, after the collapse of the Union of Soviet Socialist Republics and the morphing of the former “Red” China into a previously unexpected and currently dominant instance of an authoritarian style of “Asiatic capitalism.” It also steps up just as the “late capitalism” of the liberal democracies in the Organization for Economic Co-operation and Development experience yet another tack in their uncertain voyage to what Francis Fukuyama (1992) spectacularly prematurely called “the end of history.”

From the 1930s to the 1970s, the academic field of economics, government economic policy and the standard practices of the private sector were dominated by John Maynard Keynes and his erstwhile associates and followers. Keynes and Keynesianism became popular as a consequence of the allegedly “Great” Depression. Most of the intelligent and attentive public—whether formally trained economists or merely casual readers of the business pages of substantial newspapers and current affairs magazines—grasped the elements of Keynes’ theory.

Put simplistically, Keynes advocated relatively severe taxes in good times (the top marginal rate of personal taxation exceeded 90% during the Eisenhower administration in the United States) and endorsed considerable public spending in bad times. The idea was to flatten out the business cycle which not only featured booms and busts, but seemed, with successive bouts of inflation and unemployment, to be building toward a definitive crash that might, so the financiers, merchants and manufacturers of the day feared, precipitate the collapse of capitalism that Marx had cheerfully predicted.

So, despite the hoots and hollers of contemporary right-wing politicians and business leaders, it was the Keynesian mission to salvage the remnants of the stock market crash and the consequent Depression and, in effect, to save capitalism from itself. And it worked. Moreover, after the conflagration of World War II, Keynesian principles were combined with extraordinary efforts to design a global commercial system codified in the General Agreement on Tariffs and Trade, that would permit free trade, regulate international currencies and regularize both domestic and international commercial arrangements.

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In North America, at least, this led to the post-war “grand bargain,” wherein government, business and (to the degree permitted) labour collaborated in a general more-or-less cooperative movement toward economic growth, prosperity, equity and security. Productivity increased, employment increased, the working class became marginal entrants into a burgeoning middle class and a general sense of hope and expectation of further improvement and, not least, the private sector won reliable profits in part from government contracts during an age of massive infrastructural expansion and in part because the working and middle classes enjoyed a material standard of living that permitted previously unexpected amounts of disposable income. Life was pretty good and most people expected it would get better.

Then, with the arrival of Margaret Thatcher in the UK and Ronald Reagan in the US, an ideological reversal was made. Keynesian policies were dropped, public expenditure was lowered, the public sector was restrained, restricted and reduced as the “new public management” transformed citizens to consumers, turned public service into a burden on the taxpayer, deregulated the private sector and privatized whatever parts of the public sector could be conveniently divested.

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The result (and some would say the *inevitable* result) of restoring power to the corporations at the expense of the public sector and the labour movement was, of course, the financial collapse of 2008 and the allegedly “Great” Recession. Though modified Keynesian techniques (the so-called stimulus packages and the bail-outs of industrial and especially financial institutions) prevented a catastrophe equal to that of the 1930s, what happened *was* a certifiable catastrophe which, once again required government intervention to save capitalism from itself.

II

The optimistic era of Keynesian capitalism, of course, was not all a matter of confident economic progress. The American Civil Rights movement, the anti-Vietnam war movement, the festivities of the counter-culture and the beginning of second-wave feminism all disturbed the tranquility of middle-class suburbia throughout North America; meanwhile, Western Europe also witnessed social and political excitements in the events in France, Germany and Italy that inspired a somewhat irrational fear of youthful left-wing terrorism. Still, from the 1930s on, government intervention in the form of, for instance, Franklin Delano Roosevelt’s New Deal (not so much a coherent strategy for recovery as a cobbling together of a patchwork of innovations and experiments) and the growth of the post-war welfare state led to an understanding that government had an essential role to play in economic affairs and could be a force for good in social relations.

This understanding has, however, been suppressed since about 1980 as various political leaders announced with great fanfare that the world was once again “open for business”; both an active, interventionist state and a vital labour movement were attacked as obstacles to market rationality and economic growth. As Ronald Reagan famously put it in his first inaugural address to the American people (1981): “government is not the solution to our problem; government is the problem,” and as both Reagan and Thatcher would insist, organized labour was a curse to be controlled if not eliminated.

The combination of economic policies and political ideology that combine under the label of neoliberalism are, however, being challenged in their turn. Today, especially in light of the eagerness with which globalization, high technology and the information

society have been embraced as integral to the corporate agenda, the corruption, incompetence and indifference to questions of social justice and environmental sustainability have seriously (and perhaps permanently) undermined confidence in government and business in the wake of countless scandals culminating in the financial crisis of 2008. In Habermas' famous phrase (1975), there appears to be a massive "legitimation crisis," with the main focus of discord being economic inequality and inequity. "The 1%" as a symbol of distinct class difference and potential class conflict has now become a cliché. This is at least partly because it resonates throughout society—not just among the obviously dispossessed, but also among the previously comfortable and increasingly anxious middle class. Thomas Piketty could hardly have chosen a more opportune moment to publish his book on the nature and durability of economic equality and its implications for the future of capitalism.

III

Capital in the Twenty-first Century illuminates the reasons why there are inchoate and spontaneous outbursts of dissent. Whether in terms of a right-wing populism that is nowhere more evident than in the American Tea Party and in the rise of nationalist/xenophobic movements in parts of Western Europe, or in the left-wing populism evident in the wake of the unexpected challenge to Democratic presidential candidate Hillary Clinton from the supporters of Senator Elizabeth Warren, the brief but feisty "Occupy Movement" largely in the USA, and the aboriginal organizations in the Canadian "Idle No More" movement, it is plain that once-fringe and still marginalized, but potentially effective opposition to politics and economics as usual has been roused.

Among the many reasons for popular alienation from the existing political and economic arrangements is the perception not only that the gap between the rich-and-getting-richer and the poor-and-getting-poorer is apparently out of control, but that existing institutions either cannot or do not make any attempt to create and apply ameliorative and restorative public policy. Analogies are daily being made to collapsed civilizations which, in the past, fell victim to imperial overreach, environmental degradation and blatant and unsustainable inequity even in the heart of the wealthiest and most powerful centres. It is this perception that accounts for the popularity of Thomas Piketty.

"Once constituted, capital reproduces itself faster than output increases. The past devours the future." – Thomas Piketty

Before 2008, inequality had been capitalism's (and especially neoliberalism's) pachyderm in the palace. It is now openly on display. And Thomas Piketty has been fortunate enough to have been shining the light at the moment when people opened their eyes and were prepared to see.

Capital in the Twenty-first Century meticulously tracks the rise, maintenance and intergenerational transfer of wealth. Piketty's most revealing and carefully drawn picture is of his native France where he is professor at the École des hautes études en sciences

social sciences and professor at the Paris School of Economics. His book includes a great deal of data to support its main thesis. He argues that the ratio of wealth to income is rising in liberal capitalist societies. The return on capital investments is outpacing national growth rates. The return on labour—whether manual or mental—is proportionately lower, and in fact, the incomes of working class, middle class and even upper-level professionals has essentially flat-lined for the past four decades. As a consequence, Marx’s view of vast, unassailable fortunes of the already wealthy, the predatory practices of corporations and the inevitable immiseration of the proletariat, while excessive, is more compelling than the plainly false claims of neoliberals that wealth will “trickle down” and that “a rising tide floats all boats.”

The crux of Piketty’s argument is that the growing inequality that is everywhere in evidence is not an anomaly, nor is it part of a normal pattern of variation that will be corrected in the natural course of things. The far-famed wealth to income ratio is a now permanent feature of contemporary capitalism. So, the entrepreneur, once credibly hailed as the embodiment of innovation, the creator of jobs and the vital centre of prosperity and growth is becoming more and more insulated from economic innovation and is being transformed into a “rentier,” dominant over immense masses of people who are mainly dependent on their ability to sell their labour in an increasingly competitive labour market where permanent employment is giving way to precarious part-time and chronic contract employment, industrial and craft unions are in decline, the social safety net is being intentionally frayed, and technology is deskilling those jobs which it is not altogether eliminating. The “new gilded age” is upon us.

Inequality, Piketty adds, is not just an unfortunate aspect of the economy. It is also an impediment to democracy and to the meritocratic values that are at one with notions of free enterprise, the promise of upward mobility and the principle of equal opportunity. This, obviously, is just the sort of “internal contradiction” that Marx had in mind as he contemplated the transition to a higher, better stage of civilization. If Piketty is right, then it is precisely the kind of problem that could produce more than a “crisis” in capitalism and possibly its collapse.

Such fears (or hopes depending on your point of view) might be overstated; but, they seem real enough to the bulk of the financial press, which has taken up the cause of capital and launched powerful and sometimes vituperative attacks on Piketty in the recent past. The counter-argument is essentially this: Piketty is wrong on the facts and, even if he isn’t, his values are distorted. So, as Cullen Roach (2014, April 1) writes that Piketty’s analysis is to be rejected because he is confused and confusing, gloomy and unresponsive to the claim that, even though the 1% (or, more accurately, the 1% of the 1% or maybe even the 1% of the 1% of the 1%) have accumulated what some moralists might claim is obscene wealth, everyone is better off than they were a century ago, so where’s the problem?

The answer, of course, is that no society nor civilization can endure gross asymmetries in material well being forever, and forever is shorter in societies that claim to be open to personal initiative, talent and ambition. Quite apart from any concerns about

economic justice, Piketty believes that, pragmatically, capitalism needs to mend its ways in order to sustain itself.

The upshot is that Piketty sounds an alarm that evidently engages a book-buying public that has been treated to a sorry display of avarice compounded by illegalities from our most important economic institutions; or, to glaring evidence of behaviour might be authoritatively deemed criminal if only Western capitalism was governed by elected politicians who were not in thrall to corporations that are “too big to fail” and that are led by owners and managers who are “too big to jail.” That, however, is not the case. Indeed, even when it became clear that much of the Great Recession could have been avoided if only President Clinton had not repealed the 1933 banking legislation (commonly known as the Glass-Steagall Act) and thereby allowed the inflation of the real estate bubble which, when it burst, destroyed the savings, jobs, homes and lives of many millions of people, President Obama’s response was to make do with some make-shift reforms (the Dodd-Frank *Wall Street Reform and Consumer Protection Act*) that neither effectively controls banks or investment firms nor prevents the very people who precipitated the events of 2008 from cashing in on their continuing risky practices.

And Piketty’s prescription? It is to tax the superrich a good deal more and to tax the merely rich somewhat more. It is to use government as an instrument for redistributing at least some of the wealth and to hope that stability and equity will result. Matters such as the restoration of trade union rights are mainly deferred and, of course, a structural assessment of social class is downplayed insofar as it might lead to robust class-based political strategies ultimately committed to the substantial modification if not the actual overthrow of capitalism. In short, Piketty advocates a kind of twenty-first century Keynesianism that might have salutary results if it were to be tried. For the moment, however, all signs are that existing governments will not soon embrace such reforms. Neoliberalism still holds sway. Austerity is the preferred technique of the day. The debate goes on.

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