Paul DOBRESCU*  
Mălina CIOCEA**


A book that will change our discourse on inequality

1. A debate without data

“Every now and then, the field of economics produces an important book; this is one of them” (Cowen, 2014). These are the opening words of Tyler Cowen’s presentation of Thomas Piketty’s work, “Capital in the Twenty-First Century” (Piketty, 2014), in *Foreign Affairs*. This is a book that is visibly placed in all important bookstores around the world, widely debated, acclaimed, sold (over 1 million copies have been sold so far). It has been favorably reviewed or quoted in all major journals. The assessment of “Capital in the Twenty-First Century” by Paul Krugman, Nobel Economics Prize Laureate as a “magnificent, sweeping meditation on inequality”, is highly relevant: “This is a book that will change both the way we think about society and the way we do economics” (Krugman, 2014). Finally, Piketty’s book is included in the list of the year’s best books by prestigious journals, such as *The Economist, Financial Times, The Washington Post, Observer, The Independent, Daily Telegraph; Financial Times* and McKinsey have hailed it as the best book of 2014.

What makes this book so widely discussed and revered, what triggered the debate, probably one of the most interesting debates in the last decade? First, the book’s title, announcing a fundamental theme: capital and its role in this century. Quite noticeable is the similarity to Marx’s book, “Capital”, first published some 150 years ago, especially since the French author discusses Marx’s work at length, as one of its forerunners.

Most importantly, Thomas Piketty puts a finger on a bleeding wound of contemporary society: increasing social inequality. As the author declared in a talk with the editor of *Foreign Affairs*, inequality is good as long as it is not excessive. When it reaches unbearable levels, it becomes a real risk not only to social stability, but to development as well, to capital, in the last instance. At the root of inequality lies the main theme of modern society: the distribution of income and wealth. This is also the theme of the book, which opens with the line: “The distribution of wealth is one of today’s most widely discusses and controversial issues. But what do we know about its evolution over the long term?” (Piketty, 2014, p. 1)

Dozens of studies, analyses, and works on inequality and its price have been published by famous names in economics, from Emanuel Saez to Gabriel Zucman or Joseph Stiglitz.

---

* * National University of Political Studies and Public Administration, Bucharest, Romania, paul.dobrescu@comunicare.ro.  
** National University of Political Studies and Public Administration, Bucharest, Romania, malina.ciocea@comunicare.ro.
There has been much talk about the famous 1% of US population holding much of this developed country’s wealth. In time, analysts realized that 1% no longer expresses adequately the process of amassing wealth in fewer and fewer hands. The 0.1% representing the 160000 families holding 22% of US wealth speaks louder of inequality; or the 0.01%, the 16000 wealthiest families, controlling 11.2% of the country’s wealth (The Economist, 2014, p. 71).

If we were to employ 19th century terms to characterise part of contemporary books on inequality, we could say: the world is full of Proudhons. Proudhon brilliantly depicts inequality and its social consequences but does not get to identify the cause of inequality. It is what Marx himself held against Proudhon.

Nowadays, although not expressly saying that, Thomas Piketty wants to reach the root of inequality, and identify evolutions, cycles and clearly assert why things are as they are. Even though the author specifies that his answers are “imperfect and incomplete”, he immediately adds: “But they are based on much more extensive historical and comparative data than were available to previous researchers, data covering three centuries and more that twenty countries, as well as on a new theoretical framework that affords a deeper understanding of the underlying mechanism” (The Economist, 2014, p. 71).

Thomas Piketty’s merits lie in the radical change in analytical perspective. Inequality increase is generally debated closely in relation to increasing gaps in wage levels. Piketty incorporates this research track into a broader perspective, comprising not only labor income, but mainly capital income (annuities, dividends, interest, profit and so on; capital itself is treated broadly: financial capital, production assets, fixed and current assets, etc.). Correspondingly, Piketty shifts the analysis weight from statistic data on wages evolution (including income surveys) to the main source of his analysis, financial registries. Together with his colleagues, the French author develops a historical analysis of inequality evolution starting from research on financial registries in countries where they do exist. For instance, in France, where administration was much more centralized from the early beginnings, tax documents go back to the 18th century. This undoubtedly supposes enormous background research, an effort to produce models, to follow tendencies, to integrate data in a unitary picture.

Thomas Piketty seems discontent, even vexed, by the state of methodology in inequality research. It is not imbued with a historical perspective or a holistic vision and consequently lacks sufficient data for solid viewpoints. In fact, one of the subchapters runs: Debate without data. In our opinion, the shift in perspective on inequality analysis coupled with immense activity of historical research which spans centuries (where data allowed it) represent the two pillars of a construction that aroused so much interest among specialists. Many amendments can be made, and they have been made. But the solidity of the work is evident, and its conclusions are hard to shatter.

The most relevant picture of the result of the research conducted by the French author and his team comes from Paul Krugman: “The big idea of Capital in the Twenty First Century is that we haven’t just gone back to nineteenth – century levels of income inequality, we’re also on a path back to <patrimonial capitalism>, in which the commanding heights of the economy are controlled not by talented individuals but by family dynasties” (Krugman, 2014). This is an assessment that gives a lot of food for thought, because, in fact, the book openly talks about the cyclical movement of inequality. Acknowledging this conclusion, which explains in part the interest for the book, triggers a lot of other questions and we are consequently justified in insisting on its connotations.
2. “Vautrin’s lessons” seem as valid today as ever

The book’s most important conclusion is probably the one that states that there is a cyclic evolution of income from capital (under its different forms), and that the part played by capital in value creation in society evolves under a U shape. Following a period of big gain generated by the existence of capital in the 18th, 19th and early 20th century, inequality decreased for approximately 50 years in mid-20th century. Inequality started increasing again to levels that are comparable to early 20th century. With our 21st century perspective we often believe that most economic realities have changed fundamentally compared to former centuries, that the 19th and the 21st century are only thinly connected. The French author’s research highlights the opposite conclusion: on the subject of inequality, the early 21st century strikingly resembles the 19th century. This century’s inequalities tend to equal those of the 19th century. Moreover, not only are they similar, but they are associated with the same source. Unequal capital ownership, rather than unequal pay, fundamentally explains the rise in social inequality. Inherited wealth continues to represent the source of big fortune – hence of big inequality – rather than work, starting a successful business, taking risks, developing an activity which is in high demand on the market. The class of annuity beneficiaries tends to become an economic and social reality, as it was back in the 19th century.

Piketty refers at length to classical literature – Balzac, Dickens, Austin – and the way 19th century writers depict the role played by inherited wealth in establishing social status. “Vautrin’s lessons” shatter Rastignac’s dream in Père Goriot to gain high social status by building a career. Vautrin gives the young dreamer a precise calculus proving that a profession cannot ensure success or higher social status: even admitting that Rastignac would be successful in his chosen career, in the long run he would have meagre revenue and, in time, would have to give up becoming “a really rich man”. You cannot get there by work, merit, or profession. Not even the greatest career can equal the advantages of marriage to a rich man’s daughter. It is inherited, and not produced wealth that fixes social status and belonging to France’s richest few.

In fact, novelists depicted an economic reality which is statistically rooted: during Belle Epoque, 1% of France’s population held around 60% of the country’s riches; in the UK, as high as 70%. It was not the gap as such that was the issue of that period, but the fact that you could not accede to “the peaks of society” through hard work and merits, which divided society not only in terms of wealth, but also in terms of aspirational and moral thinking. When Vautrin tells Rastignac that “it is illusory to think that social success can be achieved through study, talent and effort”, in fact he legitimizes the questions that Piketty asks explicitly much later: Under such conditions, why work? And why behave morally at all? Since social inequality was in itself immoral and unjustified, why not be thoroughly immoral and appropriate capital by whatever means are available?” (Piketty, 2014, p. 240).

The problem of the way a society’s wealth is distributed is not, as one might believe, a social problem (the creation of uncontrollable imbalance), or a historical or economic problem; the issue of wealth distribution reproduces the essence of a social-economic organization and fixes its values. We can read a lot in the way wealth distribution mechanisms work: how wealth is produced, how it is divided, who is at an advantage, what preoccupations there are to maintain the balance and consolidate the premises for social development. That is why the French author’s historical research is more significant than the act of filling in the picture of inequality evolution through exhaustive research. Piketty does not simply diagnose the ill effects of capitalism. Engaging – at times implicitly, at times explicitly – in a constant dia-
logue with the classical paradigms of interpreting wealth distribution, he intends to build a *global theory of capitalism*, to offer a description of the way capitalism will evolve in this century: “Do the dynamics of private capital accumulation inevitable 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? What do we really know about how wealth and income have evolved since the eighteenth century, and what lessons can we derive from that knowledge for the century now under way?” (Piketty, 2014, p. 1)

3. Inequality increase: the exception or the rule?

One reason why the book generated so much interest is because it offers a lot of opportunities to meditate on essential themes in contemporary society. The author offers some answers but leaves the reader room to give his own answer based on his own observations. One is what the author calls the U shaped curve that inequality followed. The *main question* is: what represents the period between the dawn of WWI and the 1970s – the period when inequality decreased: is it the rule or rather the exception? In other terms, does capital have the tendency to accumulate continuously from what society creates – and this could be the rule, since it occurs both at the end of the 20th and the beginning of the 21st century? In this case, we can apply the Marxist paradigm on continuous accumulation which leads to a continuous increase in inequality and finally to social explosion. Piketty does not seem to go along with this perspective, although he underlines how difficult it is to control inequality increase.

The counterbalance to this possible analytical view could be represented by the theory launched by Kuznets, which seemed to explain the situation from the mid 20th century. Kuznets talks about another phenomenon, “*balanced growth path*”, where the key variables evolve at similar pace. No great internal imbalance can occur, because growth would be affected. The system finds its own balance. According to Kuznets, inequality path would rather take the form of a line with ups and downs. Back in the 19th century, the industrialization process favored an increase in inequality partly because a small part of the population was not ready to assume and benefit from “the fruit” of economic growth. In the first part of the 20th century, the social condition of economic growth – firstly, an instructed, qualified laborforce – made the distribution of the created value to include other criteria as well, and led to a decrease in inequality. The fundamental problem here is: why did inequality decrease at a certain point and then started increasing again at the end of the 70s? It is true that this increase is more pronounced in the US, but it is pervasive in all developed countries.

Thomas Piketty does not fully agree with the American author’s explanation. He tries to build an explanatory mechanism focusing on what he calls “forces of convergence” and “forces of divergence”. The dynamics of wealth distribution contains mechanisms that push, alternatively, towards an increase of inequality (forces of divergence), or to a decrease of inequality (forces of convergence, among which knowledge diffusion and increase in qualification; in the long run they do not necessarily decrease inequality, but make it more “meritocratic”, less static, etc.). Forces of divergence are of particular interest when trying to explain why inequality started to increase at the end of last century and has reached similar levels to the 19th century.

One very important mention: the increase of inequality in the last decades of last century is due to “political shifts” that had direct repercussions on the taxation policy. It is well known
that the epoch inaugurated by Ronald Reagan and Margaret Thatcher meant a decrease in taxation on high revenues (so mainly income from capital), including a decrease in taxes paid by corporations: in the long run, all these measures offered a lot of advantages to capital, especially big fortune, a tendency supported by the appearance of “superwages”.

The author’s important contribution consists in revealing a real driver of inequality, which so far has been little researched or at least neglected in analyses on the theme. That is, the ratio between rate of return on capital \( r \) and the rate of growth \( g \). The rate of return is usually higher than the rate of growth, a fact fixed in a simple formula: \( r > g \). If this imbalance is maintained over a period of time, it facilitates wealth amassing at the pole represented by capital. This is how things happened in the second part of the 19th century, which triggered strong spiralling of inequality, an impressive concentration of wealth derived from the existence of capital. The scale of this evolution is represented by the aggregated size of private wealth in relation to national revenue. At the end of the 19th century private wealth in Europe was six-seven times higher than annual national revenue generated by its economy. This ratio between rate of return and rate of growth explains what happened in the period of “the three glorious decades” (1945-1975). In this period, due to the much higher rate of growth, conditions were created for the rate of return to remain constant in terms of percentages, but higher in absolute terms. Overall, the ratio was balanced.

Starting with the late 70s, inequality started to grow because the rate of economic growth started to decrease. When growth is modest, the owner does not give up profit. He will want to preserve gains. As the newly created value is lower, the part that remains to be distributed among the laborforce is lower as well. Inequality increases automatically, and polarization becomes more visible. The correlation between the rate of return of capital and rate of growth is all the more important in the present times, when the economic growth rhythm throughout the developed world is not at all high. Especially in Europe. The capital growth stays high, and does not adapt to a period marked by difficulties. That is the reason why, despite the crisis, despite the economic turbulence in the developed world, capital continued to gain constantly, which in the end led to an increase of inequality. In the early 20th century, 10% of the richest people owned about 45-50% of national revenue, while towards the mid-century they only owned 30-35%. Around 2000, the same 10% richest people got to own again 45-50% of the newly created wealth. In this way, the U shape evolution completes a cycle: from the perspective of wealth distribution, the early 21st century represents a comeback to the 19th century. The forces of divergence triumphed over forces of convergence. According to the analysis, the current century will evolve under this paradigm.

At this point, the author highlights an essential truth: “the main force of divergence has nothing to do with any market imperfection” (Piketty, 2014, p. 27). On the contrary, we could say that improving market functioning ensures an important, constant revenue for capital. Consequently, this is a structural conflict of capitalist society, which was reproduced throughout modern history, taking the shape of conflict between peasants and land owners, and later between capital and labor. The distributional conflict is the form taken at the social surface by this emerging structural conflict about the way the newly created value is shared between capital and laborforce. Is there a solution and which would that be?

Progressive taxation, answers Piketty, applied globally, if possible. The solution triggered many reactions, even irony. Solutions have always polarized opinions. This is a solution that could be called amicable and which clearly sets Piketty and Marx apart. Well-thought taxation could prevent the social explosion Marx envisioned. It could represent the solution to a
structural problem of developed capitalism. We should be worried not only by the imbalance between the two types of income (income associated to the existence of capital and income from labor), but by the fact that wealth accumulation by capital seems unstoppable.

Figure 1. Capital in the 21st century

[Graph showing capital in the 21st century with labels: Germany, France, Britain]

Source: Figure 1.2, The capital/income ratio in Europe 1870-2010, Piketty, 2014, p. 26.

For the accuracy of the analysis, we need to insist on two aspects. The role played by capital is still very important when we talk about inequality at the top, about the income of the low percentage of the rich people with large property (and large income). Second, an objection can be raised that nowadays a big difference in income can be accounted for because of superwages, very large bonuses paid to CEOs and bank officials, from various mutual funds, etc. Income gaps do not necessarily come from property, but from extremely well-paid positions, which can facilitate the accumulation of considerable wealth. Indeed, Vautrin would nowadays be in a difficult position if he were to advise Rastignac on how to proceed: to marry a very rich man’s daughter or a bank chief’s daughter? Piketty expands on the wages and bonuses of executive offices in banks and corporations; this is income which is very similar in nature to an annuity, because it is fixed arbitrarily and is not necessarily correlated to the result and performance. It “comes” automatically, just like an annuity. Once built on the basis of this new type of enormous income, wealth is transmitted just like inheritance and can only consolidate “the patrimonial capitalism” that Piketty talks about.

4. “The past shall not devour the future”

As we said, the book develops many subthemes, closely connected to the central theme. For instance, it unites the whole analysis of wealth distribution to the broader analysis on the factors of contemporary development. Alongside population and technology, capital is an essential factor of development. The underlying idea is that among the above-mentioned factors feeding development, developed societies have been left with capital only. The fact that it is the last one standing may explain its exacerbation. This is how the French author fixes this truth: “The importance of capital in the wealthy countries today is primarily due to a slowing of both demographic growth and productivity growth, coupled with political regimes that objectively favor private capital” (Piketty, 2014, p. 42).
If we look at contemporary society through this lens, we will certainly gain a broader, more adequate understanding. We will discover that an affluent society faces more than customary constraints. It faces a deadlock. From the three main propulsion forces, the three “engines” that push contemporary society, it can use at full speed just one – capital. What is the reaction in such a critical situation? The normal, rational reaction is to protect this “engine”, so as to be able to use it for as long as possible to make it reach its full potential. We live in a time of high pressure. The competitiveness race is tougher and unforgiving. In these circumstances, the developed society’s temptation is to highlight the importance of capital (the main factor left at hand), to turn it into a factotum, although it is by definition only a part. What we call financialization today is the expression of the crucial role played by capital, an attempt to organize society from the perspective of the interests of capital and its own logic.

It is worth insisting on the final phrase in the quote above: “political regimes that objectively favor private capital”. The theme of capital, of stimulating it or creating a favorable context for it, is sensitive by its very nature. And the author is prudent. Even in the face of wealth accumulation through capital, he underlines: “Not all of the consequences of capital’s renewed prosperity were negative; to some extent it was a natural and desirable development” (Piketty, 2014, p. 42). In the long run, capital is vital in any development process. When does Piketty express “divergence”? When there is long-term imbalance which becomes difficult to control. The reasons are mainly economic, but they spill over into the mainstream of the development process and can hinder development. When inherited wealth becomes overbearing in relation to labor wealth, when capital benefits from quiet periods that facilitate faster accumulation of wealth, so that private wealth exceeds a state’s national revenue several times, then there is a risk that past accumulation – positive to a certain degree – looms over the present and even changes it beyond recognition. In these circumstances, “the past tends to devour the future”. The author’s wish is for this thing not to happen and wealth accumulation not to favor “a slip towards oligarchy”.

5. “Democracy shall regain control over capitalism”

The last sentence before conclusions is meaningful for a balanced reception of all layers of meaning in the book: “If democracy is someday to regain control of capitalism, it must start by recognizing that the concrete institutions in which democracy and capitalism are embodied need to be reinvented again and again” (Piketty, 2014, p. 570).

This sentence sheds light on an important matter: the relationship between capitalism and democracy, the central theme of developed society evolution in the last centuries. Since capitalism and democracy developed quasi-simultaneoulsy in western society, we supposed that they are necessarily the two parts of a balancing act. Yet throughout the last century and at the dawn of the 21st century, capitalism – symbolised by the power of the capital – has often exerted an overwhelming influence on democracy and has somehow “tamed” the democratic mechanisms and institutions. When we talk about the uninterrupted accumulation of wealth on the basis of capital we cannot avoid this central theme: the relationship between capitalism and democracy.

In our opinion, an essential role in maintaining the balance between capitalism and democracy is played by the state. The state has been discussed for some years now in imperfect terms: big state, small state, overspending or underspending state and so on. The state is the interface between capitalism and democracy. The state is the main lever which can curb capital. This thing is little discussed, but it is a construction that can balance both. Why does ne-
Liberalism attack the state? To give a free hand to capital. Capital knows that the state can put a stop to its development. That is why neoliberalism, as the expression of the interests of big capital, attacks the state first and foremost.

If it can not make the state submit, capital will seek to make it indebted, by which it will amputate its powers but most importantly, its prestige. An indebted state, which needs to be bailed out from time to time in order to survive, is the image of disempowerment and managerial failure. Yet we should always underline that many of the states in difficulty have taken over the loss from the private sector, especially from banks. So the state is used by private interests for two purposes: firstly to cover their own losses and secondly to socialize them, to pass the burden onto the shoulders of all citizens. Without a powerful, intelligent state, democracy is defenceless at the hands of capital and capitalism, because it would lack the fundamental instrument to control the evolution of capital, including wealth and its distribution mechanisms.

This is fundamental research on a fundamental theme of modern society. It is a work that changes the discourse on inequality and wealth distribution. Thomas Piketty’s perspective cannot be ignored from now on. This is the epitome of any exceptional book.

References

*** (2014). Forget the 1%. It is the 0.1% who are really getting ahead in America. The Economist. November 8th.