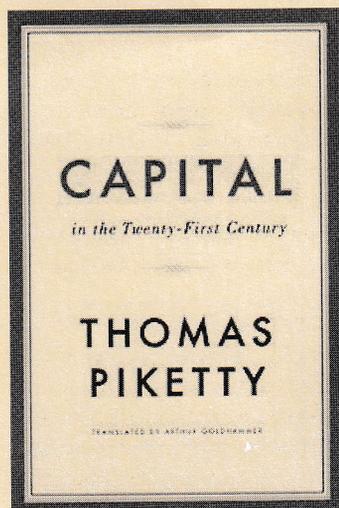


Revisiting an Old Argument or Refashioning a Future?

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Capital in the Twenty-First Century

Thomas Piketty, translated from the French by Arthur Goldhammer, 2014
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When was the last time we heard an economist involve Jane Austen and Honoré de Balzac in his discussion of economic modelling? One of Thomas Piketty's many achievements in *Capital in the Twenty First Century* is to combine quantitative economic history and economic literature written with the Cartesian clarity we associate with the French scientific tradition. A core concern of Piketty's book is the following calculus: are the fruits of working hard greater than those attainable by marrying into a top fortune? If not, "why work? And why behave morally at all?" (p. 240). The book's substantive contribution is the way Piketty, a professor at the Paris School of Economics, has constructed a historical story from "as complete and consistent a set of historical sources as possible in order to study the dynamics of income and wealth distribution over the long run" (p. 19). The picture is familiar as it tells the story of our time: huge wealth and huge incomes concentrated in the hands of a relatively small number of people, and a widening gap between high and low earners over the past quarter of a century. Using data from more than twenty countries, including France, Britain, Germany, the US, Piketty lays out the evidence for these trends, discusses the dynamics that will govern their evolution in the future, illuminates the critical roles of war and politics, and proposes remedies to the threat he believes growing inequality poses to democratic governance.

Ranging as far back as the eighteenth century to uncover key economic and social patterns, Piketty derives a grand theory of capital and inequality - a concept he captures in the expression $r > g$ (where r is the rate of return to wealth and g is the economic growth rate). The crux of his explanation is that conditions prevailing between 1950 and 1980, far from representing a new normal, reflected an anomalous period in world economic history during which the growth rate of output (g) substantially exceeded the rate of return on capital (r). This created a dynamic in which capital's share of

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national income (α) remained low and inheritance played a diminished role. Piketty suggests, however, we are now returning to a world of relatively slower economic growth that look more like the late nineteenth century, and thus making a slow but inevitable return to the ‘patrimonial capitalism’ (Giddens, 2001, pp. 157-158). When r substantially exceeds g , capital’s share α grows and, due to concentrated ownership, so does inequality of individual income. The main driver of inequality—the tendency of returns on capital to exceed the rate of economic growth—today threatens to generate extreme inequalities that stir discontent and undermine democratic values. Piketty closes the book by recommending that governments need to step in, now, by adopting a global tax on wealth, to prevent soaring inequality contributing to economic or political instability. Piketty believes that there is a “fundamental logical contradiction” (p. 571) in capitalism with “potentially terrifying” consequences for wealth distribution unless we adopt radical policies to tax the rich.

In varying degrees, poverty, unemployment and unequal opportunity are major challenges for all capitalist societies, including developing nations like Bangladesh. Piketty’s book is thus also a reminder that it is time for us to enquire the ways growing inequality of income show up in a correspondingly more unequal distribution of wealth in Bangladesh. We should be concerned that greater income inequality might be transmitted to succeeding generations if money is a key element in providing opportunities to the young. And, needless to say, equality of opportunity is an objective that governments have struggled to realise over the years (Sobhan, 2010).

Nevertheless, it is possible to argue whether Piketty is right to think the future will look like the past and that today’s super-rich mostly come by their wealth through work, rather than via inheritance, and dismiss Piketty’s policy recommendations as more ideologically than economically driven. Piketty, however, makes it clear that he intends his as a work of history as much as economics (p. 33), and reiterates in his conclusion that “historical experience remains our principal source of knowledge” (p. 575). The book reflects and delivers on that commitment. Piketty explains his methods meticulously, and acknowledges their limitations. The literary references, far from a peripheral badge of erudition, play a central role in illustrating the dynamics of inheritance and wealth. There is no denying that findings of *Capital in the Twenty-First Century* will transform debate and set the agenda for the next generation of thought about wealth and inequality across the globe.

References

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