Capital in the Twenty-First Century:

A *régulationist* view

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1. A summary of the relation of capital to inequality, a break from the doxy of the economists

1Economists communicate between each other by means of publications in academic journals and some of them express their opinions on the major issues of the day in the press or in the audiovisual media, even though the positions they take up may not always have an obvious link with their own areas of expertise. Thomas Piketty's book is original at the outset in that it combines the results of a large quantity of academic work carried out since 2001 with the object of describing and analyzing the evolution of inequalities and then identifying their main determining factors. But it is not just a collection of previously published articles. The material is presented in highly pedagogical manner so as make the main results and economic policy proposals accessible to an audience not necessarily well versed in the techniques of the professional economist.

2The research focused initially on high incomes in France and on the long-term evolution of inheritance in the same country. Its scope was subsequently extended with the help of various

colleagues, young scholars and doctoral students to the United States, India, China and various other European and Latin-American countries. This resulted in the creation of a vast databank of historical and international information about income and inequality which provides the source material for the set of highly informative graphics and tables included in this guide. This in turn explains the unusual size of the book, which is eight hundred pages long, and also includes a number of appendixes which are accessible on the internet.

3It is also interesting to note a third original feature, namely the fact that this wide-reaching project stands apart from the main currents of contemporary research. What is proposed here is not just an empty, perhaps puerile, attempt to establish the microeconomic foundations of inequality. The analysis is global in conception and the narrative of the book cannot be said to be confirming a standard model derived from any particular recognized theory. That does not prevent the author using a particular area of theoretical literature as and when the need arises, once he has defined the boundaries of the question and the facts that he has isolated in order to explain. He does not delve into the area of the cognitive sciences or cover the attempts to re-introduce psychology into the theory of economics and refers, instead, to various books and films which provide keys to understanding the behavior of individuals placed in a historical and institutional context over which they have little control. He also dampens the enthusiasm aroused by empirical methods based on controlled experimentation, which he considers to fall victim, to a certain degree, to the illusions of the scientist. He points out, to this effect, that, "The new methods often lead to a neglect of history and of the fact that historical experience remains our principal source of knowledge" (p. 575).

2. A celebration of historical statistics over an extended period

4This is indeed the central question of the book: the economist's task is to attempt to account for the regularity, the continuity and the contradictions apparent in the results produced by the scrupulous analysis of sequences over an extended period. The merits of quantitative historical analysis number at least three.

5The first is to call into question the various clichés and conventional representations, including those used by economists. An example of this is the way the book shows how the United States was much less inegalitarian than the old continent in the 19th century, because the extreme concentration of wealth had not yet occurred, although this was indeed to take place at the end of the 20th century. Similarly the chapter devoted to the transmission of wealth and inequality from one generation to the next shows how social mobility at the present time is greater in Europe than in the United States, which represents a complete contradiction with regard to the representations underlying many of the strategies pursued by political leaders. This, in turn, serves to weaken the position of those in favor of an approach which is first and foremost cultural. "Above all, it once again bears emphasizing that this difference between Europe and the United States has little to do a priori with eternal cultural differences: it seems to be explained mainly by the differences in demographic structure and population growth" (p. 428).

6The second merit of the book is to show repeatedly that the greatest and the best theoretical economists in fact extrapolated supposedly long-term and universal trends from changes observed over an unacceptably short period situated during one particular phase of capitalism.

This is the substance of the author's refutal of Marx's law of the tendency of profit to fall: "[…] Marx usually adopted a fairly anecdotal and unsystematic approach to the available statistics. In particular, he did not try to find out whether the very high capital intensity that he observed in the account books of certain factories was representative of the British economy as a whole or even of some particular sector of the economy […]" (p. 229). It has to be said that this argument may appear disturbing, for example, to the proponents of the arguments expressed in the great debate surrounding value theory, to the effect that it is the course of history which decides and not a perfect system created piecemeal by the theorists. The debate over the question of whether inequality is dominated by the Kuznets curve is well-known. Here it is purported that economic inequality increases during the initial phase of modernization but that it is canceled out when the most efficient techniques have fully diffused (p. 241). For Thomas Piketty this is undoubtedly the case for the redistribution of income among salary-earners, but the constitution of wealth and its concentration results in entrepreneurs being eventually transformed into rentiers, thus constituting a source of inequality which regained a dominant position at the present time, first and foremost in the United States. Familiarity with the course of history over a longer period therefore suggests that the contemporary inequality in wealth is not the exact replica of that of the 19th century. History does not simply repeat itself because innovation has to be taken into account. Thus after World War II a new "Patrimonial Middle Class", was seen to appear, which the richer members of society used as an argument to justify, for example, the reduction of capital tax (p. 260-265). Similarly Pareto's law, concerning the re-distribution of personal income, cannot be applied universally as was thought to be the case. This is partly because the statistics that it used were fragile and disparate and partly because statistical distribution does not only depend on individual characteristics but also on macro-economic characteristics, notably the gap between return on capital and growth rates. The author levels the same criticism at the Cobb-Douglas production function, which implies that the balance between capital and labor is stable and favors a harmonious vision of the distribution conflict. "But this hypothesis does not satisfactorily explain the diversity of the historical patterns we observe over the long, short or medium run, as the data I have collected show" (p. 218).

7The quantitative history and the long series of events studied offer Thomas Piketty's work a third essential advantage, namely to provide a firmer grounding for political debate, especially in the area of taxation. The book can potentially inform citizens about a certain number of major issues and put into perspective not only the analytical standpoints based on models derived directly from theories but lacking in empirical justification, but also those that are essentially ideological in conception. Which country dared to apply confiscatory income tax rates? It was the United States that led the way after World War II with a rate exceeding 80% and yet neither the country economic efficiency nor its growth was seen to collapse, far from it! What is one of the hidden virtues of the introduction of inheritance tax, followed by income tax and then capital gains tax? The systematic registration of the relevant information enables the study of the distribution of income and wealth, thus providing far more objective information for political debates than that obtained by simply comparing contradictory representations and beliefs based on the everyday (and inevitably incomplete) experience of each of the socio-economic groups. The comparison of the different national trajectories over a period of one or two centuries further broadens the horizon of possibilities and enables the writer to refute the idea that there is no alternative and that democratic choice corresponds simply to the application of 'scientific laws', the exact nature of which can never really be grasped.

3. A re-assessment of the claims of economic theories to have scientific validity

8It is clear that the considerable mass of statistics used for analyzing trends in population, income distribution, total wealth and inherited wealth makes it easy to assess the relevance of the theories most commonly used in this field. The inadequacy of the theories postulating the existence of a representative agent would seem undeniable, because such a stance would indicate that public debt is completely neutral, whereas research demonstrates that it is held by a minority of the population, which leads, in turn, to the concentration of wealth, and therefore has a retro-effect on the real economy. The hypothesis of Ricardo's equivalence, which dominates contemporary macroeconomics, cannot, therefore, be used for the analysis of inequality (p. 134-135). The fact that the annual value of inheritances and gifts represented a mere 24% of national income in the 1900s and fell to 4% after World War II, only to increase to over 12% in the 2010s, invalidates the theory of "life cycle wealth" proposed by Franco Modigliani, which purports that each individual endeavors to die without capital (p. 610). If this view were to be adopted, the transmission of inequality from one generation to another could not be dependent on personal wealth, even though the latter was at the heart of European society in the 19th century, and even though it is tending to regain this position in economies governed by the explosion of personal wealth, as opposed to those where activity-generated income is paramount. This configuration (of exploding personal wealth) is notably to be found in regimes where growth is driven by the financial sector.

9Similarly, Thomas Piketty derides the research carried out by the World Bank which announces triumphantly that human capital dominates physical capital in contemporary economies. Firstly, why should what is clearly a revenue flow be converted into capital? Secondly, as human capital cannot be separated from those whom it represents, it is totally erroneous to put it under the same heading as capital. Finally, given that salaries continue to represent between 60% and 70% of national income it is clear that the mass of "human capital" is greater than that of physical capital provided that the relevant income flows are adjusted to the same discount rate. It is in no sense a question of a radical change in the source of inequality, as is apparent from the stability of salary inequality over a very long period, which contrasts with the substantial variation observed in the inequality of personal wealth and return on capital (p. 272).

10The spectacular increases in high earnings have been very largely constrained to the upper centile, or even to the top thousandth in the United States, but not in Japan or in Europe, which is surprising, given that the technological transformations should logically have affected the whole of the upper section of the range of skills. This conclusion allows Thomas Piketty to denounce "the illusion of marginal productivity" on the grounds that "[…] once we introduce the hypothesis of imperfect information into standard economic models (eminently justifiable in this context), the very notion of 'individual marginal productivity' becomes hard to define. In fact, it becomes something close to a pure ideological construct on the basis of which a justification for higher status can be elaborated" (p. 331). Thus the explosion of the earnings of top executives can be put down to the complexity of the governance of large organizations and to the victory of "meritocratic extremism" which now provides renewed legitimacy for the inegalitarian logic of the past (p. 334).

11The entire mainstay of standard present-day economics derives from the same methodological, and indeed epistemological, postulate which Thomas Piketty denounces: “Pareto’s case is interesting because it illustrates the powerful illusion of eternal stability, to which the uncritical use of mathematics in the social sciences sometimes leads” (p. 367). He adds, “In fact, nothing could be further from the truth. When we study inequality in historical perspective, the important thing to explain is not the stability of the distribution but the significant changes that occur from time to time” (p. 368).

4. Literature and the social sciences can provide the economist with certain insights

12It is now time to consider the style and the form of the book. Here too the author’s work is innovative and demonstrates remarkable liberty of expression. The first chapter of the book, which fulfils the usually thankless task of presenting the concepts of income and production to the layman, begins by referring to the conflict between the platinum-miners of Mariana, in South Africa, and the shareholders of the London-based company, Lonmin. The author’s aim in so doing is to demonstrate the central importance of the inequality between capital and labor, the theme which will serve as a guideline throughout the book. Thomas Piketty’s intentions are clear: he aims to make phenomena which really exist intelligible to the reader. His stance is not, therefore, to show off his talents by inventing new theoretical models for the benefit of the academic community, which, incidentally, he has already proposed in many previous publications. The book contains numerous references to current events, often in an ironic and at times sarcastic vein, which brightens up a book that the non-specialist may otherwise find somewhat challenging to read.

13In more fundamental terms, the author has found an alternative to traditional approaches in terms of substantial or limited rationality, and of cognitive foundations for action theory and also of experimental economics. In order to explain the inequality of 19th century France he makes detailed reference to Balzac’s *Père Goriot*, notably to the advice that Vautrin offers Rastignac: “[…] it is illusory to think that social success can be achieved through study, talent and effort”. He then gives figures to justify a more efficient strategy, namely a marriage by which “[…] he will immediately lay hands on a fortune of a million francs” (p. 238-240). “Clearly, in European societies at that time the main question was the choice between work and wealth and, given the amount of accumulated capital, wealth won hands down. Conditions were similar in 18th and 19th century Britain for Jane Austen’s heroes and the same message is found in *Gone with the Wind* where the opulence of the southern US states is based on the income derived from slavery” (p. 241). Thus people’s logic is determined by the structure of the society to which they belong and Thomas Piketty demonstrates in an original manner how powerful rational forces can be if they have an institutional grounding in time and space. Both literature and the cinema provide keys for the understanding of the logic behind people’s actions: they do not reduce everything to the arbitrary and absolute terms of substantial rationality, but at the same time they do not simply consider changes in people’s preferences to be chance occurrences.

14An example of this is the way in which the comparative analysis of the United States and Canada pleads the case for putting economics back into politics, “[…] because it is difficult to

find purely economic reasons why these two North American trajectories should differ so profoundly. Clearly, political factors played a central role" (p. 158). The succession of highly contrasting periods has a tendency to lessen the impact of purely economic logic and increase the importance of determining factors and contingent events: "To a large extent, it was the chaos of war, with its attendant economic and political shocks, that reduced inequality in the twentieth century. There was no gradual, consensual, conflict-free evolution toward greater equality. In the twentieth century it was war, and not harmonious democratic or economic rationality, that erased the past and enabled society to begin anew with a clean slate" (p. 275).

15In his conclusion to the book Thomas Piketty pleads the case for associating both politics and history with economics: "[…] I see economics as a sub-discipline of the social sciences, alongside history, sociology, anthropology, and political science. […] I dislike the expression 'economic science,' which strikes me as terribly arrogant, because it suggests that economics has attained a higher scientific status than social sciences. I much prefer the expression 'political economy,' which may seem rather old-fashioned but to my mind conveys the only thing that sets economics apart from other social sciences: *its political, normative, and moral purpose*" (p. 573-574). The latter comment explains the fourth part of the book, the theme of which is the regulation of capital by modernizing the social state, as described in Chapter 13, and by rethinking the progressive income tax (Chapter 14). The author then puts forward a far more original proposal, namely the creation of a global and progressive tax on capital (Chapter 15). The section ends with a reassessment of the importance of the importance of public debt, which does not, for the moment, exceed the value of public capital (Chapter 16), a re-assuring message compared with the alarmist views put forward by most other analysts and commentators. The quantitative approach certainly has its merits.

5. A rich harvest of new results for historical economics

16The first of these results is the refutal of the Kuznets curve: the income proportion curve for the top deciles and centiles between 1910 and 2010 is "U-shaped". For example, in the United States substantial growth was observed after 1945, followed by a more stable period lasting until 1980, when a further period of growth began, which culminated in 2008 with a degree of inequality equivalent to that observed before the 1929 crisis. The profile may vary from country to country, but the overall pattern is clear. The reduction of inequality in the developed countries was largely due to war and to public policy implemented after the upheaval brought about by armed conflict.

17This result can be seen as the consequence of the interaction of forces of convergence and divergence. Among the former, the author mentions the spread of knowledge, especially when this was associated with specific policies to develop education and training. Among the latter he includes the spectacular growth of top earnings and lays particular emphasis on the process of accumulation and concentration of personal wealth when the world is marked by weak growth and high return on capital. But *in fine*, it is the divergence over the long run between profit and growth rates which really matters and which goes to explain most contemporary trends. Indeed, "[…] an apparently small gap between the return on capital and the rate of growth can, over the long run, have powerful and destabilizing effects on the structure and dynamics of social inequality" (p. 77).

18This phenomenon can be clearly identified in the United States and to a lesser extent in the United Kingdom, but not in Canada or in most European countries due to the fact that it is not merely a question of economic determinism, since the trend can be partially corrected by the implementation of appropriate policies, notably as regards taxation, which prevent the income of the rentier exceeding that of the wage-earner. From 1945 to the beginning of the 1980s it was even the case in the United States, thanks to an extremely progressive income tax regime and it should be recalled that in the 19th century the United States was less inegalitarian than the old continent of Europe. The degree of inequality is the result of a historical process and not of convergence towards a mythical configuration of equilibrium.

19The analysis of inherited wealth in relation to total personal wealth, which is made possible by the availability of French statistics from 1820 to the present day, indicates that this was a determining factor for the development of inequality in the 19th century. The two world wars considerably reduced its importance but since then inheritances and gifts have once again grown steadily, if only on account of the aging of the population and the reconstituting of private capital (p. 402-403). A high degree of inequality therefore arose between different generations: "[These figures show that] we have only just emerged from the 'end of inheritance' era and they also show how differently different cohorts born in the twentieth century experienced the relative importance of savings and inheritance: the baby boom cohorts had to make it on their own, almost as much as the interwar and turn-of-the-century cohorts, who were devastated by war. By contrast, the cohorts born in the last third of the century experienced the powerful influence of inherited wealth to almost the same degree as the cohorts of the nineteenth and twenty-first centuries" (p. 406). With regard to this observation it is important to underline the remarkable integration of demography with economics that is apparent throughout the book – the fact that the analysis spans several centuries naturally makes this highly desirable.

20With hindsight, what the French call the *Trente Glorieuses*, the thirty glorious years from 1945 to 1975, the period that saw the emergence of Fordist analysis out of the midst of the theory of *régulation*, forms an exception in the sense that a host of reforms in education, taxation and financial law brought about a significant reduction in personal wealth. Growth was stimulated and the fundamental divergence previously observed between profit rates and growth rates was temporarily canceled out.

21As it is not possible to list here all the ideas contained in the conclusion to the book, mention will only be made of one of the predictions featured in this attempt to forecast the future, which must be inevitably be considered fragile but which proposes an unconventional opinion. If the global economy is considered as a whole and if it is assumed that the so-called emerging economies will finally catch up in the course of the second half of the 21th century, then the global economy will resemble the current low growth economy of France more closely than a generalization of the levels of performance of the United States throughout the 20th century. These projections may stand open to criticism, but they have the merit of resting on solid empirical foundations and on a few simple mechanisms. They are, in short, both unexpected and thought-provoking.

22However, the book's most important contribution is undoubtedly to re-instate economic and social history at the centre of the study of economics and to reverse the flow of the exchanges that had hitherto been taking place between historians and economists following the introduction of economic history. Whereas cliometrics used theories, models and economists' techniques without worrying too much about whether or not they were suited to

the historical reality in question, Thomas Piketty proposes a much closer association of the two disciplines, which allows new interpretations to emerge and may well lead, one would hope, to original theories based on familiarity with the course of history over a long period.

6. A missing element of note: the conflicts surrounding the wage labor nexus

23It is time now to explore in greater detail the conceptual framework which was used to obtain most of the conclusions which have just been presented. It is not really a theoretical model as such because the analysis of the historical sequences rests on two accounting equations and a law governing trends. First the proportion of profits in national income is expressed simply on the basis of mean profit rate and capital to income ratio as follows.

$\alpha = r.\beta$ (1)	the share of income from capital in national income is equal to the rate of return on capital multiplied by the capital/income ratio

24Then, in view of the savings rate and the economic growth rate, the capital to income ratio tends asymptotically towards a limit equal to the quotient of these two values. This is what Thomas Piketty calls the second fundamental law and is in fact the most important one to explain the dynamics of capitalism and the development of inequality.

$\beta = s/g$ (2)	the capital/income ratio is equal over the long run to the savings rate divided by the growth rate

25Finally, as his subject is the role of the transmission of wealth in the emergence and persistence of inequality, he decomposes the proportion of the national income corresponding to these flows into three factors as follows.

$b = \mu.m.\beta$ (3)	The annual flow of inheritances and gifts expressed as a proportion of national income *b* is equal to the product of the mortality rate, the ratio between average wealth at time of death and average wealth of living individuals and finally the capital/income ratio

26The compilation of a large number of sets of statistics leads one to conclude that for most of the time, with a few exceptions, such as in the immediate post-war period, the profit rate shows remarkable stability over the long run, since it ranges from 4% to 6%, whereas the long-term worldwide economic growth rate is between 1% and 2%. This split between *r* and *g* is presented as one of the major contradictions of capitalism since it implies that capital income grows more quickly than labor income. But it is difficult to move to a theoretical explanation for quite a number of reasons.

27The way the first equation is expressed supposes that the direction of causality runs from the capital to revenue ratio towards the proportion of profit in income. Implicitly, this means

adopting the hypothesis of the predominance of rent over the capital/labor distribution conflict about the distribution of added value. But in the 1960s, the hypothesis of the stability of salaries/profit distribution appeared to be validated by statistical data and was in coherence with the supposed existence of a production function of the Cobb-Douglas type and with the hypothesis of perfect competition. It was indeed true that the 1913-1950 and 1950-2012 periods saw mean return on capital fall below the growth rate, thus constituting an exception to the "law" which in the end result was not as generally applicable as anticipated (p. 356-357). In the analysis proposed in this book, the long-term stability is that of profit rates, with the result that the distribution of added value is adjusted with the evolution of the capital/income ratio. The proportion represented by salaries decreases as capital becomes a more important factor.

28Where does this power originate if it does not lie in the fundamental asymmetry and the domination that are inherent in the relations between salaries and profits? After all, it must not be forgotten that this extremely wide-ranging notion of profit covers investment income, property rent, income from business enterprises, interest on capital, intellectual property rights, and so on. How can it be that, at the end of the day, these forms of property, which are so different in terms of rights and of their contribution to production and to the creation of value, have the same capacity to produce a level of remuneration which is consistently higher than the growth rate? Thomas Piketty puts forward the following idea: "This is perhaps the most important lesson of this study thus far: modern technology still uses a great deal of capital, and even more important, because capital has many uses, one can accumulate enormous amounts of it without reducing its return to zero. Under these conditions, there is no reason why capital's share must decrease over the very long run, even if technology changes in a way that is relatively favorable to labor" (p. 224). It is certainly true that the versatility of capital gives it an advantage compared with the ever more limited skills of the wage-earner, but the situation only exists in the short to medium term because each of the uses of capital - even research and development – can meet with falling return.

29The fact that the relation of salaries to profit is omitted leads to a theory of the distribution of income and inequality which is somewhat unusual. The analysis combines two dimensions, neither of which covers the domination which is specific to the organization of production in a capitalist economy. The first gap is that which separates the social group which lives on the fruits of their capital and their property from the group which draw their income from a professional activity, usually as wage-earners. The book postulates that capital has its own particular capacity to produce long-term remuneration, independently of the success of productive activity. This is for Piketty the major source of inequality because, with the passage of time, unearned income increases more rapidly than labor income. It is a contrast between stock and a flow. Within each of these two groups there exists a second dimension. On the one hand, as return on capital tends to increase with the size of the personal fortune, the wealthiest 1% accumulate their wealth more rapidly than the wealthiest 10%. This is what the author calls the centile struggle, which culminates in the present-day period with the explosion of the personal wealth of the super-rich, who account for only a thousandth, or even a ten thousandth of the population. On the other hand, among wage-earners, the present-day period has seen the creation of the super-executive category, whose incomes have undergone spectacular growth compared with the rest of the group. Finally, in the United States some people combine both sources of income, which exacerbates the explosion of inequality. For Thomas Piketty, the classification struggle seems to have more importance than the traditional facedown between capital and labor, *i.e.* the class struggle in the strictly Marxist sense.

7. The theorization proposed fails to match the wealth of observations recorded

30In addition to underestimating the conflicts surrounding the distribution of income, the book suffers from an excessive use of an essentially inductive method, in that it extrapolates statistical trends without supplying sufficient detail with regard to the sequencing, the causes and the theories which might explain them.

31The second equation is an asymptotic relation which poses at least two problems. In the configuration proposed for the two parameters, how soon will the economy converge towards equilibrium? Is the periodicity of the data (figures 10.10 and 10.11) coherent with the rate of convergence of the two regimes? Furthermore, it cannot be applied to an economy in stagnation because that would imply that capital would increase infinitely whilst production remained constant. The economy will inevitably reflect the reality that the proportion of profit in the first equation cannot exceed the value of one. A long time before this absolute threshold is reached, various highly non-linear mechanisms can come into force: wage-earners may provoke unrest, conflicts may occur between different forms of personal capital, there may be a financial bubble leading to a crisis, and of course a fall in the profit rate. The usefulness of the meta-model that formalizes regimes in the long-term is surely limited if and guides their development is not made explicit.

32It is far from reassuring that Thomas Piketty refers to a regime in which a profit rate higher than the growth rate is not ruled out by some of the models based upon a strong preference for the present. Here the return on capital rate is fixed according to the psychology of the representative agent, who acts altruistically within a framework with an infinite horizon. Although he has just demolished the presuppositions of a theory such as this, he proceeds to state, in order to prove his point, that, "To be sure, the intuition that lies behind the model (like that which lies behind marginal productive theory) cannot be entirely wrong" (p. 359). What a strange reversal of opinion compared with the denunciation of the hypothesis of marginal productivity, the rejection of the optimizing over an infinite horizon of agents, who are, alas, only human and therefore not always altruistic. Fortunately the author concludes that in this respect the "[…] choices depend on the social and institutional environment (such as the existence of a public pension system), family strategies and pressures, and limitations that social groups impose on themselves […] in addition to individual psychological and cultural factors" (p. 361).

33In the course of the book the author tends to adopt a less rigid and simplistic basic model by evoking different possibilities of interaction between the key variables. Firstly between growth and profit rates, but he thinks that accelerated growth can raise the profit rate but maintain, or even worsen, the gap between the two rates. Secondly between demography and productivity growth. He mentions the controversy between the two Cambridge over which factors cause the stability or instability of a growth regime (Harrod *versus* Solow), but the discussion is too brief and certainly fails to provide an answer to the question most readers will ask, namely can one construct a robust economic theory that accounts for the persistence of the inequality over a long period of r and g? Or is it the consequence of particularly complex and different mechanisms, emanating from the sub-regimes and implying the various disciplines of the social sciences?

34In fact the reasons why *r* is greater than *g* are either trivial and tautological or unsatisfactory in theoretical terms. In the first case it would suffice to decompose before-tax profit into cash-flow, income distribution and different forms of tax (including profit tax and capital tax where it exists). That ought to mechanically reduce the speed at which personal wealth is accumulated if before-tax profit remains constant, and thus reduce the mystery partially, if not completely.

35The author of this critical analysis was struck many times, as he explored the different chapters of *Capital in the Twenty-First Century*, by the fact that he had been convinced for many years of the heuristic nature of the Von Neumann model (1945, “A Model of General Economic Equilibrium”, *Review of Economic Studies*, vol. 13): in an economy where diverse techniques produce goods with equipment and other goods repeatedly from one period to the next, the maximization of the profit of each of the processes under the hypothesis of competitive prices leads to the existence of a growth path characterized by the equality of the growth rate and the profit rate. This is a generalization of the model in which corn is produced by corn and work, the only difference being that the Von Neumann model also allows for the presence of equipment which is transmitted over more than one period.

36It is easy to understand that in this pure real economy model, a gap between the profit and growth rates cannot occur. But surely this divergence is essentially due to the inclusion of real estate, which includes rent, in David Ricardo’s sense, and financial portfolios - the return on which will not necessarily converge with that of industrial processes, because it often rests on the manifest asymmetry of information, as was the case for the sub-primes crisis.

8. The fascinating but fragile prospects for the 21th century

37The attempt to hypothesize and predict growth up to the end of the 21th century clearly reveals the fragile nature of the theoretical grounding of the book.

38In the first place the author passes rather too quickly over the 1913-2012 period, during which the average return on capital fell below the growth rate (p. 356-357). Is it really possible that the speed at which China and other emerging countries caught up will lead in the 21th century to a phenomenon akin to how Europe and Japan caught up with the United States in the 20th? This possibility would seem to be excluded because of the hypothesis regarding the general convergence of patterns of demography and degrees of development… in such a way that the key parameters return over the long run to their pre-World War I levels. Ecological and social reasons may prevent this alternative scenario coming about, but the arguments put forward by Thomas Piketty cannot do so.

39Secondly, it is important to put forward hypotheses about the way in which the different parameters that constitute a long-term regime interact with each other. This book, however, only uses accounting-type equations and fails to establish the structural relations between the key variables. At that point one of two routes can be taken. Either the economist can recognize that the key variables in his models result from complex social processes and ask his colleague in social sciences to help: “These two macro-social parameters [the savings rate and the growth rate] themselves depend on millions of individual decisions influenced by any number of social, economic, cultural, psychological, and demographic factors and may very

considerably from period to period and country to country" (p. 199). Alternatively he can use the available literature and experimental data to identify the mechanisms and processes which link the parameters with each other. This re-opens the vexed question of a theory of growth which includes demography, technical change, lifestyle evolution, income distribution and inequality. The author's remarkable historical work ought therefore to be followed up by sequel containing a more systematic analysis of the relations, which are treated too briefly here, and proposing a theory to explain them.

Figure 1. Accounting constraints on structural relations: an outline
(click on "Original" under the figure to display)

Agrandir Original (jpeg, 52k)

40Once one has finished reading the book, a final question comes to mind: to what extent does the author consider that his work belongs to the field of *political economy*? His response, which has already been mentioned, is that he intends his book to allow him to distance himself from the discipline of economics as such, which is too arrogant and not always relevant, and that his wish is to make a contribution to the proposals for new economic policies. But what, then, is the place for political processes in *Capital in the Twenty-First Century* and what is his conception of the relations between political sciences and economics? In the end, his position is clear. He writes, for example, "Has the US political process been captured by the 1%? This idea has become increasingly popular among American scholars of political science and various observers of the Washington political scene. For reasons of natural optimism as well as professional predilection, I am inclined to grant more influence to ideas and intellectual debate. Careful examination of various hypotheses and bodies of evidence, and access to better data, can influence political debate and perhaps push the process in a direction more favorable to the general interest" (p. 513-514). One cannot take issue with a statement of this kind, but it is important to underline how original it is. People usually fight about what politics is all about. Some say it all boils down to conflicts of interest while others claim it is the ideas, the representations and the ideology that matter. Thomas Piketty ensures that the two factions continue to disagree by stating, "In fact, neither the economic liberalization that began around 1980 nor the state intervention that began in 1945 deserves such praise or blame" (p. 98). At the end of the day the primary role will be played by information itself, which will be seen to be of greater importance than interests or ideas, representation and ideology. Where are the citizen's agora so dear to Habermas, which will supposedly allow Thomas Piketty to accomplish his mission?

41In short, there is no lack of questions to submit to him, which should ensure some lively debate. Should the first step not be to organize a competition open not only to economists but also to all the other disciplines on the theme, "Does the version of the facts presented stand up to criticism and if so, how would you justify them in theoretical terms?" It should be recalled that this was one of the methods used to escape from scholasticism and launch the movement of the enlightenment. To the optimist – which I am not – this playing-field of the social sciences could pave the way towards a citizens' agora.

9. A certain intellectual convergence with the groundwork of the theory of *régulation*

42This is of course a question addressed to scholars claiming to belong to the *régulationist*/institutionalist tradition. They should also hasten to read and meditate on this analysis for a second reason, namely that it invites them to go back to essentials.

- 1 **Translator's note:** Movement of Profit in France in the Nineteenth Century.
- 2 **Translator's note:** Accumulation, Regulation, Crisis.
- 3 **Translator's note:** the School of Historical Archives.

43In the concluding pages of the book Thomas Piketty links his work with "serial" history, which focuses essentially on the study of the income of different social classes in the past and the present. He does so by referring to *Mouvement du profit en France au XIXe siècle*1 by Jean Bouvier, François Furet and Marcel Gillet published in 1965 (p. 576-577). The role played by the work of Jean Bouvier is well-known. He was the first historian to accompany the *régulationist* economists in their research and was the co-founder of the seminar known as "*Accumulation, Régulation, Crise*"2 where several generations of scholars met over a period of three decades. The author of this book review naturally respects this reference even though for him the current of thought it concerns should really be called the *École des Annales*3. In the 1970s critical reflection on Marxist analysis joined forces with macroeconomics more inspired by Kalecki than by Keynes, with the result that the approach and methods of this school continue to be practiced up to the present day. Thomas Piketty's position is to regret the fact that François Furet abandoned this line of research in favor of political and cultural history because, "[…] it is [also] clear that the ups and downs of prices and wages, incomes and fortunes, help to shape political perceptions and attitudes, and in return these representations engender political institutions, rules, and policies that ultimately shape social and economic change" (p. 576).

- 4 "[adepte] d'un marxisme de sous-préfecture" (*Le Point,* 26 October 2013).

44The task, then, is to expand national accounts with their measures of income, profit, salaries and capital (p. 55-59) to take into account the distribution of income within the wider framework of an analysis in terms of social class which can be re-introduced: wage-earners and capitalists over a long period, to which must be added during the course of the last half-century a new wealth-holding middle class. It is interesting to link together social structures and categories of national accounting in this way. This means the approach can be easily adapted to changes of socio-economic regime. In contemporary debate references to social class and capital do not go down too well, which has brought Thomas Piketty under the fire of Nicolas Baverez, who accused him of being a third-rate Marxist,4 a strange characterization on the part of a historian who contributed to the analysis of the invention of unemployment in France. So Thomas Piketty's allegiance is not destined to win him the sympathy of the left wing but rather to provoke their awareness of inequality between social groups and in their own midst. To this effect he casts doubt over the pertinence of traditional indicators such as the Gini index, the Theil coefficient and also the distribution of income between the upper and lower deciles, because they suppose that only individual characteristics, such as talent and luck, are important, to the exclusion of social status (wage-owners, rentiers, property owners

or entrepreneurs). But this distinction is fundamental: “In the case of unequal incomes from labor, these mechanisms include the supply of and demand for different skills, the state of the educational system, and the various rules and institutions that affect the operation of the labor market and the determination of wages. In the case of unequal incomes from capital, the most important processes involve savings and investment behavior, laws governing gift-giving and inheritance, and the operation of real estate and financial markets” (p. 243). In a sense the book combines a form of class struggle with the centile struggle (p. 252-255), in such a way that inequality is measured in terms of the fraction of the national income appropriated by the richest. On the one hand this enables the author to comment on both functional and individual distribution of income and on the other hand it supplies easily understandable figures for debates about society. Whereas the top 1% disposed of 8% of national income in the USA in 1970, the figure rose to 20% in 2010, despite the reduction in personal wealth following the crisis in 2008 (p. 300). The *Occupy Wall Street* movement used exactly that notion to advertize its actions and to portray an intuitive image of the increase of inequality in the United States.

45Under the heading “The Clash of Temporalities” the book makes a distinction between long-term evolution, which takes place over periods of thirty or forty years, and shorter movements over ten to fifteen years, which is nevertheless quite a long time in comparison with the human lifespan (p. 286-290). Consequently average data covering one or more decades is used to detect long-term changes, whereas different analyses are used for annual figures. In the short term inequality has a tendency to evolve according to a pro-cyclical pattern, whereas this correlation is not necessarily seen over the long run. Thus a further parallel is established with the theory of *régulation* when it distinguishes the regime of accumulation, which is typically exists over the long run, from the regime of *régulation*, which describes cyclical adjustments. The former is studied from data covering a whole cycle, whereas the latter depends on facts pertaining to a shorter period. The former is clearly a product of research and those involved are probably not aware of its existence - except, perhaps when the regime reaches maturity and structural crisis is imminent. The latter is essential to the articulation and coordination of individual behavior. Incidentally, the latest version of classical macroeconomics and its econometric applications only examine short- and medium-term adjustments peripheral to a long-term regime, which is considered to be unvarying. One can imagine the consternation of the analysts faced with the open crisis in 2008: not only had their forecast of a return to the previous growth path proved wrong, but in addition they did not dispose of a single tool that might allow them to envisage the emergence of a new socio-economic regime, because the only regime that will finally prevail is universal and eternal. This is sure to happen on condition that the political decision-makers adopt the right theory, that is to say theirs.

46When the *régulationist* scholars did their groundbreaking research, first on the United States, then on France, they were surprised to find that the wars and major crises had been crucial episodes in the changes of regimes of accumulation and modes of *régulation*. These episodes were seen to have been nothing less than social laboratories experimenting with credit money, introducing income tax, pioneering health and retirement insurance, exploring new mechanisms for determining salaries and developing unheard-of cooperation between government and industry, etc. Thomas Piketty arrives at an analogous conclusion. For him the remarkable reduction in economic inequality observed in the first half of the 20th century is not, for the most part, due to the gradual application of the New Deal program or its European equivalents, but rather to the fresh start provoked by the two world wars and the almost total elimination of the rentier class and of the inequality of personal wealth, even though

inequality was to reappear in the area of salaries from the 1980s onwards. Experts in econometrics normally use as many dummy variables as there are years in their target period in order to correct the impact of these chaotic movements, despite the fact that they constitute a change of regime and of epoch. A further advantage of a historical approach is that it permits the detection of major changes, thus relegating to the sidelines the relatively minor effects which are the pride of contemporary studies in econometrics.

10. … But the academic world of the 2010s has changed compared with that of the 1980

47To conclude this account it is important to retrace the institutional conditions which led to these two breakdowns with regard to the dominant paradigm in each period, and to underline the way the *régulationist* program has been marginalized to such an extent that an alliance between a historical analysis of inequality and a political economic analysis of institutional change is not totally impossible but it has become quite difficult indeed.

48The book under review is the result of the perseverance of a specialist who is passionately interested in a political question that he considers crucial, and which he also considers is insufficiently or badly covered by economic literature. On the basis of groundwork that is of interest to his colleagues both in France and abroad, he gradually builds up a network, which finally develops into a fully-fledged research community with members ranging from distinguished academics to doctorate students who work together on the same theme and share the statistical data they prepare. This work-sharing, the result of a subtle compromise between cooperation and competition, leads to greater efficiency and the recognition that their work is in the process of defining a new paradigm.

49It would nevertheless be decidedly unwise to suggest that the academic world of today is similar to the environment that allowed the theory of *régulation* to gain momentum. This theory originated in the work of research laboratories working for the economic administration, which meant it was not immediately accepted as university course material. Secondly, research on inequality was organized internationally at a very early stage of its development, owing to the celebrity of economists who had gained full membership of the community on the basis of their earlier theoretical work. Conversely, the theory of *régulation* began its life on the fringes of the profession and only gained international recognition very slowly. There is also a third difference, namely that *Capital in the Twenty-First Century* chooses to limit its defiance of standard theory to a refutal which is merely implicit in the mountain of sets of statistics, whereas for the groundwork of the *régulationists*, historical analysis was just one of the ways of proposing an alternative theory, and a far more radical one at that. This has certainly been a factor that has limited its success in subsequent decades, which have seen a large-scale return to market fundamentalism. Finally, the professionalization of academic research and the tightening-up of recruitment criteria for teaching and research posts have impaired the renewal of the supply of *régulationists*. Over and above any intellectual considerations, the academic field is criss-crossed by relations of power and ambition, which end up gaining the final hand, because those who wield them have the power of life and death over research programs.

Conclusion: Will political and historical economics become a new school?

50This book can be considered to be the culmination of more than a decade of collective effort to achieve improved comprehension of inequality. It may also mark the beginning of a new way of "doing economics", with a return to the great issues of political economics, full recognition of the historical nature of economic phenomena and theories, an opening-up to the various disciplines potentially able to throw light on the nature of the behavior of individuals living in societies based on rules, values, institutions and organizations, the use of various methods and the studied use of various techniques and forms of conceptualization elaborated over recent decades and finally the acceptance of the pertinence of models of pure economics with regard to facts that can be extrapolated from history over the long run and to international comparisons.

51"A challenge indeed!" will be the judgment of the skeptics, some of whom will continue to prefer the analytical clarity of models with an axiomatic foundation. Others will go on producing *ad hoc* econometric studies, and extending them to as many sub-disciplines as there are sectors of economic life. They will find it difficult to proclaim "There Is No Alternative!" And how long will it be before people tire of accepting the diktats of a discipline that constantly gets things wrong and inspires or justifies policies with devastating social and human consequences?

52Here there is a space for the renewal of historical political economy. It is up to young scholars to occupy this space, in particular those who draw their inspiration from the theory of *régulation*. Their success in this respect will depend, though, on the degree of recognition and support they will be able to attract from an academic system which would thus be recognizing once more the usefulness of the plurality of scientific approaches.

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Notes

1 **Translator's note:** Movement of Profit in France in the Nineteenth Century.

2 **Translator's note:** Accumulation, Regulation, Crisis.

3 **Translator's note:** the School of Historical Archives.

4 "[adepte] d'un marxisme de sous-préfecture" (*Le Point,* 26 October 2013).

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