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A Failure on Several Counts: Thomas Piketty's *Capital in the Twenty-First Century*

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Some books enjoy unexpected success because they resonate with an emerging preoccupation of a generation. *The Limits to Growth* expressed a pessimism about the economy and the environment "that captured and reinforced this worldview" (Gold, 2014: 94). *On the Road* by Jack Kerouac vented the growing frustration with the Eisenhower years of the Beat Generation, which mushroomed into the youth rebellion in the 1960s.

The publishing success of Thomas Piketty's *Capital in the Twenty-First Century*, unusual for an economics book, suggests it articulates the infatuation of a segment of our society with inequality and a sullen acceptance of a "new normal" of chronically weak growth. However, unlike the environmental movement of the 1970s or the youth rebellion of the 1960s, only a sliver of North America is preoccupied with distributional issues. In Canada, a 2011 Harris/Decima poll found that only 6% mentioned any issue related to social equity as the most important policy priority.[1] Just as the Occupy Wall Street movement tried to initiate a dialogue on inequality only to dissipate within a year, there are reasons to think sales of *Capital* will not translate into a wider public debate. Nevertheless, the book's popularity and its potential implications for public policy require a careful evaluation of its message and methods.

There are some things to like about *Capital*. Its ambition to change the discourse and methodology of economics is welcome compared with the small-minded advancing of the chainsticks that grips most academic work. He is scathing in his critique of the methodology of economic analysis and "its childish passion for mathematics and for purely theoretical and often highly ideological speculation at the expense of historical research" (Piketty: 32). The book's study of inheritance in France is an important contribution to our understanding of the importance of intra-family transfers that economists should remember when speculating on future trends in

[1] A 2011 Gallup poll found that just 1% of Americans believed inequality was the most important problem, lagging even the share that cited foreign aid; moreover, "even a tutorial presenting inequality as harmful had little or no effect on attitudes but did reduce respondents' trust in government" (cited in Schuck, 2014: 111).

income and pensions. Piketty usefully provides a reminder of how his Law of Cumulative Growth ensures that small changes add up to important trends over long periods of time, something that should be required reading at the Bank of Canada as it encourages inflation beyond 2%.

However, the analysis in *Capital* is fundamentally flawed. This paper reviews the major themes in *Capital*, two of which are recurrent. One, of course, is inequality and whether it is destined to increase significantly. The other is the pessimism engulfing most of Europe today. Trapped in a long-term stagnation of incomes caused by chronic structural impediments to growth and a debilitating level of debt, most European countries face a lost decade of falling living standards. Without growth, the public debate has shifted to a futile focus on redistributing income. For North American readers, it is hard to relate to this Eurosclerotic view of the world, where "old money" festers in pools undisturbed by the competition of new ideas and new people that characterize our economy.

What is the central question of economics?

Piketty has based his career on the analysis of income distribution, including path breaking research with Emanuel Saez on the concentration of inequality among the top 1%.[2] Therefore, it is not surprising he states early on that his main purpose in *Capital* is to "put the question of inequality back at the center of economic analysis" (Piketty: 16). However, he does not clarify what supplanted inequality at the center of economic analysis. Most mainstream neoclassical equilibrium economists define the central preoccupation of economics as the allocation of resources subject to constraints. The classical school of economics regards innovation and the explosive growth of incomes starting in the nineteenth century as the focus of economic analysis, as outlined by David Simpson in his 2013 book *The Rediscovery of Classical Economics*.[3] Simpson argues that "the ability to sustain growth in aggregate productivity over long periods of time… is a unique feature of the market economy: no other form of economic organisation has been able to deliver sustained increases in living standards for masses of people" (Simpson, 2013: 2). The most striking feature of the market economy is "incessant change," the very opposite of equilibrium (Simpson, 2013: 3). For classical economists, the true "hockey stick" graph is GDP per capita plotted over centuries.[4]

The key relationship in *Capital* is whether the rate of return on capital (r) is greater than real economic growth (g). For Piketty, the focus is on capital and its rate of return, the left hand side of his fundamental equation ($r>g$). For classical economists, the focus is on economic growth, the right hand side of the equation. The two are related: Piketty admits that attempts to restrict the return on capital may end up damaging the economy's growth. Still, he makes the argument that if the return on capital exceeds total income growth, wealth will inevitably be accumulated by a small number of people, creating a level of inequality in society that is dangerous for democracy and that will lower class mobility.

[2] For a summary of the contribution of the research of Piketty and Saez, see Noah, 2012: 145.

[3] Simpson (p. 13) also quotes another definition of economics, from Alfred Marshall: "Economics is a study of men as they live and move and think in the ordinary business of life." Ronald Coase also had severe reservations about defining economics as a theory of choice, arguing instead it was "the study of the working of the economic system, a system in which we earn and spend our incomes" (from Lemieux, 2014: 55).

[4] Most people associate the "hockey stick" graph with the IPCC's graph of global warming.

Piketty's assertion that *r* exceeds *g* is based on an exaggerated view of the return on capital (*r*) and a pessimistic view of economic growth (*g*). He argues that economic growth inevitably will slow in coming decades and it is futile to attempt to boost economic growth to minimize rising inequality resulting from *r*>*g*. Economic growth reflects the growth of population and of real per capita income. It is argued that populations will soon stall and then decline, a process already underway in Europe and Japan, with little prospect that productivity will increase. This process results in projected long-term growth of only 1.5%, or less than half its post-war average of 3.5% (Piketty: 101).

However, this pessimism about long-term growth reflects a Euro-centric view of the world. Under no scenario will the population of Canada or the US stagnate in the coming decades, because of both a higher birth rate and more immigration than in either Europe or Japan. In the US, for example, the Congressional Budget Office projects long-term annual growth of 2.3% over the next 25 years (it has averaged 1.8% since 2000), based on 0.5% population growth and a 1.8% increase in productivity. Piketty demonstrates some awareness of his European-based view of the world, acknowledging that the evolution of capital in the US has been different because large scale immigration was "the stabilizing force that prevents accumulated capital from acquiring the importance it has in Europe" (Piketty: 538). This statement acknowledges that inequality is not just the product of the differential between *r* and *g*, but also can be affected by policies that affect mobility among income classes, such as immigration and mass education. As well, the continuing large flow of immigrants into North America means more tolerance of income inequality, since immigrants are focused on how their standard of living has improved compared with where they were born rather than what the rich are earning in their new country. This is one reason why inequality is not a public policy priority for most North Americans.

Picketty offers no justification in *Capital* for why he uses real and not the nominal measure of GDP.[5] Nominal incomes are best when comparing economic growth to variables like the return on capital and saving, which include the effect of price changes. One motivation for removing inflation from growth could be to exclude projections of higher inflation in the future from equalizing *r* and *g*. Many economists expect some upturn in inflation in the years to come as a result of the "ultra-easy" money policies adopted by central banks throughout the Western World after the 2008 recession. At a minimum, the reason Piketty focuses only on real income should have been discussed in a book that claims to be rigorously fact-based.

On the other side of the equation, there are questions about the forecast return on capital (*r*). In particular, one reason Piketty asserts that the return on capital will stay high at 4% is an assumption that taxes on capital will fall to zero due to "fiscal competition" (Piketty: 354). However, if the tax on capital remains near 30%, which seems much more likely given the rate at which investments and corporate income are taxed, then *r* drops to 2.8%, not much greater than *g* and a differential that could conceivably be addressed by more human capital either from immigration or higher education. As stated in what he calls his "Law of Cumulative Growth," small differences add up. Also, the reported rate of return on capital from income tax data has been overstated by changes to the tax code, which shifted substantial amounts of money

[5] More precisely, he uses Net National Income, not GDP, but there is little difference between the growth rates of both in Canada, so I refer to the more commonly-known measure of GDP.

from personal to corporate income in recent decades.[6]

More generally, economists would expect *r* to be greater than *g* in most circumstances. Capital, after all, has to be compensated for the inherent risk of undertaking any investment. The incentive to defer current consumption and invest is the prospect of greater consumption in the future. However, while *r* will exceed *g* most of the time, history is not always moving toward increased concentration of wealth, which is what Piketty assumes is the main result.

At times, *Capital* seems to rig the relationship between the return on capital (*r*) and economic growth (*g*) to suit its purposes. A disquieting graph on page 354 shows that *r* is always greater than *g*, even for the period 1914 to 1950 when inequality was declining. This contradicts his theory that *r* exceeding *g* inevitably leads to more inequality, so he concocts a revised version of *r* during this period that takes account of capital losses due to the destruction of property, and magically *r* falls below *g* for that period. To ensure *r* rises above *g* in the future, he then assumes the tax on capital falls to zero in the future.

The distribution of income between capital and labour and individual incomes

Central to Piketty's analysis is that the functional (or factor income) distribution of aggregate income between capital and labour "has always been at the heart of distributional conflict" and drives the distribution of individual incomes (Piketty: 39). Individual inequality is a function of the inequality of labour income, inequality in the ownership of capital, and the interaction of the two (if, for example, high income earners also have high capital income).

Of course, this ignores how the tax and transfer system redistributes market incomes to disposable incomes. The functional distribution of income is only measured in pre-tax, pre-transfer terms, while individual incomes can be measured both before and after taxes and transfers. By linking the two, the debate is shifted exclusively to a world without taxes and transfers (since that is the only common basis for which data exist), which heightens the appearance of inequality. Taxes alone violate Piketty's assumption that all capital is re-invested.

Putting the functional distribution of national income at the core of the debate over inequality marks a return to attempts in both the 1930s and the 1970s to blame the slowdown of growth on the struggle between capital and labour. These debates did not yield any fundamental insights into the dynamics of economic growth any more than *Capital* does now. The revolution led by Thatcher and Reagan in the early 1980s showed that more growth rather than redistribution was the solution. This was borne out for Canada in the 1990s, when "wealth creation concerns came to carry more weight than its distribution" and economic growth improved (Hubbard and Paquet, 2010: 70).

There are several problems with trying to directly link aggregate capital and labour income to individual incomes. One is that the definition of capital itself varies over time. Just recently, the National Accounts changed the definition of capital to include a new category of intellectual property that includes research and development, mineral exploration, and spending on

[6] In the US, much of the increase in inequality reflects how capital income has been shifted from corporate to individual returns, reflecting both lower marginal tax rates for high income earners, a lower capital gains tax, and different reporting requirements (see Reynolds, 2014).

software.[7] This was done in recognition that not all capital today takes on a tangible form such as structures or machinery and equipment.

Rents showcase the intractability of attempting to link the functional distribution of income between capital and labour and the distribution of income among individuals. The largest source of capital in the nineteenth century was real estate, notably the large landholdings of the European gentry. Piketty makes some estimates of its total value that are plausible. However, when estimating incomes, he makes no adjustment for the owner occupied rents these estates generated. The disconnect between real estate assets and income is still important today, since he estimates that housing is more than half the share of all capital in Europe and almost half in North America. The National Accounts make an adjustment for income from owner occupied housing when estimating GDP, since the return on capital is the rent the homeowner avoids paying (this implies that owner occupied rents must be consumed, which violates his assumption that all capital is re-invested). However, there is no counterpart to this in income tax data, which he uses to estimate the degree of inequality. Given that two-thirds of people in North America live in homes they own, this is a major oversight. Adjusting for it would considerably even out the distribution of income. Given that we know the distribution of homeownership by income, it is a major question why Piketty did not attempt to do so in *Capital*. He admits to having no idea what form capital will take in the twenty-first century, only that it will depend on the income distribution. But if most of the capital takes the form of real estate, that leads to a more equitable distribution of income since housing generates rents, a result that is not captured in income tax data.

The discussion of capital is based on two "Laws of Capitalism" that he argues help to sustain r above g. His First Fundamental Law of Capitalism is an accounting identity that says the share of capital in national income is the rate of return (r) on capital multiplied by the ratio of capital to national income (B).

However, his Second Fundamental Law of Capitalism equates the ratio of capital to income (B) to the ratio between the savings rate (s) and overall economic growth (g).[8] In his view, as the growth rate (g) slows, this inevitably raises the ratio of capital to national income (B). Small changes in growth rates can cause explosive changes in the role of capital in the economy; for example, if the savings rate was steady at 10% while growth (G) fell from 4% to 2%, the capital to income ratio doubles from 250% to 500%. With the ratio of the capital stock to national income soaring, the first law then dictates that the share of capital income also will rise rapidly, since he assumes the return on capital is constant over long periods. This links back to r exceeding g, his so-called "Central Contradiction of Capitalism" (Piketty: 571).

There are several problems with the Second Law. Piketty acknowledges it depends on changes in asset prices equalling the change in consumer prices, a condition that rarely holds in practice.

[7] Software has been included in the estimates for business investment since 1997. See Statistics Canada, *Revisions Analysis—Canadian System of National Accounts 2012*.

[8] He states B is "in some sense a measure of how intensely capitalistic a society is" (p. 55) which confuses capital with capitalism. Increasing amounts of capital are controlled by the public sector, notably the huge investments in utilities and education and health care facilities. Most economists regard capitalism as signifying a society's acceptance of the primacy of market forces. Piketty acknowledges that these forces, not ownership of the capital stock, is primordial when he describes France today as "capitalism without capitalists."

More importantly, it only holds over long periods of time. In the short-run, for example, economic growth can go to or below zero during recessions, but *B* cannot go to infinity. Another example is that the market value of the capital stock fluctuates with changes in equity and house prices that are not related to the rate of saving or growth.

Moreover, his definition of savings (*s*) covers only the private sector (households plus firms) (Piketty: 174).[9] This ignores savings that governments make for households, such as contributions to the Canada Pension Plan (CPP). Households treat this as savings held on their behalf by governments to be paid out upon retirement, since household saving clearly falls when mandatory pension plan contributions rise (Lamman, Clemens, and Palacios, 2013). Households therefore regard notional saving held on their behalf by government as a form of wealth that will generate future income, but Piketty does not adjust his statistics on wealth for this considerable and less concentrated form of capital.

Ultimately, long-run changes in the share of capital in national income hinge on the elasticity of substitution between capital and labour. When producers increase output, do they use more capital or labour? For the share of capital to rise, Piketty has to assume this elasticity is greater than one (Piketty: 217). As the price of labour rises, the substitution of capital for labour must be large enough to depress the share of labour in income. This is compounded if the price of capital is falling, which further encourages the use of more capital, increasing its share of income. For this to happen, capital must easily be substituted for labour.

However, few researchers support the notion that the elasticity of substitution is greater than one in the long-run. In the words of former Treasury Secretary Larry Summers, "I know of no study suggesting that measuring output in net terms, the elasticity of substitution is greater than 1, and I know of quite a few suggesting the contrary" (Summers, 2014) This implies that when firms purchase capital goods, more workers must be hired to operate them.[10] The difficulty employers currently are having finding workers in Western Canada suggests they are also finding it difficult for machines to take their place (Cross, 2014).

The importance of historical data in *Capital*

There is data indicating that the average reader of *Capital* stops reading the book on page 26.[11] This is plausible because that is when Piketty launches into a discussion of how he creates data extending back to the eighteenth century. Piketty and Saez pioneered the use of income tax records to study inequality back to the early twentieth century, when income taxes were introduced in most countries. However, he admits good wealth data (via probate records) exist only for a small number of countries back to World War I, and only for France and the UK back to the nineteenth century. His argument that the return on capital exceeds economic growth ($r>g$) in the nineteenth century is based uniquely on data for France and Britain (Piketty: 354). Other researchers are much more prudent in warning about the pitfalls of drawing firm conclusions based on flimsy historical data. Diane Coyle in her book on the his-

[9] Savings are measured net of depreciation.

[10] As well, the definition of capital includes real estate, where the opportunities to substitute capital for labour are very limited. How does the build-up of capital in real estate reduce employment and wages?

[11] This is based on an analysis of data from Kindle e-readers by Prof. Jordan Ellenberg, 2014.

tory of GDP cautions that "Thirty years' worth of annual data for sixty countries is not much when it comes to testing detailed causal explanations of growth…" (Coyle, 2014: 78). Angus Maddison, who constructed GDP statistics for the world going back to AD 1000, noted the problems of constructing vintage data sets because "Economic growth was much slower before the 19th century and therefore seemed irrelevant or uninteresting."[12]

So why does *Capital* emphasize extending data back to the eighteenth century, when records are much less reliable or non-existent? Especially since the key question for his theory is not whether *r* exceeded *g* in the nineteenth century, but whether it will in the twenty-first century?

The answer seems to originate in his dismissal of Simon Kuznets (one of the founders of National Accounting and the study of economic growth) and the reasons for the decline of income inequality between 1914 and 1950. Kuznets postulated inequality over time follows an inverted U-curve as an economy develops, where inequality initially increases as the economy shifts from agriculture to industry but then declines after industrialization becomes the dominant force in the economy. This model of inequality contradicts Piketty's model that the recent increase in inequality will grow explosively in the twenty-first century (because *r* exceeds *g*).

Piketty perceived a threat to his theory from the Kuznets Curve, which is why he begins attacking it before *Capital* reaches a dozen pages. Much of *Capital* is given to arguing that inequality was growing rapidly in the nineteenth century, and its reversal between 1914 and 1950 was a temporary aberration due to the enormous forces of world war and economic collapse and not to the internal dynamics of industrialization. The rapid decline of the capital stock between 1914 and 1950 is described as "Europe's suicide" (Piketty: 149) reflecting war, debt, the destruction of property, and the loss of colonies (again, little of this applies to North America). Seen from this view, rising inequality after 1950 represents a return to the trend that began with the growth of capitalism in the nineteenth century, which allows him to dismiss the Kuznets Curve's optimism about inequality as an outlier related to war and depression.

If Piketty cannot link his thesis of rising inequality to a longer-term trend, what remains is a century of evidence where half the track record supports Kuznets' optimism about inequality and half supports Piketty's pessimism. By linking his pessimism to a trend that allegedly persisted throughout the nineteenth century, Piketty can argue that the weight of history favours him and not Kuznets. The problem is grafting his well-known analysis of twentieth century income tax data, which provides good if not perfect statistics, onto analysis based on nineteenth century data, which is almost non-existent in most countries. His estimates of the rate of return on capital in the nineteenth century are based on data from two countries, hardly enough to generalize a theory to the world, as Coyle observed.

The irony is that economists have not downplayed inequality because of a faith in the Kuznets Curve. It is rarely taught in economics courses or used in research because it was found wanting a long time ago. It may have been relevant to the first half of the twentieth century, the period Kuznets was studying when we were transitioning from an agricultural to an industrial society, but does not describe conditions after World War II. In the rapid development of Asian economies, for example, there was no period where inequality increased early on; the benefits

[12] Quoted in Coyle: 11.

of growth benefited most people in Korea, Taiwan, and Singapore almost from the start.

The Kuznets Curve and information technology

The Kuznets Curve postulates that inequality rises in the early stages of industrialization, and then falls as growth becomes diffused in the economy. The classic example was the rise of the so-called "robber barons" in the US in the late nineteenth century. Moguls such as Carnegie, Rockefeller, Vanderbilt, Hearst, Ford, and Woolworth amassed vast wealth. Benjamin Disraeli, the British Prime Minister, coined the term "millionaire" to describe this new phenomenon.[13]

However, as outlined in John Gordon's *An Empire of Wealth*, what was notable in every case of the robber barons was how their companies made money not by raising prices in a monopoly, but by lowering costs so that more people could buy their products, whether cars, rail transport, electricity, newspapers, or an array of goods available under one roof in a department store (Gordon, 2004). It was this very process of making the benefits of innovation available to the masses that helped disprove the Marxist prediction of growing misery for workers, creating in its place the age of mass consumption.

Similar forces are at work today in information technology. Huge fortunes have been created by Bill Gates, Steve Jobs, Mark Zuckerberg, Jeff Bezos, Larry Ellison, Larry Page, and Sergey Brin, among others. Of the ten largest fortunes in the US, seven were made in information technology (Gordon, 2014, June 3). No one is poorer for it (except possibly Amazon shareholders who wait patiently for the firm to turn a profit). As a result, the public does not revile these entrepreneurs as it mistakenly did the robber barons of the nineteenth century. Partly, this reflects that the benefits of the technologies they developed are so obvious and embedded in the lives of ordinary people.[14] Piketty seems to share the typical European difficulty in recognizing the power of information technology in shaping our economy and society, perhaps understandable given how small a role IT has in Europe. He professes no problem with inequality based "on common utility" (this quote from the French Revolution starts his book),[15] but fails to recognize how IT wealth is based on serving the average person. Piketty displays an awareness of how capital has changed from its origin of land holdings in the eighteenth century, but seems oblivious to how capitalism itself has evolved over that time.

By ignoring the impact technology can have on both economic growth and its distribution, Piketty risks making the same mistake he diagnoses for the failed theories of Ricardo and Malthus, who did not forecast "the importance of technological progress on industrial growth" (Piketty: 5). One striking example is how he wrongly portrays the economy's adjustment to high oil prices as people riding their bikes to work more often (Piketty: 6). The real adjustment to higher energy prices has been the revolution in fracking for oil and gas, a development little noticed in Europe but fundamental to the surge in fossil fuel output in North America over the past decade.

13 In his novel *Vivian Grey*, Disraeli says, "Were I the son of a Millionaire or a noble, I might have it all."

14 It is noteworthy too how many of these large fortunes have been pledged to charities, such as the Gates Foundation, giving rise to the phenomenon of "philanthro-capitalism." (See Bishop and Green, 2008.)

15 "Common utility" is a poor translation of this oft-quoted phrase; the usual one is "general good" from Thomas Jefferson's translation of the whole sentence "Social distinction may be founded only upon the general good."

Higher taxes on capital

Given the inevitability of rising inequality in his analysis, Piketty proposes that the best solution is to tax capital income at punitive rates of up to 80% and a global wealth tax at 2%. The wealth tax has to be global, which he admits is unrealistic as capital income will be shifted to the inevitable jurisdictions that will not participate in a global tax. Again, the proposal to tax capital reflects a very European-centric view of the world resulting from the much higher concentration of capital in Europe than in North America. Instead of confiscating capital, another solution would be to make its ownership more widespread, expanding on Peter Drucker's idea of "pension fund socialism." This is not explored in *Capital*, just as it does not assess the importance of real estate holdings or public pensions to the middle class.

Former US Treasury Secretary Timothy Geithner outlined one problem with punitive taxes on capital in his memoir on the recent financial crisis. When the idea of a global "Tobin tax" on financial transactions was floated by Britain, Geithner publicly delivered "quite a hard slapdown" to the idea, noting there was not even a consensus in its favour within Europe (Geithner, 2014: 411). More generally, Geithner argues that despite the public outrage at people within the financial industry for contributing to the crisis, "our best response to all the anger would be to do all we could to end the crisis, repair the damage it had inflicted, and revive the economy… the most important thing was to repair the banking system, not to get caught up in vilifying it" (Geithner, 2014: 291).

More broadly, Piketty's proposal for higher taxes on capital ignores the negative impact they would have on entrepreneurship and risk-taking, as outlined in a 2007 report published by the Fraser Institute (Veldhuis, Godin, and Clemens, 2007). Such taxes could have the perverse effect of further slowing economic growth (*g*), but the possibility is downplayed in *Capital*.

Piketty cites the benefit of higher taxes as a source of revenue to help pay down onerous government deficits, which again reflects a European preoccupation. Whatever the merits of this argument for Europe, he does not try to apply it to North America. The United States government has reduced its deficit from 9.8% of GDP to 2.8% over the last six years, while Canada is poised to register a surplus at the federal level. So in North America, a large tax on capital would not go primarily to pay down debt, but would be available to government to spend and intervene more in the economy, likely depressing economic growth further in the process.

Only an economist like Piketty would cite better data as one of the benefits of the French Revolution.

In passing, Piketty touts the usefulness of a tax on capital to generate better data. Only an economist like Piketty would cite better data as one of the benefits of the French Revolution. His infatuation with more and improved data leads him to wax eloquently that with a tax on capital "statistical offices around the world would at last be able to produce reliable data about the evolution of global wealth" (Piketty: 518). Perhaps we should call it the Statistics Tax. Ironically, the call for better wealth data is a tacit recognition that the data he uses to analyze global trends in wealth over two centuries are largely inadequate for the task. Detailed wealth data are a major deficiency at Statistics Canada, with only three annual surveys dating back to 1990, including one where the sample is so small as to be virtually meaningless.

The end of history

It is important that Piketty regards taxing the income and wealth generated by capitalism as the only answer to its internal contradiction. He repeatedly acknowledges that there is no viable alternative to capitalism. Unlike Marx, he does not call for its overthrow, but wants to harness its income generation powers for the benefit of society.

In this regard, *Capital* aligns itself with the central thesis of Francis Fukuyama's *The End of History* (another little read bestseller), which is that as the twenty-first century began there were no serious alternatives to liberal democracy and capitalism (Fukuyama, 1992). For the purposes of this paper, let us ignore the arguments about liberal democracy as triumphant in the realm of politics over totalitarianism, and focus on capitalism. Fukuyama argues that globalization and "the logic of modern natural science would seem to dictate a universal evolution in the direction of capitalism" (Fukuyama, 1992: xv). Both socialism and communism were discredited by the twentieth century, according to Fukuyama, and Piketty clearly agrees, citing "the human disasters caused by Soviet-style centralized planning." Instead, his major policy proposal is a tax on capital to redistribute the wealth it bestows on the rich (Piketty: 532).

The end of history of course does not mean the end of historical events, but the cessation of meaningful discourse about alternatives to market forces. This is supported by the world suffering in 2008 its most severe financial crisis in nearly a century without any serious questioning of the desirability of market forces. In 2011, with the economic crisis just two years past, 64% of Americans thought that "big government" was the biggest threat to the country in the future, compared with just 26% who saw "big business" as the main threat.[16] In fact, the crisis in Europe is leading (or forcing) many of its insolvent southern members to embrace market forces more fully than they have done for a generation.

It is not acknowledged in *Capital* that the main source of wealth generation for the rich in recent years was the extremely loose monetary policies adopted by central banks around the world after the crisis began in 2007. The ensuing surge in financial asset prices, notably in the stock market, was deliberately engineered to create a wealth effect that would stimulate more spending (the wealth appears to have led to less spending than central banks forecast, since people have fresh memories of how quickly wealth can disappear). While the intent was to ultimately help the average person, inevitably the effect was to at least temporarily create wealth for investors. The alternative might have been slower growth for everyone. People who defend the necessity of ultra-loose monetary policy must accept this consequence.

Conclusion

Unlike books like *The Origins of the Species* or *Silent Spring*, which fundamentally changed the debate about an issue, *Capital's* success has been more commercial than intellectual. Its sales spike in the United States reflects an attempt to popularize the apprehensions of some academics about inequality and long-term growth. For non-economists, the excitement is that *Capital* appears, like Marx's *Das Capital*, to offer a "sci-

Cited in Schuck: 3.

entific" explanation of rising inequality as part of an inevitable and self-reinforcing process. It is always intoxicating to think you have the forces of both history and science behind you.

Instead, what emerges in *Capital* is an apocalyptic and "potentially terrifying" view of future inequality driven by a series of assumptions about the future return on capital, the growth of GDP, and the relevance of old Europe as a model for the world (Piketty: 571). It is ironic that Piketty's *Capital* has sold much better in North America than in his native France, since the book is driven by a European-centric view of the world that does not transplant well to North America. This may explain the apparent disillusion of many readers, motivated by an obsession with inequality in the US, who find that much of the analysis of the importance of "old money" in a stagnant population simply does not resonate with North American readers.

More generally, Piketty's profound pessimism about long-term growth prospects is heavily influenced by current conditions in Europe, which risks slipping into a "triple dip" recession with GDP stagnating in mid-2014 after declines in 2009 and 2012. By comparison, sentiment about the US economy has improved markedly of late, with central bankers now speculating about raising interest rates early in 2015 as growth strengthens.

Capital raises many interesting issues for economists. However, it is ultimately a failure on several counts. It does not prove that inequality is inevitably going to increase in the twenty-first century. More importantly, it has failed to animate a public debate on either side of the Atlantic about whether steps should be taken to limit inequality. As summer winds down, take your unread copy of *Capital* to the beach, read up to page 26, bury it in the sand, and forget it. That seems to be what most people have done with it.

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