

# Why read Piketty?

By [Jean-Luc Gaffard](#)

Thomas Piketty's book *Capital in the twenty-first century* has met with an extraordinary reception, one that is commensurate with both the empirical work performed and the political issue addressed, that is to say, the spectacular increase in inequality in the United States. Paul Krugman and Joseph Stiglitz, both of whom are concerned about current trends in American society that they consider are threatening democracy, believe Piketty's work confirms their fears.

Armed with an impressive mass of data and a solid historical knowledge reinforced by a reading of the great novels of French and English literature, Piketty foresees the advent of a second *Belle Epoque*, the decades-long period preceding the First World War. This would mean a return to a patrimonial capitalism based on inheritance, when income and capital are concentrated in the hands of the top percentile of the population and the ratio of capital to income rises significantly. More fundamentally, Piketty highlights the existence of a longstanding trend towards stagnation and rising inequality, which is reflected in a rate of return on capital that is sustainably higher than the economy's rate of growth, a little like Marx insisted on the existence of a tendency for the rate of profit to fall. The twentieth century, and in particular the period following the Second World War, was characterized by strong growth associated with decreases in inequality and in the importance of capital relative to income – but this period was merely a parenthesis that is now closed. The thesis defended is that capitalist society has returned to low growth and rising inequalities fuelled more by the transmission of wealth than by the remuneration of individual talent.

The book is nevertheless ambivalent. There is a gap between

the wealth of data collected and the simplicity of the theory that is supposed to account for it. On the one hand, an overly simple, essentially a-institutional model adopts a growth rate that is ultimately exogenous and ignores the heterogeneity of capital, making distribution a technical given that does not feed back into growth. On the other hand, the wealth of the data and the insights associated with it encourage reflection about the ins and outs of the distribution of income and wealth, returning it to its central place in economic theory and restoring its social dimension.

A belief runs through the book: that, regardless of what economic policies are implemented, growth is again returning to a low level because there is no longer any catch-up going on and potential productivity gains are largely exhausted. Inheritance then begins to play a key role in the distribution of wealth and feeds the rise of inequality. This fundamental pessimism justifies the simplicity claimed for the theoretical explanation. If this pessimism is to be shared, however, the foundation needs to be improved by examining the causes and effects in the formation of rent and by breaking with a neo-classical analysis of growth that is without any real relevance to the subject at hand. There is nothing natural about the evolution of the distribution of income and wealth, which depend on political choices and social norms. The question, then, is whether the choices and norms of the years of the *Belle Epoque* still have any meaning, and whether policy can still counteract the forces of what must be called decline that threaten modern capitalist societies.

Reading Piketty thus gives rise to an implicit challenge: to develop an analysis that, following an intuition that we owe to the classical economists, is based on the idea that the growing importance of rent, as distinguished from profit, would fuel an increase in the purchase of nonperforming assets or luxury goods at the expense of the accumulation of capital, and would thereby constitute an obstacle to growth.

These various issues are examined in the *Note de l'OFCE*, no. 40 of 2 June 2014, ["Le capital au XXI<sup>e</sup> siècle : un défi pour l'analyse"](#) [*Capital in the twenty-first century : a challenge for analysis*], which follows on from the previously published working document by Guillaume Allègre and Xavier Timbeau (see the blog [here](#)).