Thomas Piketty's Book Is Masterful and Important, but Ultimately a Sideshow

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Thomas Piketty, Capital in the Twenty-First Century (2014).

By now, it seems that everyone has heard of the new tome from French economist Thomas Piketty. *Capital in the Twenty-First Century* continues to top *The New York Times* Bestseller list for hardcover non-fiction, which hardly seemed likely for a book that is mostly built on an analysis of European and American tax records over the last century or two.

Piketty's book deserves all of the plaudits that it has received. It is a masterpiece of economic analysis, advancing our understanding of wealth concentration in the world's richest democracies, and offering a provocative forecast of the future of inequality in the U.S. and elsewhere. Even the most trenchant reviews of the book that take a negative tone, such as the economist James K. Galbraith's essay in *Dissent*, rightly conclude that Piketty has made an important contribution to knowledge.

For tax policy scholars, Piketty's book would seem to be especially interesting, because he takes a strong and provocative stand in favor of wealth taxation. Although one can say that Piketty's call for wealthy countries to work together to tax wealth is utopian (which Piketty readily admits), the point is that he has made the intellectual case to rein in growing inequality by confronting it head on. If wealth concentrations are a growing problem (and they are), then the best policy response is to reduce wealth concentrations. Taxing wealth is an obvious place to start.

This book is fascinating and ground-breaking because Piketty shows that the concentration of wealth in the U.S. (and France and the U.K.) has recently returned to historically high levels, with the wealthiest citizens today finding themselves in the same rarefied territory as their forebears in Belle Epoque France (from the 1870's through WWI) and the U.S. Gilded Age of the Roaring Twenties.

Piketty then notes that wealth concentration can become essentially irreversible, if the return on owning wealth (interest rates, broadly conceived) is greater than the growth rate of the economy overall. That is, if the people who own the wealth can do nothing but sit back and watch their wealth grow at, say, 5% per year, while the rest of the economy grows at 3% per year, then working people (whose wages are ultimately limited by the economy's growth rate) will fall further and further behind the idle rich.

The strong claim in the book is that this future does, indeed, await the U.S. and Europe. This is especially important, because it contradicts the feel-good conventional wisdom that a growing economy is good for everyone, rewarding people for their hard work. But if the economy is hard-wired such that income from working will inevitably shrink relative to income from being already wealthy, something is seriously askew. Piketty claims to find some empirical regularities that make the growth of this kind of "patrimonial capitalism" inevitable. Adding in the sensible observation that wealthy people can use their wealth in the political arena to change policies to their benefit, Piketty concludes that it is essential to prevent the onset of patrimonial capitalism before it becomes permanently entrenched.

As the title of this essay suggests, however, this insight is not a game-changer for tax policy. Why not? If Piketty is right, then all he has done is to strengthen the case for taxing wealth, especially inherited wealth, to prevent the world from become ruled by family dynasties. But his case essentially amounts to the argument that things will get much worse over time, unless we do something about it, so we would be wise to get started sooner rather than later. If that were the only reason to tax wealth, however, then even liberal redistributionists would have a hard time summoning a lot of energy to make Pikettian tax policy the centerpiece of their political agenda.

And if Piketty is wrong, so what? Maybe there is some long-run hope that the concentration of wealth is not *inevitably* going to get worse, because labor income could grow faster over time than investment income. But merely because it is not inevitable does not mean that it could not still happen. Moreover, executive salaries and other high-end earnings count as labor income, not returns to capital, so one could easily see a non-Pikettian future with labor's share of the economy growing, but with the distribution of labor income itself becoming ever more skewed toward the wealthiest earners. Indeed, some people who think that they are scoring points against Piketty by pointing out that the U.S. does not (yet) look like a patrimonial capitalist economy are, at best, simply arguing that the extremely high income and wealth concentrations in the U.S. are the result of highly unequal wages and salaries, not inherited wealth.

In short, one could believe in a redistributive tax policy regime without having any opinion about Piketty's book. The extra "oomph" from Piketty's book, for tax policy purposes, at most amounts to a reminder that wealth accumulation can gain momentum over time. That is not to be ignored, but as I argued above, the extra policy impact is minimal.

The reason for the frantic response to Piketty's book from conservatives, including full-on red baiting, is that the book has somehow captured the broad unease that people have begun to feel about rising inequality. With everyone from Pope Francis to President Obama having recently bemoaned the concentration of income and wealth in the hands of the elite few, people can now point to Piketty's book to support the idea that there is something deeply wrong about all of this.

But without Piketty's book, we would still have more than enough evidence that we should be increasing taxes on the rich. In my Jot last year, I endorsed a paper by Emmanuel Saez and Peter Diamond, which summarized research that they and others (including Piketty himself) have published over the last decade or so. That research shows that both income and wealth can be taxed, even at high levels for the richest people, without the bad economic consequences that anti-tax ideologues take as gospel.

In other words, Piketty's book is not all that important for tax policy, because Piketty's other work (and that of his frequent co-authors) has already changed the debate about tax policy. We are now living in a changed world, where we know that policies to redistribute income and wealth can decrease inequality while improving the economy. If it took the publication of Piketty's book to mobilize politicians and the public to do something about inequality, so be it. But we should not imagine that the case for redistribution rises and falls on the book's predictions. Inequality is the defining challenge of the twenty-first century. Now, we just need to do something about it.

Editor's note: For other Jotwell reviews of Thomas Piketty's **Capital in the Twenty-First Century** see:

- Kent D. Schenkel, Trusts and Estates Law and the Question of Wealth Distribution (Trusts & Estates)
- Daniel Shaviro, The Return of Capital (Tax)
- Michael J. Zimmer, (Re)Booting the Dismal Science (Worklaw)

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