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Piketty and the Zeitgeist

By Dani Rodrik *Fri, May 16, 2014*

'It is now acceptable to talk about inequality in America... This might explain why [Thomas] Piketty's book has received greater attention in the US than in his native France,' writes this professor at Princeton's Institute for Advanced Study.

I get the same question these days wherever I go and from whomever I meet: What do you think of Thomas Piketty? It's really two questions in one: What do you think of Piketty the book, and what do you think of Piketty the phenomenon?

The first question is much easier to answer. By sheer luck, I was among the earliest readers of the English-language version of *Capital in the Twenty–First Century*. Piketty's publisher, Harvard University Press, had sent me the pre-publication galleys, hoping that I would contribute a blurb for the back cover. I did so happily, as I found the scope, depth, and ambition of the book impressive.

I was of course familiar with Piketty's empirical work on income distribution, carried out jointly with Emmanuel Saez, Anthony Atkinson, and others. This research had already produced startling new findings on the rise of the incomes of the super-rich. It had shown that inequality in many advanced economies has reached levels not seen since the early part of the twentieth century. It was a tour de force on its own.

But the book goes far beyond the empirical work, and narrates an intriguing cautionary tale about the dynamics of wealth under capitalism. Piketty warns us not to be fooled by the apparent stability and prosperity that was the common experience of the advanced economies during a few decades in the second half of the twentieth century. In his story, it is the un-equalizing, destabilizing forces that may be dominant within capitalism.

Perhaps more than the argument itself, what makes *Capital in the Twenty-First Century* a great read is the sense of witnessing a superb mind grapple with the big questions of our time. Piketty's emphasis on the political nature of the distribution of income; his subtle back-and-forth between the general laws of capitalism and the role played by contingency; and his willingness to offer bold (if, to many, impractical) remedies to save capitalism from itself are as refreshing as they are rare for an economist.

So I would have liked to claim that I was prescient in foreseeing the huge academic and popular success that the book would have upon publication. In truth, the book's reception has been a big surprise.

For one thing, the book is hardly an easy read. It is almost 700 pages long (including the notes), and, though Piketty does not spend much time on formal theory, he is not beyond sprinkling an occasional equation or Greek letters throughout the text. Reviewers have made much of Piketty's references to Honoré de Balzac and Jane Austen; yet the fact is that the reader will encounter mainly an economist's dry prose and statistics, while the literary allusions are few and far between.

The economics profession's response has not been uniformly positive. The book's argument revolves around a number of accounting identities that relate saving, growth, and the return to capital to the distribution of wealth in a society. Piketty is very good at bringing these abstract relations to life by hanging real numbers on them and tracing their evolution over history. Nevertheless, these are relationships that are well known to economists.

Piketty's pessimistic prognosis rests on a slight extension of this accounting framework. Under plausible assumptions – namely that the wealthy save enough – the ratio of inherited wealth to income (or wages) continues to increase as long as *r,* the average rate of return to capital, exceeds *g,* the growth rate of the economy as a whole. Piketty argues that this has been the historical norm, except during the tumultuous first half of the twentieth century. If that is what the future looks like, we are facing a dystopia in which inequality will rise to levels never before experienced.

Yet extrapolation is dangerous in economics, and the evidence that Piketty adduces to support his argument is hardly conclusive. As many have argued, the return to capital, *r*, may well start to decline if the economy becomes too rich in capital relative to labor and other resources and the rate of innovation slows down. Alternatively, as others have pointed out, the global economy may pick up speed, buoyed by developments in the emerging and developing world. Piketty's vision needs to be taken seriously, but it is hardly an iron law.

Perhaps the source of the book's success should be sought in the zeitgeist. It is difficult to believe that it would have had the same impact ten or even five years ago, in the immediate aftermath of the global financial crisis, even though identical arguments and evidence could have been marshaled then. Unease about growing inequality has been building up for quite some time in the United States. Middle-class incomes have continued to stagnate or decline, despite the economy's recovery. It appears that it is now acceptable to talk about inequality in America as the central issue facing the country. This might explain why Piketty's book has received greater attention in the US than in his native France.

Capital in the Twenty-First Century has reignited economists' interest in the dynamics of wealth and its distribution – a topic that preoccupied classical economists such as Adam Smith, David Ricardo, and Karl Marx. It has brought to public debate crucial empirical detail and a simple but useful analytical framework. Whatever the reasons for its success, it has already made an undeniable contribution both to the economics profession and to public discourse.

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