Book review:

Capital in the Twenty-First Century/Le capital au XXI\textsuperscript{e} siècle

*Received: 02-06-2014; accepted: 06-06-2014*
was sensible, but now it makes less sense. One can hardly write about it without taking into account at least important comments, critics, and acknowledgments. We will do that having in mind the relevance of the book for us. Maybe, at the beginning of this review, it is permitted to say, when the books in French such as this one have almost no impact, what impact could be expected if they were written in Croatian, Slovenian or any other language but English.

Piketty’s book is in classical tradition. The author is namely interested in the distribution of income between labour and capital. Ricardo was, for instance, if we start with him as a classic, interested in the distribution of income and he was pessimistic, as according to him, increasing rent on land will increasingly diminish profits. As times go on and population increases new and worse surfaces of land will be included in agricultural production. Rent on existing land will be increasing and landlords will be gaining more and more. Marx thought that because of accumulation of capital and workers’ worsening standard of living, it is inevitable that capitalism or, as he did not use the word capitalism, ‘bourgeois society’ must disappear. Keynes and M. Kalecky, the latter even before Keynes, put forward how investment creates necessary savings via increased profit. If there were not enough investment, “rentiers” should be sacrificed or euthanized via low interest rate. Piketty is less pessimistic. His cure is less damaging. The rich should pay more taxes, but not in general but on heritage and wealth, if we want to summarize his solution in few words.

In the book there is a serious and thorough empirical analysis of capital, its forms, distribution of ownership and income between capital and labour in the last 300 years, primarily in Britain and France. Forms of capital and distribution of income between capital and labour have been changing. If we look back at the period of late seventies, inequality between people within countries was increasing; social mobility gradually decreased. Generally speaking, decedents of the rich remain rich and equally descendants of the poor stay poor. What has been happening in the last thirty years is similar to what was going on in the period before the Great Depression and overall crises in the thirties and the World War II. But changes for the better happened immediately after the war. Baron Beverage, for instance, was behind the introduction of the social security in Britain by the Labour government in 1945. Afterwards changes came to other countries. We had a so-called thirty-year-period of “trente glorieuse” that ended at the end of the seventies.

As we have already mentioned, Piketty thinks that he has not a simple solution but definitely a solution how to abolish or diminish social instability due to polarisation between those who have an ever increasing rise of income from capital and those whose income from labour has been constantly falling. His solution implies introduction of tax on wealth; it should be the same all over the world, and introduction of much higher taxes on heritage. Nowadays, more and more people are namely wealthy because they inherited wealth. He does not think that capitalism
should be abolished and thus, those belonging to political left, at least the extreme ones, do criticize him. However, the other side does not welcome him, either. For some critics, even mentioning the name of Marx is a sin, although Marx has been mentioned, in the first place in the texts of those who reviewed his book (The Economist, 2014). Furthermore, his ideas of introducing the same tax on wealth all over the world are considered as quite utopian.

Should we put aside whether there is any connection of Piketty’s book with Marx or not, and whether the solutions put forward in the book are utopian or not, there are many other things in the book that may be of interest even to us, although something similar cannot be empirically applied to us. Time series are very short, if we compare ourselves with 300- year time series for the United Kingdom and France and a bit shorter for Germany and the USA. Although, 300 years’ time series should not be very reliable.

Piketty defines capital as capital stock or overall wealth within the country plus net foreign claims or minus net foreign liabilities. He has in mind four types of assets or capital: net foreign assets, other domestic capital, residential buildings and agricultural land. He measures capital in annual national incomes – for instance 500% of annual national income. The structure of assets or capital has been changing. Land used to be very important but now residential buildings and “other domestic capital” is becoming the most important.

While dealing with the distribution of income, Piketty distinguishes between income going to capital and income going to labour. That distribution of income has been changing over time. From the eighties the part going to capital has been increasing similarly to the period preceding the Second World War. In between there were, as we already mentioned, the periods of “trente glorieuses”. What may be important is that he strictly stays with capital and labour and nowhere has he mentioned capitalists and workers. Krugman (2014) points out that at the top of income ladder the important ones are those with very high wages. There are numerous managers that are among the famous 1 per cent or even 0.1 per cent because of their wages and not because of income on capital. We should add that, on the other hand, some income from capital goes to those who live predominantly from wages. There is no clear-cut separation between workers and capitalists, if we mention old division.

What is interesting and somehow important for us is that although there have been tremendous flows of capital between countries; the part of net foreign capital, as can be seen from Piketty’s tables and charts, has been generally negligible. There were some exceptions. During the colonial period, net foreign assets were very important for colonial powers such as the United Kingdom and France. Nowadays, China and oil exporting countries are in the position similar to the position of colonial powers in the nineteenth and in the first part of the twentieth century.
As we come to the net foreign assets, we may insert a few sentences about the importance of Piketty’s book to us from the specific point of view. International capital flows have been of great importance to transitional countries, or former transitional countries that used to have social ownership of nonfinancial businesses before transition started. Foreign companies have been taking over domestic businesses and transforming them into their subsidiaries or even branches. Because of that, if we have in mind Piketty’s classification of capital or wealth, these countries would have negative the part of capital designated as “net foreign claims”. If we put aside colonial powers and China and some other countries today, we can see from Piketty’s book that flow of capital among countries is not important because the countries lack savings or capital as fund. They generally have enough savings for capital formation, but nevertheless they import and, at the same time, export tremendous amounts of capital. The reason is similar as with international trade. Generally flows of goods and services in terms of value are more or less the same in both directions. But importance is in the difference between the kind of goods exported and the goods imported.

The same logic is in the case of capital flows. With the flows of capital better technology, production methods, managements, marketing for specific goods and services, better for importers of capital, are flowing among countries. It is neither capital as fund nor savings as such. On the contrary, (former) transitional countries, we are having in mind, are behaving quite differently. They are happy if they are getting some money for businesses bought by foreigners. They are happy to find themselves in the position of the colonial countries that existed up to the mid-twentieth century. Being a country that is attractive for foreign investors does not mean that. Countries are happy, as President Obama recently stated for the USA, if they are attractive to foreign investors because of improving their production and being able to benefit from export of capital without impairing their external financial position. Capital flows must be in both directions because that benefits both and keep the country in external equilibrium. Nobody is becoming a colony.

It is without doubt that it is one of the most important books that have appeared in the last few years. Such is also the opinion of almost all who has written about it. In the end, we should mention few exceptions. Probably there will be some more. For instance, Peter Bofinger (Neubacher, 2014) thinks that Picketty shot himself in the knee. According to him, Picketty’s theory that the rate of return of capital was higher than the rate of growth was true up to 1913, and later, not valid any longer. But whether it is true or not can be easily found by consulting data, while the others criticize Picketty because of his data and statistics as such (Economist, 2014a). However, the criticism that is inevitable in the case of such a work cannot undermine the importance of Piketty’s book.

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References