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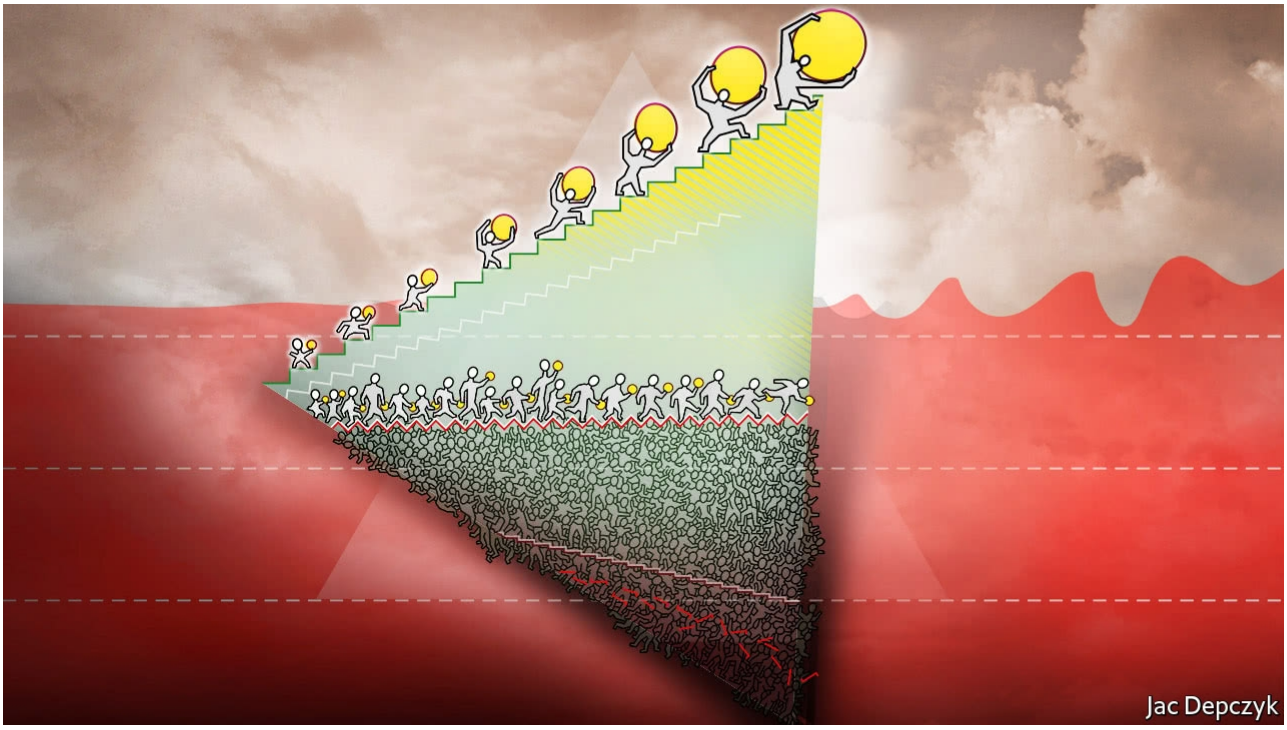
A new anthology of essays reconsiders Thomas Piketty's "Capital"

The book explores arguments left undeveloped in Mr Piketty's masterwork



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"A MODERN Marx" was how *The Economist* described Thomas Piketty three years ago, when he was well on his way to selling more than 2m copies of "Capital in the Twenty-First Century". It was meant as a compliment, mostly: as advice to take the analysis seriously, yet to treat the policy recommendations with caution. The book's striking warning, of the creeping dominance of the very wealthy, looks as relevant as ever: as Donald Trump's heirs mind his business empire, he works to repeal inheritance tax. But "Capital" changed the agenda of academic economics far less than it seemed it might. A new volume of essays reflecting on Mr Piketty's book, published this month, prods economists to do better. It is not clear they can.

"After Piketty: The Agenda for Economics and Inequality", edited by Heather Boushey, Bradford DeLong and Marshall Steinbaum, is a book by economists, for economists. In that it resembles "Capital" itself. Before he was an unlikely cultural icon, Mr Piketty was a respected empirical economist. He was best known as one of a group of scholars, among them Emmanuel Saez and Anthony Atkinson, who used tax data to track long-run inequality. In "Capital" these data became the basis for an ambitious theory of capitalism. Mr Piketty argued that wealth naturally accumulates and concentrates, so that familial riches are ever more critical to determining an individual's success or failure in life. The extravagant inequality of the Gilded Age could return if no preventive action is taken.

Mr Piketty chose to compress his sweeping narrative into a compact economic model backed up by a few simple equations. The mathematical expression at the heart of his book is little more complicated than an emoji: $r > g$. It says that the rate of return on capital, r, has historically been greater than g, the growth rate of the economy. Why does this matter? It means, first, that the ratio of an economy's wealth to its output tends to rise, which increases the relative economic power of wealth in society. Second, because the distribution of wealth is usually less equal than the distribution of income, faster growth in wealth than in GDP means a steady increase in inequality. Third, it implies that income from capital will grow as a share of income (and income from labour will fall). So being born rich (or marrying well) becomes a surer route to success than working hard or starting a firm. It is a recipe for social stagnation, and perhaps crisis.

Yet, despite its 700-odd pages, "Capital" gave important details short shrift. "After Piketty" takes these lacunae in turn, pointing out, essay by essay, how Mr Piketty might have devoted more space to the role of human capital and technological change, the structure of the firm and the rise in outsourcing, sexual inequality, geography and so on. Gareth Jones, for example, argues that in "Capital" geographical divisions are treated as "container[s] for data"—that is, the areas within which various statistical agencies do their work—rather than as arenas with changeable boundaries within which the rough-and-tumble tussle between labour and capital plays out.

Most economists have focused on Mr Piketty's model. They question the parameters needed to make it behave as Mr Piketty reckoned it would. "After Piketty" includes an example of the genre, by Devesh Raval. As wealth accumulates, economists reckon the return on capital should fall; society has less use for the hundredth factory or server than the first. As it does, capitalists will seek new, profitable ways to deploy their wealth: by investing in machines that can replace labour, for instance. If firms are relatively good at using their growing piles of capital to replace labour—if, in the language of economics, the elasticity of substitution of capital for labour is greater than one—then wealth can pile up, as Mr Piketty suggests. If, instead, the return falls a lot as markets struggle to put capital into action, then r will decline towards g, and the ratio of wealth to GDP will eventually stabilise. Mr Raval echoes many other economists in pointing out that most estimates of the elasticity of substitution find it to be less than one.

In economics, this passes for a damning critique. Yet the argument treats the elasticity of substitution as a meaningful parameter in a well-behaved economy. It may not be. In the most incisive essay in "After Piketty", Suresh Naidu describes a "domesticated Piketty" who communicates in the language of economics and whose argument hinges on things like the elasticity of substitution. Yet in "Capital" there is also a "wild Piketty" who pays attention to social norms, political institutions and the exercise of raw power. He suggests that $r > g$ is not a theory to be disproved but a historical fact to be explained. And he suggests that the wealthy use their influence to shape laws and society in order to guarantee themselves a better return on their wealth.

Do they? The record of the past 40 years is suggestive. Top tax rates have fallen, financial regulation has weakened (at least before the crisis of 2007-08) and companies have found it easier to reduce their obligations to workers. Economists often praise such moves as enhancing efficiency. Yet, somewhat awkwardly, this history is also consistent with a story in which the wealthy seek to protect their returns at the expense of labour. A focus on efficiency is unobjectionable in a world in which political and institutional stability can be taken for granted, much less so in a world in which it cannot.

What is to be done?

Politics is "everywhere and nowhere" in Mr Piketty's book, as Elisabeth Jacobs notes in her essay. What "After Piketty" reveals is the message lurking within all the undeveloped arguments in "Capital" about politics and ideology. It is that economists set themselves too easy, too useless a task if they can describe how capitalism works only when politics is unchanging.

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