The Progress and Poverty of Thomas Piketty

ELI COOK

Capital in the Twenty-First Century, by Thomas Piketty, translated by Arthur Goldhammer, Harvard University Press.

Six years after the worst economic depression in decades, a six-hundred-page book on economic inequality took the United States by storm, becoming a surprise best seller. Despite its populist message, the book was largely in conversation with orthodox economic thinkers, not radical ones, and thus retained the former's conceptual categories, worldview, and language. And yet, despite—or perhaps because of—its conventional approach, the book sent a shockwave through the field of economics. Using the master's tools, it took a hammer to some of the most cherished tenets of contemporary economic thought, disrupting accepted wisdoms, destabilizing basic convictions, and upending theoretical models.

The source of the book's subversive message lay in its rejection of the received wisdom that the study of economics could and should be insulated from distributional questions. While most economists of the era peddled feel-good stories about the harmonious interests of workers and elites, this book politicized economic thought by revealing that capitalism produced winners and losers, productivity and inequality, progress and poverty. The book's emphasis on inequality soon forced mainstream economic thinkers to respond to a wave of heretofore unprecedented criticisms that threatened to undermine their ideological message and even their disciplinary authority.

The book inspired grassroots organizations, social movements, and various reform proposals; it became a global phenomenon. Tedious, unwieldy, and redundant, it nevertheless managed to capture the imagination of a shell-shocked generation still reeling from a

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major economic crisis. It did so for two main reasons. First, it offered a simple argument: inequality was caused by the ever-increasing concentration of unearned wealth in the hands of an elite class of unproductive rentiers. Second, it offered a simple solution: a single tax on wealth that would prevent such elites from profiting off the mere possession of property. With such a straightforward message, small wonder the book became an international sensation.

The dismal science had given birth to an economic rock star. His name was Henry George. The year was 1879.

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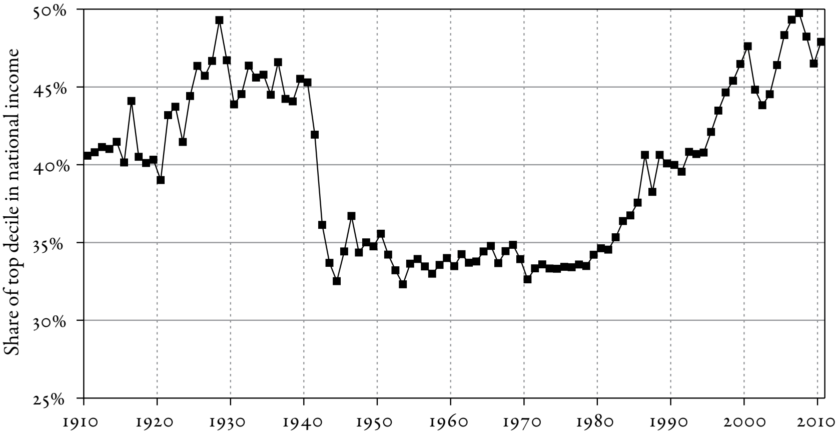
Comparing Henry George's *Progress and Poverty* to Thomas Piketty's *Capital in the Twenty-First Century* allows us to put the seemingly unprecedented wave of Pikettymania that overtook economics blogs, liberal magazines, and Wall Street watercoolers (does the 1 percent drink from watercoolers?) into a broader historical context. The similarities between these two books are striking and illuminating, but so are the differences. For example, while thousands of Populist farmers and Knights of Labor read George's *Progress and Poverty,* I doubt if many contemporary working-class Americans have even heard of Thomas Piketty (although his graphs did appear on Occupy Wall Street protest signs). Unlike in the Gilded Age, it seems as if everyday Americans today are not taking part in the most burning economic debate of their time. Second, while Henry George's book was thoroughly American, shaped by uniquely American notions of "free-labor," Jeffersonian yeomanry, and antimonopolism, Thomas Piketty was a red-diaper baby from France who grew up reading Braudel and the Annales School. American society, it appears, may no longer be able to develop its own iconoclast economists. It has to import them. Third, while George, like all classical economists following Adam Smith, used deductive logic and common-sense rhetoric to nail his biggest points, Piketty leans mostly on inductive data and algebraic equations. As Thomas Frank nicely put it, Piketty became a hit because in the twenty-first century nothing "warms the liberal heart" like big data. Finally, a George-Piketty comparison makes plain the one-hundred-fifty-year ascent of corporate capitalism, capital markets, and the financialization of everyday life. George's pet peeve was the monopoly on land, and his solution to all of America's woes was a "single tax" on landed wealth that would suck the rentiers dry. Piketty, on the other hand, has his eyes set on a single global wealth tax that would strike against the unequal accumulation of all income-bearing financial assets, be they government bonds, stock options, or urban real estate.

To review Piketty's book is to begin with a graph and then turn to an equation. Here is a typical graph (there are many), which appears first in his introduction:



Income inequality in the United States, 1910–2010.
Thomas Piketty, *Capital in the Twenty-First Century,*
Harvard University Press.

Charts such as this are, by far, Piketty's most important contribution to mainstream economic thinking. For years, economists have used statistics to depoliticize economic discourse by focusing only on the size of the economic pie and not how it is sliced. They justify this bizarre method in two somewhat contradictory ways. On one hand, mainstream neoclassical economists like to portray themselves as merely objective, scientific, market-maximizing number crunchers.

They argue that their market models are only designed to create the most "efficient" outcomes, and that questions regarding how wealth should be distributed must be left to the "political" realm. As a result, the main goal of modern economics has been to maximize economic productivity, usually measured by Gross Domestic Product (GDP) per capita, while ignoring who actually reaps the rewards of this economic growth.

And yet, while many neoclassical economists act as if they have detached themselves from questions of distribution, the most basic assumptions of their free-market models often legitimize the distributive status quo. One of the ideological cornerstones of contemporary neoclassical economics is to conflate productivity (how much a worker produces) with compensation (how much that worker actually earns). While American economists may assure you that growth is only a measure of efficient productivity, they often make the implicit assumption that the current US GDP of $53,042 per person reflects, more or less, what the average American earns in a year. This reasoning is based, in part, on the assumption (which appears in many models) that American society is roughly equal and therefore dividing the total amount of income by the number of inhabitants makes sense. As Piketty's inequality data shows us, such an assumption is not only inaccurate—it's ridiculous.

Much has been made of Piketty's critique of contemporary neoclassical economics. But besides some vague name-calling (he refers to their passion for obtuse mathematics as "childish"), Piketty offers no real explanation for why economists have ignored questions of inequality and wealth distribution. As always, the reason for this is both historical and political and, in America at least, brings us back to Henry George.

In the opening pages of his groundbreaking *The Distribution of Wealth* from 1899, Columbia Professor John Bates Clark—the undisputed American father of neoclassical economics—summarizes the main point of his book: "It is the purpose of this work to show that the distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates." Economists today refer to Clark's law as "marginal productivity theory," and it has had revolutionary repercussions on the study of economics, especially regarding the prickly issues of inequality and capital. Very briefly, Clark and his neoclassical followers posit that capital and labor are factors of production. Unlike classical economists, who often viewed capital as the accumulation of residual profit left over after an entrepreneur managed to sell something for more than it cost to make, neoclassical economists assume that capital is strictly the amount of money that an entrepreneur or capitalist invests in nonlabor means of production (e.g., machines or raw materials). In making this assumption, Clark created a crucial wall between capital's profits and labor's wages. In his story, profits and wages were generated from distinct and entirely separate market forces and thus were *not* determined by a power struggle over the same pool of surplus wealth that was created in the production process.

Clark and every neoclassical economist since contend that in a free, competitive market wages and profits are determined separately by the marginal productivity of their respective factors of production—labor and capital. A worker earns ten bucks an hour not because his boss may be exploiting him but rather because that is the contribution of his final (or marginal) hour of labor to the production process. A capitalist earns ten thousand dollars in profit not because he has the social power that comes with owning the means of production, but rather because this is the productive contribution of the machinery and raw materials he owns. The moral of the model is clear: the distribution of wealth in free-market societies is inherently fair. So long as the government or unions don't interfere in the workings of a competitive market, both worker and capitalist will receive their just deserts. Economists need not worry about questions of distribution so long as they ensure the workings of a competitive market.

Why did Clark come up with this theory when he did? There is no need to speculate, since he repeatedly and explicitly explains his reasoning in all his works: Henry George. "It was the claim advanced by Mr. Henry George," Clark notes in the opening pages of his magnum opus, which led him to "seek a method" that would prove that in a perfect market each man receives what he in fact contributed. As the economist Frank Fetter recognized, "one can hardly fail to see on almost every page" of Clark's writings the single-tax specter of Henry George. While George only focused on the monopoly of land, his argument was nevertheless disturbing because it suggested that certain property owners were not only receiving their just deserts from the ownership of productive capital but also the unproductive "rent" which stemmed solely from the fact that they monopolized a scarce resource. For men like Clark, any discussion of unearned rents was perilous. In his narrative, each class receives what they contributed to the production process. Populist terms such as rent cease to have any economic meaning. There is only the return on capital, and it is fair, productive, and just.

Back to Piketty. By focusing not on economic growth but rather economic distribution, Piketty's graphs shift the analytical spotlight away from market efficiency and John Bates Clark and back toward wealth inequality and Henry George. Piketty and his colleagues have spent over a decade painstakingly sifting through archives in order to collect an assortment of tax records that enable them to record individual earnings across class lines. The results are staggering, and the aftershocks of this empirical earthquake are still being felt. To highlight his findings on contemporary American inequality (Piketty's best data is from Western Europe and the United States, so this is the geographical focus of most of the book), Piketty has discovered that the top decile in America today earns 50 percent of the nation's income and owns 72 percent of the wealth. In comparison, the entire bottom half of the country—more than 150 million people—owns 2 percent of total wealth. The numbers get even uglier when you ascend from the top 10 percent to the top 1 percent. Since 1977, for instance, 60 percent of GDP growth has gone to the 1 percenters. The United States today is more economically unequal than South Africa at the height of apartheid. Piketty, in fact, thinks that current American inequality is "probably higher than in any other society at any time in the past, anywhere in the world."

How did this happen? Follow the capital and you shall have your answer, Piketty replies. The super-rich often get rich not from wages, Piketty tells us, but from capital—mostly financial assets and real estate. Throughout the book, therefore, he stresses the importance of "capital/income ratio," a statistic that shows how much of national income (GDP) is being raked in by capital rather than labor. As his graphs reveal, the percentage of national income earned from capital has risen sharply since the rise of Reagan and Thatcher, and is reaching Gilded Age ("Belle Époque," for Piketty) proportions.

How does Piketty explain this sudden shift in income from labor to capital? With one simple equation: r>g. As he explains:

> When the rate of return on capital (r) exceeds the rate of growth of output and income (g), as it did in the nineteenth century and seems quite likely to do again in the twenty-first, capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based.

Imagine a snowball slowly rolling along a snow-covered hill, only the snowball is made out of cash and the hill is a pile of money. As our moneyball rolls along the moneypile, more and more bills stick to it, and it gets bigger and bigger. More important, the ever-increasing size of the moneyball allows it to collect more and more of the money that constitutes the moneypile. The moneyball is capital, and its rate of annual increase is the return on capital (r). The moneypile is GDP, the amount of economic income produced by a society in the present, and its rate of increase is (g). If a society's pile of money doesn't increase (g) faster than the moneyball can gobble it up (r), then the moneyball's size *relative* to the entire moneypile will increase and we will get heightened economic inequality.

There is a crucial temporal aspect to this argument. While the size of the moneypile is set by the amount of income a society produces in the *present,* the momentum of the rolling moneyball stems from its ongoing accumulation of *past* wealth. "In slowly growing economies," Piketty explains, "past wealth naturally takes on disproportionate importance." As a result, he concludes, "the past devours the future." This is why Piketty refers to the twenty-first century as an era of "patrimonial capitalism" and why his book exhibits a deep interest in questions of intergenerational accumulation and wealth inheritance.

Piketty's narrative directly challenges the dictator-like grip that neoclassical theory holds on the discipline of economics. In focusing on r, Piketty brings the question of capital returns back to the forefront of economic modeling. While neoclassical economists still teach Clark's theory of marginal productivity in undergrad classrooms, since the demise of Marxist economics no one has really taken a hard look at the rate of profit or capital returns. It is incredible but true: economists have all but ignored the study of profit in their analysis of a capitalist system built on that very principle. As opposed to economic growth, measuring profits requires a distributional approach and the willingness to uncover potentially incendiary data (corporate profits today, for instance, have never been higher). Profits have, therefore, been quietly disregarded.

What is more, unlike most neoclassical macroeconomists, Piketty's view of capitalism is not cyclical, and he appears to have little faith in such quaint ideas as market equilibrium or the business cycle. Piketty doesn't think there is some internal break within capitalism that prevents the moneyball from getting bigger and bigger and inequality from getting worse and worse. In this regard, we also see how Piketty is no Marxist: he doesn't seem to think that capitalism will dig its own grave. Instead, he notes that "there is no natural spontaneous process to prevent destabilizing, inegalitarian forces from prevailing permanently." Capital will continue to snowball, Piketty grimly predicts, with "potentially terrifying consequences."

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In the midst of Pikettymania, in the fall of 2014, Federal Reserve Chair Janet Yellen spoke at a Fed conference in Boston. "The extent of and continuing increase in inequality in the United States greatly concern me," Yellen said. "I think it is appropriate to ask whether this trend is compatible with values rooted in our nation's history, among them the high value Americans have traditionally placed on equality of opportunity." As the *New York Times* rightly noted, "by the cautious standards of central bankers," Yellen's words were "downright radical." Compare them, for example, to Ben Bernanke's statements on inequality in 2007. Echoing the sentiments of most economists of his day, Bernanke noted that he would "not draw any firm conclusions about the extent to which policy should attempt to offset inequality in economic outcomes; that determination inherently depends on values and social trade-offs and is thus properly left to the political process." As the shift in discourse from Bernanke to Yellen reveals, Piketty's book has had an immediate impact on economic discourse.

To appreciate Piketty's enormous achievement in bringing wealth distribution into the mainstream, we need only to look back to those before him who failed. Charles Barzillai Spahr was a Columbia PhD student in the early 1880s and a close confidant of the muckraker Henry Demarest Lloyd. Spahr's dissertation, later published in book form, was titled *An Essay on the Present Distribution of Wealth in the United States.* Meticulously mining the taxation data at his disposal, he produced a trove of wealth statistics in order to prove one basic point: as time passed, the distribution of wealth in the United States was becoming more and more unequal. "Seven-eighths of the families [in America] hold but one-eighth of the national wealth," Spahr concluded, "while one per cent of the families hold more than the remaining ninety-nine." Over a century before Thomas Piketty, David Graeber, or the Occupy movement, Spahr had discovered the "one percent."

While a few American socialists would go on to cite Spahr's book in the first decade of the twentieth century, his statistics were almost entirely ignored at the time of their publication and have been utterly discarded since. By the time Spahr finished his dissertation, professors like John Bates Clark were beginning to take control not only of the department where he studied but the entire discipline. As a result, those who focused on power, distribution, or inequality were marginalized. The scathing review of Spahr's book in the leading economic journal of the era by Professor Richard Mayo-Smith, a close colleague of John Bates Clark at Columbia, insured that Spahr would have no academic future. With such politically dangerous findings, Spahr never got a job at a university and his economic writings fell into obscurity. Today, Spahr's life remains shrouded in mystery. He does not appear in any of the "Who's Who" biographies past 1909, and has no obituary that tells his life's story. As far as I know, he has never been written about by any historian (until now). Capital may very well devour the future, as Piketty has noted, but it is just as capable of consuming the past.

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Let us now take a narrated tour of Piketty's graphs, as we experience the plutocratic heights and social-democratic lows of his inequality time-series. For American historians like me, this offers a unique opportunity to explore some of the biggest historiographical questions of the discipline. If we use the graph above as our guide, for instance, it appears that Progressive Era leaders failed at redistributing wealth from the rich to the poor (if they tried at all). But they didn't do the opposite either—the distribution of income remained stable throughout the Progressive Era. Judging by our current predicament, this is no small feat.

Many historians show a grudging distaste for the conventional labels given to each decade of the twentieth century. But Piketty's graph is a reminder that history may have its stereotyped decades for a reason. Inequality shot up in the "booming twenties" faster than the price of Florida swampland. Then the Great Depression hit, and Piketty reminds us of a simple fact many tend to forget about the stock market crash of 1929: rich people lost a ton of money. Black Monday has always been portrayed as a cataclysmic event, bringing forth the misery of the 1930s. But Piketty's graphs reveal that the crash was not all bad. It greatly weakened economic elites and likely played a key role in shifting the balance of power in the United States, making the New Deal Order possible. This is an important fact to keep in mind the next time doomsday scenarios are used to legitimize generous government bailouts and portfolio-saving quantitative easing.

What about the New Deal? Income inequality in 1930 was actually slightly lower than in 1940. Either the New Deal had less of a distributive impact than most historians have thought, or some of the reforms took time to leave their mark. In Piketty's opinion, the New Deal's most important initiative by far was Roosevelt's fiscal policy, and he sees the United States at the vanguard of progressive taxation. In a move often eclipsed by historians' focus on the alphabet-soup of New Deal agencies, Roosevelt raised the top marginal tax rate from 25 percent to a startling 80 percent during the 1930s while lifting the estate tax on inherited wealth from 20 percent to 70 percent.

Yet as Piketty and his graphs make clear, nothing brought income inequality to its knees in America more effectively than World War II. This development was not unique to the United States. In his analysis of Western Europe, Piketty credits World War I inflation with the destruction of enormous amounts of aristocratic capital in the form of sovereign debt bonds. (In the nineteenth century, Piketty tells us, the English government spent more money repaying old debts at interest than it did on education.) Turning to World War II, Piketty shows how capital accumulation in Europe was also curtailed by postwar nationalization. After Louis Renault was arrested for collaborating with the Nazis, for instance, the French government took over his factories. Similar transformations of private capital into public wealth took place in post-Nazi Germany. Even today, Piketty informs us, Lower Saxony owns 15 percent of Volkswagen. World War II also eventually brought an end to European colonialism. When Gamal Abdel Nasser nationalized the Suez Canal in 1956, British and French capitalists saw a century-old income-bearing asset go down the drain. No wonder their governments sent Israel to try to get it back.

Piketty does not mince words regarding the role war played in what Keynes called the "euthanasia of the rentier." He refers to World War I as "the suicide of the patrimonial societies of the past" and notes that wars in general have served as "the only forces since the Industrial Revolution powerful enough to reduce inequality." This is an unusually dark vision. The only thing that can limit capitalism's tendencies toward inequality, Piketty argues, is the hell of total war. "Broadly speaking," he summarizes later on, "it was the wars of the twentieth century that wiped away the past to create the illusion that capitalism had been structurally transformed."

This last set of quotes reveals Piketty's ambiguous, if not contradictory, philosophy of history. He repeatedly notes that his r>g is not an iron law of capitalism and that it can be influenced by political change. "One should be wary of any economic determinism in regard to inequalities of wealth and income," he warns. "The history of the distribution of wealth has always been deeply political, and it cannot be reduced to purely economic mechanisms." Nevertheless, one gets a sense throughout his book that there is an inexorable determinism to capitalism's "structural" and "fundamental" r>g tendency "automatically" to increase inequality and that only a World War III could nullify this trend. As a result, the postwar New Deal Order ("Les Trente Glorieuses," for Piketty) appears not as the contingent consequence of hard-fought political battles but rather as a freak historical anomaly.

Piketty, however, does demonstrate an acute knack for historicizing economic thought. He rightly reminds his reader how much theory is dependent on historical perspective. Take a second look at the inequality graph above. What if you lived not in 2015 but 1954? The view from the valley is very different from that on the mountain. As Piketty argues, a well-meaning observer from the 1950s might legitimately claim that capitalism first increases inequality but then, over the long run, reduces it. This is precisely the argument put forth by Simon Kuznets, inventor of GDP, in 1954. The Kuznets Curve, as his theory was coined, became conventional wisdom among American intellectuals. No wonder Cold War liberals such as Walt Rostow and Daniel Bell were so confident that welfare capitalism had solved the most pressing social concerns of the century. Thanks in part to Piketty, the Kuznets Curve is now being supplanted by the Great

Gatsby Curve, which charts a clear correlation between inequality and social immobility.

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Despite all of Piketty's enlightening analyses and anecdotes, in the end the reader is left without a real explanation as to why economic inequality has reverted back to Gilded Age levels. His r>g equation is not really a causative argument, but rather more of a truism. All it tells us is that capitalists are making money faster than the rest of us. But *why* are they outpacing us? Save for a few interesting comments about postwar nationalizations or New Deal tax hikes, Piketty does little to answer this question rigorously. He is very good at examining wealth from a birds'-eye view, showing us how it has ballooned or shrunk across time, but he never really delves into the process of how this capital is generated or accumulated. Capital—the very title of his book—remains a mysterious black box Piketty does not venture to crack open.

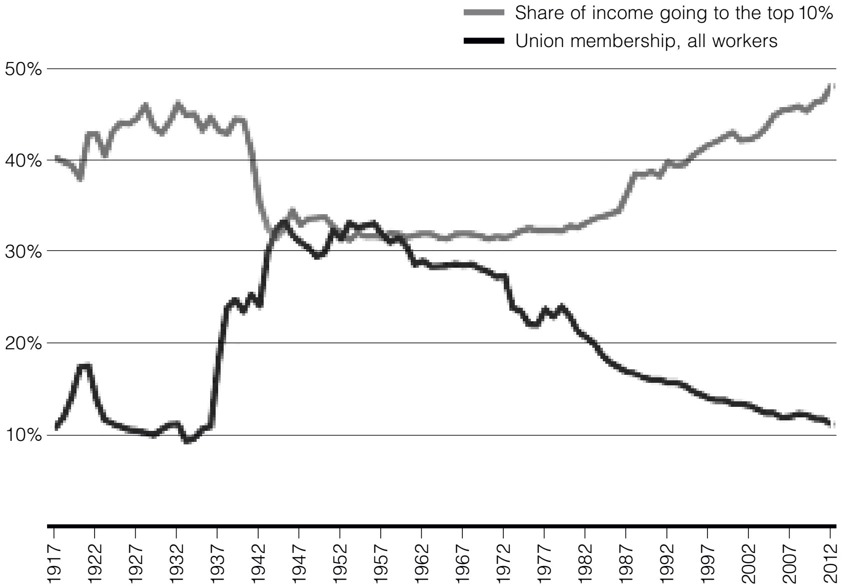
This is, far and away, the most disappointing aspect of Piketty's book, and it is one that nearly all book reviewers—from David Harvey to Bill Gates—have recognized, albeit from very different angles. In general, most reviews of Piketty's book read very much the same. After the obligatory praising of Piketty's empirical data and his citing of Jane Austen and Balzac ("Look, everyone! An economist who can read real books!"), I could not find a single reviewer who thought Piketty offered a satisfactory explanation for the inequality he so effectively charts.

Reviewers from the left—most forcefully Thomas Frank, David Harvey, and James K. Galbraith (who, following in the footsteps of his father John, wrote the best review of Piketty's book)—have convincingly shown that Piketty's inability to explain capital accumulation stems from his conceptual conventionality. In the end, he is still very much entrenched in the neoclassical mainstream. Rather than viewing capital accumulation and economic distribution as a struggle that is determined by the power relations between labor and capital, Piketty seems to assume that the rate of return on capital is a natural, inherent law of nature (roughly 4 or 5 percent per annum) that cannot be altered or challenged.

This explains why Piketty ends his book by recommending a global tax on wealth as the sole solution for rising inequality. Because Piketty does not address how capital is actually made or increased, all he can offer his readers is a solution that transfers wealth from the rich to the poor *after* it has already been accumulated. Piketty admits that this is a utopian, unrealistic solution since the 1 percent has the political clout to insure such a tax will never be enacted. Yet because he is skeptical of the notion that the actual process of capitalist accumulation could (or perhaps should) ever be structurally altered, this is the only proposal he can make. As Piketty explains in remarkably neoliberal terms, a global tax on wealth would be "ideal" since it "has the merit of preserving economic openness." In other words, it doesn't challenge the hegemony of corporate capitalism or unregulated markets.

Because Piketty does not see capital as a product of power relations, he apparently does not believe that the accumulation of capital can be contested in the workplace. The almost complete absence of labor from Piketty's narrative, both its organization or its exploitation, is stunning. On the next page is an eye-opening graph created by the historian Colin Gordon, which has taken Piketty's US inequality data and mapped it onto a second chart of union membership. Images like this offer not only a description of inequality but a possible cause (and hence a possible solution). There are dozens of complex graphs in Piketty's book, yet none look anything like this. Unions, it appears, have no place in his massive datasets. (Their conspicuous absence in *Capital* may be more a political choice than an ideological one—in an earlier book written twenty years ago, Piketty did acknowledge the role of unions in reducing inequality.)

Piketty's black-boxing of capital severely limits his range of options for reducing inequality. Rather than call for an ex-ante power struggle over the distribution of wealth, all he can propose is an ex-post tax and transfer. Rather than assume that the empowering of labor through the act of unionization might reduce r (and even



"The Arc of Inequality, 1917–2012" from *Growing Apart: A Political History of American Inequality* by Colin Gordon (Institute for Policy Studies, 2014), www.inequality.org.

raise g), Piketty follows the neoclassical logic of "human capital" and argues that the only force that can diminish inequality is "the diffusion of knowledge and investment in training and skills." This argument is doubly disappointing. First, like a good neoclassical economist, Piketty seems to be assuming that the determination of wages is completely separate from the setting of profits. Second, following in John Bates Clark's footsteps, Piketty appears to be equating labor productivity and wages, arguing that only an increase in the former can cause a rise in the latter.

Piketty's general approach to capital seems to conflict with his own historical narrative. One of the best parts of his book is when Piketty shows how certain postwar policies reduced inequality. We have already cited his argument regarding the nationalization of certain industries and resources. But Piketty also mentions, in passing, how rent control dampened real-estate prices (and hence capital) while debt defaults wiped out large swaths of bonded wealth. Yet rather than propose similar asset-reducing policies—or reprimand such asset-increasing moves as the Federal Reserve's quantitative easing—Piketty seems to be in agreement with mainstream economists that the market's "openness" must not be perturbed.

In the end, Piketty's book does not add up to much of an indictment of capitalist market relations. His only beef with capital appears to be that it grows too fast in proportion to the rest of the economy over time. Most of his moral anger is directed not at those who rake in enormous salaries but rather at those who live off their parents' stock options or real estate. He mostly critiques rentiers but not entrepreneurs, inherited fortunes but not extracted wealth, bondholders but not hedge-fund managers, "patrimonial" capitalism but not capitalism in general, rent-seeking but not profit-seeking, Paris Hilton but not Conrad Hilton.

The similarity to Henry George is quite stunning. Contrary to popular belief, George was no great critic of capitalist relations, wage labor, or market exchange. Were it not for a monopoly on land, George argued, American wage laborers would earn a fair return on their labor from their capitalist employers, as the relationship between these two classes was not an exploitative one. He had no problem with capitalist profit, which he thought to be inherently just and a reflection of productive investment. Distinguishing between productive capitalists and unproductive rentiers, George attacked only the unearned rent that emerged out of the natural scarcity of nature.

As the liberal-leaning reviews of Piketty's book make clear, his r>g explanation for the 1 percent's meteoric ascent since 1980 really takes the political sting out of his otherwise devastating datasets. Instead of sparking a debate on why unionization rates seem to decline in inverse proportion to inequality, why CEOs now earn two hundred fifty times more than their average employees, or whether or not we should rebuild the Glass-Steagall wall between investment and commercial banking, Piketty's r>g truism allows the likes of Larry Summers, Joe Stiglitz, and Paul Krugman to skirt questions of corporate power or labor exploitation and concentrate on technocratic arguments regarding the nature of r and g. What is more, Piketty's decision to focus mostly on rentiers and patrimonial capitalism appears to be only a partial explanation for rising inequality. In Piketty's story, inequality is mostly the product of capital gains, not discrepancies in wage income. Yet as Krugman and others have correctly pointed out, much of the increase in inequality today seems to be caused by the "super-salaries" of CEOs, hedge-fund managers, and other Wall Street financiers.

Piketty's arguments regarding inherited wealth are compelling and insightful. Yet the enormous emphasis that Piketty places on passive investors has allowed many businessmen and financial elites to deflect most of the criticisms regarding the skyrocketing inequality of the past half-century. In his own review of the book, Bill Gates rightly recognized that "for all of Piketty's data on historical trends, he does not give a full picture of how wealth is created and how it decays." He then says this:

> Imagine three types of wealthy people. One guy is putting his capital into building his business. Then there's a woman who's giving most of her wealth to charity. A third person is mostly consuming, spending a lot of money on things like a yacht and plane. While it's true that the wealth of all three people is contributing to inequality, I would argue that the first two are delivering more value to society than the third. I wish Piketty had made this distinction, because it has important policy implications, which I'll get to below.
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> More important, I believe Piketty's r>g analysis doesn't account for powerful forces that counteract the accumulation of wealth from one generation to the next. I fully agree that we don't want to live in an aristocratic society in which already-wealthy families get richer simply by sitting on their laurels and collecting what Piketty calls "rentier income"—that is, the returns people earn when they let others use their money, land, or other property. But I don't think America is anything close to that.
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> Take a look at the Forbes 400 list of the wealthiest Americans. About half the people on the list are entrepreneurs whose

> companies did very well (thanks to hard work as well as a lot of luck). Contrary to Piketty's rentier hypothesis, I don't see anyone on the list whose ancestors bought a great parcel of land in 1780 and have been accumulating family wealth by collecting rents ever since. In America, that old money is long gone—through instability, inflation, taxes, philanthropy, and spending.

Gates's focus on *Forbes*'s (empirically unreliable) 400 is not convincing, in part because the 1 percent consists of three million people, not four hundred. Nevertheless, the shift in discourse is clear. Rather than forcing the likes of Bill Gates to come to terms with the inequities of corporate capitalism, Piketty maneuvers himself right into their Horatio Alger wheelhouse, where they can ruminate about the differences between lavish spenders, unproductive heirs, and prudent wealth-producers.

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We do not know, of course, what Karl Marx would have made of a book that borrows the title of his greatest intellectual achievement. But we do know what Marx thought of Henry George. On 20 June 1881, Marx wrote to his socialist friend Friedrich Sorge in Hoboken. By this time, George's book had become an international sensation. Marx thanked Sorge for sending him the book but replied that he had already received two copies from other enthusiasts. Marx then went on to tear George apart. Criticizing George's reliance on classical economists as well as his belief that capital gains did not necessarily come at the expense of waged labor, Marx declared "theoretically the man is utterly backward! He understands nothing about the nature of surplus value and so wanders about in speculations which follow the English model." Arguing that George's book did not explore how market forces create inequality through capital-labor relations, he remarked that the text was bourgeois in its outlook and a "frank expression of the hatred which the industrial capitalist dedicates to the landed proprietor, who seems to him a useless and superfluous element in the general total of bourgeois production." George and his followers weren't criticizing capitalist entrepreneurs or the exploitative labor market, Marx recognized, only rentiers. This made him mad:

> All these "socialists"...have this much in common that they leave wage labor and therefore capitalist production in existence and try to bamboozle themselves or the world into believing that if ground rent were transformed into a state tax all the evils of capitalist production would disappear of themselves. The whole thing is therefore simply an attempt, decked out with socialism, to save capitalist domination and indeed to establish it afresh on an even wider basis than its present one....And it is the more unpardonable in [Henry George] because he ought to have put the question to himself in just the opposite way: how did it happen that in the United States, where relatively, that is, in comparison with civilized Europe, the land was accessible to the great mass of the people and to a certain degree (again relatively) still is, a capitalist economy and the corresponding enslavement of the working class have developed more rapidly and shamelessly than in any other country?

Yet despite this scathing critique, Marx did find in George's work not only poverty, but great progress. Commending him for being a gifted writer with "a talent for Yankee advertisement," Marx was willing to admit to Sorge that George's book, "like the sensation it has made with you, is significant because it is a first, if unsuccessful attempt, at emancipation from the orthodox political economy."

Marx's critique is overly harsh, but his general argument feels as applicable to Piketty in 2015 as it was to Henry George in 1881. Shining a light on the inequities of modern capitalism, Piketty's empirical data has managed to disrupt economic orthodoxy in constructive and fruitful ways. To reintroduce inequality to mainstream economic discourse is an enormous achievement, and Piketty deserves much of the credit. But his superficial explanations as to why we are living in a second Gilded Age and his almost complete disregard for the massive power asymmetries that exist between labor and capital or Main Street and Wall Street simply will not do.