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Against Hardt & Negri
'Multitude' or 'Generalized Proletarianization'?

SAMIR AMIN

Thomas Piketty & the Crisis of Neoclassical Economics

JOHN BELLAMY FOSTER & MICHAEL D. YATES

'Welcome to post feminism and the left is obsolete'
A poem by MARGE PIERCY

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Piketty and the Crisis of Neoclassical Economics

By John Bellamy Foster and Michael D. Yates
November 1, 2014

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Not since the Great Depression of the 1930s has it been so apparent that the core capitalist economies are experiencing secular stagnation, characterized by slow growth, rising unemployment and underemployment, and idle productive capacity. Consequently, mainstream economics is finally beginning to recognize the economic stagnation tendency that has long been a focus in these pages, although it has yet to develop a coherent analysis of the phenomenon.1 Accompanying the long-term decline in the growth trend has been an extraordinary increase in economic inequality, which one of us labeled "The Great Inequality," and which has recently been dramatized by the publication of French economist Thomas Piketty's *Capital in the Twenty-First Century*.2 Taken together, these two realities of deepening stagnation and growing inequality have created a severe crisis for orthodox (or neoclassical) economics.

To understand the nature of this crisis of received economics it is necessary to look at the two principal bulwarks of neoclassical theory, which were originally erected in response to socialist critics. The first is the notion that a freely competitive capitalist economy left to itself generates full employment, indicating that unemployment is the product of various frictions, imperfections, or government interference. The second is the related proposition that income and wealth inequality are determined by the "marginal productivity" (or relative contributions to output) of the various factors of production, chiefly capital and labor—a logic that is extended to the contributions of individuals themselves. The renowned post-Second World War national income statistician, Simon Kuznets, in his famous Kuznets Curve, even argued that there was a tendency in developed capitalist economies towards a decrease in inequality, due to the effects of modernization, including enhanced educational opportunities.3

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Contrast these propositions to the reality of the mature capitalist economies today. Far from a full-employment equilibrium, what we see rather is a long-term tendency to economic stagnation. Moreover, this reality describes all of the developed capitalist economies and can be seen in a trend going back forty years, or indeed longer.4 Over roughly the same period, income and wealth levels, rather than converging, have diverged sharply—a divergence that cannot be attributed to differences in education and skill, nor to the contributions of capital relative to labor.5 In short, both of the principal justifications for the system provided by neoclassical economics have collapsed before our eyes.6

The first of these fissures in the outlook of neoclassical economics is long-standing and well known. During the Great Depression, unemployment in the United States rose at its height in 1933 to 25 percent. It was in this context that John Maynard Keynes, the intellectual heir to Alfred Marshall at Cambridge University, and hence one of the principal figures in neoclassical economics, broke partially with the economic orthodoxy with the publication of his magnum opus, *The General Theory of Employment, Interest and Money* in 1936. Keynes sent mainstream economics into a tailspin by attacking (as had Marx earlier) the notion of Say's Law of classical economics, which postulated that supply creates its own demand.7 He thus engaged in a frontal assault on the notion that full-employment equilibrium was an inherent tendency of the system. Instead Keynes contended, "When effective demand is deficient there is under-employment of labour in the sense that there are men who are unemployed who would be willing to work at less than the existing real wage."8 Nor was this an unusual circumstance under capitalism; mass underemployment in this sense was the normal condition in rich capitalist economies. As John Kenneth Galbraith summed up Keynes's heresy in *The Age of Uncertainty*:

> Keynes's basic conclusion can…be put very directly. Previously it had been held that the economic system, any capitalist system, found its equilibrium at full employment. Left to itself, it was thus that it came to rest. Idle men and idle plant were an aberration, a wholly temporary failing. Keynes showed that the modern economy could as well find its equilibrium with continuing, serious underemployment. Its perfectly normal tendency was to what economists have since come to call an underemployment equilibrium.9

Keynes was convinced that the capitalist economy tended towards stagnation, a phenomenon that he explained in terms of a decline in the marginal efficiency of capital (expected profits on new investment). He did not, however, present a coherent explanation of stagnation in *The General*

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Theory but contented himself with pointing to a waning in "the growth of population and of invention, the opening-up of new lands, the state of confidence and the frequency of war"—all of which had constituted historical factors stimulating capitalism in the past.10 These were the factors that Alvin Hansen, Keynes's leading early follower in the United States, primarily focused on in his *Full Recovery or Stagnation?* and other works, delineating a theory of "secular stagnation."11

Later, a more developed analysis of stagnation, focusing in particular on the growth of monopoly capital (but also taking into account other conditions of capitalist maturity) was to emerge in the work of Michał Kalecki, and, in particular, in Josef Steindl's *Maturity and Stagnation in American Capitalism* (1952), which built on Kalecki. Paul Baran and Paul Sweezy's *Monopoly Capital* (1966) constituted an attempt to extend this analysis to the entire social and economic system of capitalism and to bring out its connection to the Marxian critique. Later Harry Magdoff and Paul Sweezy were to connect stagnation to financialization, most notably in *Stagnation and the Financial Explosion* (1987).12

Today we see a reemergence of notions of secular stagnation in neoclassical economics, beginning with Lawrence Summers's resurrection of the idea in a 2013 speech to an IMF forum.13 But it remains divorced from the rich historical tradition that emerged within Marxian theory (and even from Hansen's historically based analysis, rooted in Keynes)—thus offering little in the way of a real explanation.14 Nevertheless, the notion that the capitalist economy tends towards full employment—or that macroeconomic techniques inherited from Keynes effectively produce the same result, as Paul Samuelson (Summers's uncle) famously argued in the so-called "neoclassical synthesis"—has no legs left to stand on, owing its continuing presence entirely to the ideological function of neoclassical economics.

The second main justification of the system provided by neoclassical economics—the notion that capitalism promotes a kind of equality, at least in terms of the determination of earnings by the marginal productivity of factors (and individuals)—has shown itself to be just as false. As this has become more apparent neoclassical economists have sought to declare the whole issue out of bounds. Martin Feldstein, chairman of the Council of Economic Advisors under President Reagan, replied to critics of the Robin Hood-in-reverse policies of Reaganomics by stating, "Why there has been increasing inequality in this country is one of the big puzzles in our field and has absorbed a lot of intellectual effort. But if you ask me whether we should

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worry about the fact that some people on Wall Street and basketball players are making a lot of money, I say no."15 Likewise Robert Lucas, Jr. of the University of Chicago, the most influential macroeconomist of his day, was merely stating the dominant view of the profession and of the establishment as a whole when he opened in 2004, "Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of [income] distribution."16

Feldstein's and Lucas's sharp dismissals of any concern over income and wealth distribution reflected the mainstream economic view that inequality is benign precisely because it can be attributed to different levels of marginal productivity and the corresponding different education and skill sets. In this accounting, a person's income is simply a function of his or her productivity and willingness to work. People are poor because they are not very productive or because they have a weak attachment to the labor force as a result of their own choices. Productivity is driven in the main by the willingness of individuals to invest in their "human capital," and the most important type of such investment is education. Attachment to the labor force depends on "leisure preferences" of individuals. This refers to the relative weight potential workers place upon the utility they will gain by buying the goods and services that an increase in income makes possible—while factoring in, through a benefit and cost calculus, the happiness they could have by not working, by choosing more free time. Thus those with high incomes are presumed to have invested in their human capital and have low leisure preferences, while for the poor the opposite is true.

Modern technology, in this view, has only made human capital more important. Many people have been left behind in the race to the top of the income distribution because they do not possess the knowledge that modern technology requires. Most mainstream economists do say that appropriate public policies could help reduce inequality, by, for example, making it easier for those without means to attend college. However, it would be dangerous, we are told, to reduce inequality too much—for example, through free higher education for all—because then individuals would not have an incentive to work hard and be productive. This would be to the detriment of the capacity of the economy to grow and thus to provide the extra income needed to distribute to those at the bottom. Equality is therefore self-defeating.

The Mad Hatter logic of neoclassical economics can actually be used to demonstrate that in perfectly competitive markets there can be no wage and salary inequality at all!17 Consider a woman making a career decision.

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Assume, as does the neoclassical economist, that she has complete knowledge of the wages and benefits associated with every occupation she is considering entering. She also knows the costs of the education and training necessary for employment in each occupation, as well as the income she will lose by not working while she is getting this schooling and training. Any particular negative aspects of an occupation, such as physical danger, are also known, as are their costs. What should she do? She will weigh the benefits against the costs of each occupation and pick the one for which the net benefits are highest.

Implicit in this scenario is a wage for each occupation that at least covers the cost of entering it. Competition in the marketplace will, in fact, make the wage just equal to the entry cost. An occupation with a wage higher than the entry cost will attract new applicants; this will put downward pressure on the wage and upward pressure on the costs (as more people demand schooling and training); and eventually, the above average wage-cost difference will disappear. Remarkably, this theory shows that, while some workers earn higher wages than others, these higher wages simply reflect higher entry costs. A doctor is therefore not really better off than a motel room cleaner; in terms of wages minus costs, they are in exactly the same position. Voilà! At least as far as labor income is concerned, there can be no inequality.

Enter the real world. The Great Financial Crisis of 2007–2009 and the Occupy Wall Street uprising punctured this neoclassical fairy tale. The Occupy movement pinpointed the growing division between the 1% and the 99%—achieving in a very short time a transformation in public consciousness on inequality that radical political economists had sought to effect for decades. The press began to draw more frequently on data showing skyrocketing income and wealth inequality that had long been available but had been relegated to the status of a dirty little secret of the capitalist economy.18 For decades researchers had been compiling sophisticated statistical portraits in this area. Now due to Occupy and the sheer outrage of the population, it all began to come out into the open. Especially notable in this respect were the contributions of New York University economist Edward N. Wolff, a leading authority on wealth distribution; the Economic Policy Institute, which publishes *The State of Working America*; Branko Milanovic, a heterodox economist employed by the World Bank's research division; and James K. Galbraith, a prominent institutionalist economist and analyst of inequality in pay.19

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Yet, the big change on the data front, making it impossible to deny any longer the extent of the growth of inequality in all of the mature economies was the development, over the last decade and a half, beginning with the early work of Piketty, of the World Top Incomes Database (commonly referred to as the Top Incomes Database). The result of a major international project, involving some thirty researchers, this database primarily uses income tax data, focusing on most of the mature capitalist economies.20 The leading researchers for the U.S. case were Piketty himself, located at the Paris School of Economics, and Emmanuel Saez, a professor of economics at the University of California, Berkeley. The Top Incomes Database is the single largest historical database on long-term inequality currently in existence, covering countries in Europe and North America, but also a sampling of countries in Asia, Africa, and Latin America.

The publication by Harvard University Press in 2014 of *Capital in the Twenty-First Century* by Piketty, using the Top Incomes Database to explain the dynamics of growing inequality at the center of the capitalist world, was therefore bound to draw extraordinary attention in the economic world. For Piketty is no ordinary economist. He is at one and the same time a dissenter and a representative of the higher circle of the economics establishment. Although he served for a few months in 2007 as the economic adviser to Ségolène Royal in her campaign as the Socialist Party nominee for president of France—she lost to Nicolas Sarkozy—Piketty is no Marxist, or even an institutionalist or post-Keynesian political economist, in whose work one could expect to find an analysis centering on inequality. Rather, he is a highly credentialed member of the neoclassical economics elite. Thus, when he presented a theoretical perspective that challenged the primary approach to questions of income and wealth distribution previously held to by almost all neoclassical economists, the result was explosive. Suddenly there was a work on growing inequality that had the imprimatur of the establishment (backed by prestigious publications in the *Quarterly Journal of Economics, American Economic Review* and the *Journal of Economics Literature*), and could not be easily dismissed *ad hominem*as the work of a "non-scientific" heterodox economist. If not exactly a revolution against neoclassical economics, the contents of his book had all the looks of a palace coup. And remarkably too, Piketty had a gift of expression and breadth of knowledge unusual in economists, allowing him to draw on Jane Austen and Honoré de Balzac as much as Adam Smith and Karl Marx. Within a short time the book reached number one on Amazon, surely an unprecedented achievement for the author of a data-filled economics book of 685 pages.

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For most readers it was not the fine details of Piketty's analysis that were so interesting but rather the overall conclusions dramatically highlighted in the very beginning of the book.21 Here he made it clear he was challenging head-on some of the core assumptions of orthodox economics—though from inside rather than outside of the neoclassical perspective. It was this divorce of his analysis from the main ideological propositions of received economics—the sense of letting the numbers speak for themselves—that gave Piketty's work the feeling of a disinterested inquiry after the truth rather than what Marx called "the bad conscience and evil intent of apologetics" that has so long dominated orthodox economics.22

Most importantly, Piketty concluded in what will undoubtedly be his single most enduring contribution, that "There is no natural, spontaneous process to prevent destabilizing, inegalitarian forces from prevailing permanently" in a capitalist economy. This can be seen as the critical counterpart (within the realm of distribution) to Keynes's break with Say's Law, or the notion of a natural tendency in capitalism to a full-employment equilibrium. Not only does Piketty point out that Kuznets's assumption of growing equality in developed capitalist economies is wrong, but he argues that the standard neoclassical human-capital argument of equality-cum-meritocracy—wherein deviations from equality are simply due to attributes such as greater skill, knowledge, or productivity—is equally false in the real-world economy.23

This is shown by his now famous formula r > g, where r stands for the annual rate of return to wealth—referred to by Piketty as capital—and g for the growth rate of the economy (the rate of increase in national income). Wealth in slow-growing capitalist economies (below 1.5 percent per capita), which Piketty takes as the normal case, expands more rapidly than income—a phenomenon no doubt heightened in our financialized age.24 He argues that the higher rate of per capita growth in the first quarter century after the Second World War, when the per-capita growth rate in the United States was about 1.9 percent, was exceptional, and that we are seeing—for one reason or another—a return to the norm of much lower growth (1.2 percent or even 1 percent per capita), which he calls at one point a "low-growth regime." (This applies to all of the mature economies on the "technological frontier"—but not to economies now experiencing catch up such as China.)25

Relatively slow growth—what we would term stagnation—thus provides the background condition for Piketty's r > g, practically ensuring that wealth at the top of society will become ever more concentrated, while the main wealth-holders accrue their wealth not so much because of *what they do* but

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because of *where they are placed* in the social-class hierarchy. Indeed, capitalism in its normal case, Piketty tells us, promotes patrimonial dynasties. "Liliane Bettencourt," the heiress to the French cosmetic giant L'Oréal, "who never worked a day in her life, saw her fortune grow exactly as fast as that of Bill Gates, the high-tech pioneer, whose wealth has incidentally continued to grow just as rapidly since he stopped working."26

Piketty thus drives a critical wedge into the traditional justification of the system, according to which income and wealth shares are determined by the marginal productivity of the various factors of production (thought to be applicable to individual contributions as well). To understand the full significance of this, it is useful to quote from the 2012 book *The Price of Inequality*by economist Joseph Stiglitz. According to Stiglitz, with the rise of capitalism,

> it became imperative to find new justifications for inequality, especially as critics of the system, like Marx, talked about exploitation.

The theory that came to dominate, beginning in the second half the nineteenth century—and still does—was called "marginal productivity theory"; those with higher productivities earned higher incomes that reflected their greater contributions to society. Competitive markets, working through the laws of supply and demand, determine the value of each individual's contributions.27

Piketty's argument and his data make a mockery of this core neoclassical economic thesis. But Piketty advances such an argument without breaking completely with the architecture of neoclassical economics. His theory thus suffers from the same kind of internal incoherence and incompleteness as that of Keynes, whose break with neoclassical economics was also partial. Deeply concerned with issues of inequality, just as Keynes was with unemployment, Piketty demonstrates the empirical inapplicability over the course of capitalist development of the main conclusions of neoclassical marginal productivity theory. His work has thus served to highlight the near-complete unraveling of orthodox economics—even while staying analytically within the fold.28

This overall incoherence, as we shall see, ultimately overwhelms Piketty's argument. He is unable to explain why capitalist economies tend to grow so slowly as to generate such a divergence between wealth and income (and between capital and labor). Hence, while his analysis sees slow growth or relative stagnation as endemic to this system, he neither explains this nor is concerned directly with it. Significantly, he replaces more traditional notions of capital as a social and physical phenomenon with one that equates it with

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all wealth.29 As a result the accumulation of capital in his analysis means no more than the amassing of wealth of whatever kind, from plant and machinery to financial assets to jewelry, thereby confusing the whole issue of capital accumulation.30 Nor does he address the relations of power—principally class power—that lie behind the inequality that he delineates. His analysis is confined largely to distribution rather than production. He neither follows nor (by his own admission) understands Marx, though at times clearly draws inspiration from him.31 The question of monopoly capital is entirely missing from his study, which, as he says, does not include imperfect competition as a factor in generating inequality.32

But even with these and other deficiencies, Piketty, nevertheless, brings a certain degree of reality—even a sense of "class warfare" (if only implicitly)—back to bourgeois economics. The result is to heighten the crisis of neoclassical theory. Moreover, he argues—even though he dismisses the idea as "utopian"—for the imposition of a tax on wealth.33 Piketty thus represents a partial revolt within the inner chambers of the economics establishment.

Not surprisingly, given the extraordinary attention given to *Capital in the Twenty-First Century* and the breech in the wall of the neoclassical orthodoxy it represents, the *Wall Street Journal* sought to counterattack in May 2014, with an op-ed by none other than Feldstein. Reagan's former economic advisor predictably condemned "the confiscatory taxes on income and wealth that Mr. Piketty recommends," declaring that "the problem with the distribution of income in this country is not that some people earn high incomes because of skill, training or luck" but rather that a small minority has fallen below the poverty line.34However, Feldstein misses the mark completely. Piketty's point is that skill and training *cannot* explain the gross inequality that has arisen in U.S. society, which is disproportionately weighted toward inherited wealth and CEO mega-salaries, and that while some do get vastly higher incomes by the "luck" of having been born with silver spoons in their mouths, they can hardly be said to have "earned" them.

Increasing Inequality: A Law of Capitalism

Prior to the publication of Piketty's book, Piketty and Saez used Internal Revenue Service data to track U.S. income inequality from 1913 to 2010. These data show that the rise in inequality, as measured by the share of income going to the top 1 percent of "tax units" (not exactly comparable to families or households), is much greater in the United States than in any other rich

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capitalist country, although the United Kingdom is not far behind. Income inequality in the United States has not been this high since the early Roaring Twenties depicted in F. Scott Fitzgerald's *The Great Gatsby*. The richest 1 percent now takes home more than 20 percent of the nation's entire income, up from about 9 percent in the 1970s. In addition, the top 1 percent of income recipients has seized most of the past few decades' gains in income. Of the increase in total household income from 1977 to 2007, the richest 1 percent got almost 60 percent, and the richest 0.1 percent (the top one-thousandth—in 2010, those earning more than $1.5 million a year) garnered roughly half of that. By comparison, the poorest 90 percent saw their income grow by "less than 0.5 percent per year."35

Expanding upon these earlier conclusions, Piketty in *Capital in the Twenty-First Century* elucidates four key findings. First, similar trends, though less marked than in the United States, are found in almost every part of the globe. Second, in the United States, a major factor in this trend is the rise of an elite of "super managers," top officials of the largest corporations who take home enormous salaries and have so much power that they can literally set their own pay.36

Third, Piketty stresses that the richest 1 percent enjoyed similar distance from the rest of us throughout most of capitalism's history. The only period in which the capital-income ratio becomes more equal and the dominance of inherited wealth diminishes in the rich countries as a whole is that between the beginning of the First World War in 1914 and the mid-1970s. This was a truly exceptional time, marked by "shocks" to the system: two catastrophic wars, the Bolshevik Revolution, the Great Depression, and the rise of the social welfare state after the Second World War. Heavy taxes were placed on top incomes, fortunes were lost in both the wars and the Depression, and working-class movements arose and forced higher wages, benefits, and social insurance from employers and governments—both of which were willing to make concessions if only to avoid a deeper radicalization of the working class. However, once elites regained their bearings, capitalism began to return to the norm of growing inequality.37

Fourth, during the sixty-odd years of expanding equality, a substantial "middle" class arose—professionals, civil servants, and unionized workers—which, while not wealthy, had enough income to live well above subsistence and to accumulate a certain amount of wealth, mainly in the form of housing. The rise of this intermediate "petty patrimonial" propertied class of home owners, he argues, has had profound effects on the political trajectory of the

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rich nations, because there is now a sizeable portion of society outside the upper class intent on maintaining the value of their wealth and increasing it if possible.38

Most individuals earn income by working. However, very substantial incomes derive from ownership of wealth. What is more, certain types of wealth, such as stocks, bonds, and other financial instruments, represent control over the commanding heights of the economy and government. If these are divided in an unequal manner, then so is the power that flows from their ownership. The data show with great clarity that the distribution of wealth is extraordinarily unequal and likely to become more so. Edward Wolff has pioneered the study of wealth data in the United States. In his most recent paper, he finds that the average (mean) net worth of the wealthiest 1 percent in 2010 was $16.4 million. By contrast the average for the least wealthy 40 percent was $–10,600 (that is, it was negative!).39 For various asset classes, the share owned by the top 1 percent is even more astonishing:

Asset Class	Share of Top 1% in 2010
Stocks & Mutual Funds	48.8%
Financial Securities	64.4%
Trusts	38.0%
Business Equity	61.4%
Non-home Real Estate	35.5%

Source: Edward N. Wolff, "The Asset Price Meltdown and the Wealth of the Middle Class," NBER Working Paper Series, Working Paper 18559, 2012, http:/nber.org/papers/w18559.pdf, 57, Table 9.

Indeed, it is in wealth statistics that the real social divide stands out. Thus, as Piketty notes, the Federal Reserve Board in recent estimates, covering the years 2010–2011, indicated that the top 10 percent of wealth holders in the United States own 72 percent of the country's wealth, while the bottom half own only 2 percent.40 Meanwhile, there is much inequality even within the 1 percent. Sylvia Allegretto of the Economic Policy Institute tells us that in 2009, the mean net worth of the infamous "Forbes 400" (the four hundred wealthiest persons in the United States) was $3.2 billion; but the top wealth holder had a net worth fifteen times greater than the mean for the Forbes 400 as a whole, an increase from 8.6 times larger in 1982.41

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Piketty has a great deal to say about wealth, and his data are global in scope. He is interested mainly in the capital-income (wealth-income) ratio. As noted above, he uses capital and wealth interchangeably, which has led to deserved criticism by heterodox economists. His book is about the distribution of societal output and the wealth of everyone, but especially those who own the nonhuman means of production used to produce this output. The title of the book suggests a connection to the most famous book about capital, Marx's *Capital*. However, Marx's conception of capital and Piketty's conception could not be more unalike. Piketty has no notion of capital as an exploitative social relationship. Instead, for him capital has an existence simply as private wealth (he does write about public capital, but this is an insignificant component of total social wealth). By, in effect, objectifying capital, considering it apart from the social relationship embedded within it, he marks himself well within the economic mainstream. Wealth, in his view, can generate income whether it is in the form of shares of stock in the largest corporations, a small apartment building, or a government bond. And wealth of any kind can provide enormous benefits to its owners.

Piketty thinks about wealth in terms of the number of years' worth of income it represents. If for example, you have wealth equal to $100,000 and your annual income is $25,000, then your wealth equals four years of income. Your capital-income (or wealth-income) ratio is four. He does this for countries, using the data that he and his associates have painstakingly accumulated over many years of examining tax and various other public records. He looks at short-term fluctuations in the capital-income ratio (which he designates as β) and notes that these are considerable. For example, the boom in Japanese real estate and stock prices in the 1980s caused the ratio to rise, and the collapse of these bubbles made it fall precipitously.

However, what he is really interested in is the long-run trend in the ratio. He shows that throughout the eighteenth and nineteenth centuries, and right up until the First World War, wealth in most rich nations equaled six to seven years of national income. In the United States it was the equivalent of only about four to five years of income, for reasons that we will look at shortly. Then, over the next thirty years, the shocks of two world wars and the Great Depression caused a marked decline in the wealth-income multiple, to about two to four years.42 The causes were the destruction of physical capital, the loss of foreign holdings, and heavy taxes on the rich. In some nations, notably in Europe, much private enterprise was nationalized after the Second World War and progressive taxation funded social welfare programs, and these factors helped keep the wealth-income ratio low. However, beginning in the

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mid–1970s, capital made a remarkable comeback, and the ratio began to climb, and is now approaching the level that existed at the start of the First World War. Public capital has been privatized and political regimes throughout the world have been very well disposed toward the interests of wealth-holders.43

If we abstract from the special periods of wars, depression, and the social welfare state, what explains long-term trends in the capital-income ratio? Piketty outlines in Chapter 5 ("The Capital/Income Ratio Over the Long Run") what he calls a "law of capitalism," namely that over the long run, the capital-income ratio tends toward the quotient of the rate of saving and the rate of growth of the economy: $\beta = s / g$. As he explains in the book (and more clearly in a technical appendix to the book available online), this formula is the "steady-state" condition for a simple neoclassical growth model, such as the one developed by economist Robert Solow.44 It is significant that he chose a neoclassical growth model, one that has embedded in it very definite and not universally accepted assumptions about how the macroeconomy works, and one which assumes, for example, that there are such things as the marginal productivities of labor and of capital, and that capital and labor are reasonable substitutes for each other.45

Still, Piketty's "law" has a certain intuitive appeal. The "weight" of "capital," aka wealth (in terms, say, of its owners' potential power), will be greater, other things equal, the lower an economy's growth rate and the higher its rate of saving. Piketty finds that in the rich capitalist countries, the trend has been, and will most likely continue to be, toward relatively low growth rates and high savings rates (or, in Marxian terms, a high rate of surplus generation). This tells us that the capital-income (i.e., wealth-income) ratio will continue to rise, perhaps to levels never before seen. Low growth rates, he contends, will be the consequence mainly of low population growth rates, accentuated by low rates of technological change.46

As noted, Piketty takes into account the "catching up" achieved by countries such as China and India. He makes the point that nations with rapidly growing populations and high economic growth will be ones in which wealth accumulated in the past will not have as great an impact on how those societies operate as those in which these two types of growth are low.47 In the United States, for example, immigrants have arrived in very large numbers without much wealth, and they have had to rely upon current labor and income generation to accumulate capital. In dynamic economies, there is

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a churning within the wealth and income distributions, meaning that the capital-income ratio will be lower than in those where this is not true.

Piketty uses his formula $\beta = s / g$, along with an equation that defines capital's share of national income, $\alpha = r\beta$ (where r = the rate of return on capital and, as we have seen, β = the capital-income ratio) to show what will happen to the share of capital over time. A simple substitution yields $\alpha = r (s / g)$. From this, he derives his famous inequality: $r > g$.48 If the rate of return on capital r is greater than the growth rate of the economy g, then capital's share of income will rise. Piketty shows that over very long periods of time, r has in fact been greater than g; in fact, this is the normal state of affairs in capitalist economies. Only during the long crisis, brought on by war and depression and the aftermath when social welfare policies helped keep r low and g high, was this not the case. And even as the capital-income ratio has risen, the fact that economies have become more capital intensive has not exerted enough downward pressure on r to push capital's income share lower. Nor will increasingly "perfect" capital markets, brought on by rapid globalization, force r lower; in fact, the growing sophistication of financial instruments and money managers, along with the desire of poorer nations to attract capital, will keep r high. If, as Piketty thinks likely, g grows very slowly in the future, we are in for a steady rise in capital's share of income and a steady fall in labor's share. Increasing polarization of society, in terms of the two main social actors, workers and owners of capital, is a very likely prospect.

To make matters worse, those with the largest amounts of capital (wealth) almost always get a higher rate of return on their wealth than do those with lesser amounts. Piketty gives a telling example of this by looking at the returns garnered by the endowments of U.S. colleges and universities. He finds that there is a direct and significant correlation between the size of the endowment and the rate of return on it. Between 1980 and 2010, institutions with endowments of less than $100 million received a return of 6.2 percent, while those with riches of $1 billion and over got 8.8 percent. At the top of the heap were Harvard, Princeton, and Yale, which "earned" an average return of 10.2 percent.49 Needless to say, when those already extraordinarily rich can obtain a higher return on their money than everyone else, their separation from the rest becomes that much greater.

The research of Piketty, his associates, Wolff, and many others tells us without a doubt that income and wealth have become grotesquely unequal and are on a trajectory to become still more so. The implications of this are

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dire, exacerbating all manner of economic, social, environmental, and political problems. There is no way, for example, that it is possible now to say that we have anything even remotely resembling democracy in the United States, and for that matter, in any capitalist country. Rather plutocracy is now the dominant political form.

One thing we can say with certainty is that neoclassical economics does not have a viable theory of inequality, any more than it has a viable theory of unemployment. As we have emphasized throughout this article, received economics says that wages depend on worker productivity, meaning that as productivity rises, so will wages. If workers become more productive by, for example, investing in their "human capital" (getting more schooling, training, etc.), they will then add more to the employers' revenues than existing wage rates add to costs. This increase in employer profits at current wages will supposedly cause employers to raise the demand for employees, pushing wages up.

Reality could not be more different than what neoclassical theory leads one to expect. In the United States, real weekly earnings for all workers have actually declined since the 1970s and are now more than 10 percent below their level of four decades ago. This reflects both the stagnation of wages and the growth of part-time employment.50 Even when considering real median family income that includes many two-earner households there has been a decrease of around 9 percent from 1999 to 2012.51

Indeed, the data show that while output per worker has risen considerably over the past forty years, wages have fallen far behind. Perhaps the most startling comparison is between wage and productivity gains. In a recent paper, Economic Policy Institute economist Elise Gould found that "Between 1979 and 2013, productivity grew 64.9 percent, while hourly compensation of production and nonsupervisory workers, who comprise over 80 percent of the private-sector workforce, grew just 8.0 percent. Productivity thus grew eight times faster than typical worker compensation." This means that the gains from productivity went to capital and workers at the top of the wage scale. She also discovered that:

> Between 1979 and 2007, more than 90 percent of American households saw their incomes grow more slowly than average income growth (which was pulled up by extraordinarily fast growth at the top).

By 2007, the growing wedge between economy-wide average income growth and income growth of the broad middle class (households between the 20th and 80th percentiles [where most production and nonsupervisory workers

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reside]) reduced middle-class incomes by nearly $18,000 annually. In other words, if inequality had not risen between 1979 and 2007, middle-class incomes would have been nearly $18,000 higher in 2007.52

A 2013 report by the Federal Reserve Board of San Francisco showed that once the top 1 percent of wage and salary recipients are removed from the total, the labor share of overall national income plummets: "by 2010 the labor share of [income of] the bottom 99 percent of taxpayers had fallen to approximately 50 percent from just above 60 percent prior to the 1980s."53Neoclassical economics is completely incapable of explaining this sharp decline in the workers' share of national income.

The Monopoly of Power

Piketty's work raises the question of growing class inequality in a statistical sense without explicitly addressing either the roots of this or the question of growing class power. His work thus remains within the bounds of establishment discourse—though serving to shake up the ruling ideology with its revelations. He uses the term "upper class" for the top 10 percent of income recipients and the term "dominant class" for the top 1 percent (all those in the upper class who are not in the dominant class are referred to as the "well-to-do"). In the United States, with a total population of some 320 million—of which 260 million are adults—the top 1 percent is of considerable size: 2.6 million adults. The dominant class tends to congregate in a relatively few cities, to be concentrated in given neighborhoods, and to exercise "a prominent place in the social landscape."54

A dramatic illustration of what Piketty means when he refers to the divergence in the social (and cultural) landscape appeared in the *New York Times* in August 2014, under the title "In One America, Guns and Diet. In the Other, Cameras and 'Zoolander': Inequality and Web Search Trends." Those geographical locations described as "harder places to live," associated with the lowest levels of educational attainment, household income, and life expectancy and the highest levels of unemployment, disability, and obesity were strongly correlated with Web searches for things like "free diabetic," "antichrist," ".38 revolver," "ways to lower blood pressure," "SSI disability," and "social security checks." While areas described as "easier places to live," associated with the well-to-do or with the 1% itself, were strongly correlated with Internet searchers for "Canon Elph," "baby jogger," "baby massage," "Machu Picchu" (and other exotic locales), "ipad applications," "new nano,"

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and "dollar conversion." We are increasingly living in a world so polarized that much of the 99% have nothing in common with the 1%.55

Piketty recognizes that the "dominant class" in the sense of the 1 percent is not really dominant; it is only when you get to the top 0.1 percent, which owns about half of what the 1 percent owns, that you begin to get at the really dominant income/wealth of the society. Thus he notes that Occupy Wall Street was not altogether wrong in contrasting the 1% to the 99% or in declaring that "We are the 99 percent!" He compares this situation to that of the French Revolution arising from the revolt of the Third Estate.56

But how does this relate to issues of class struggle and class power? What are the consequences of these realities in terms of control of corporations, the economy, the state, the culture, and the media? Piketty, though making a few tantalizing allusions, tells us next to nothing about this. Although he does not entirely avoid terms such as "class struggle," he has very little to say about it. In fact, the nature of his analysis, which concentrates on statistical inequality and the relation between the growth of wealth and the growth of income, is far removed from the direct consideration of capital versus labor. His is an argument primarily about fairness and not social struggle—or even economic crisis/stagnation.

Piketty's failure to relate inequality to power is not, it should be stressed, a particular failure on his part, but rather a general fault of neoclassical economics, tied to its position of ideological hegemony. "The neglect of power in mainstream economics," as the heterodox Austrian economist Kurt Rothschild wrote in 2002, "has its main roots…in *deliberate* strategies to remove power questions to a subordinate position for inner-theoretic reasons," such as the search for mathematical models with a high degree of mathematical certainty. In this respect, the messy issues dealt with in such fields as sociology and political science (or for that matter political economy) are deliberately excluded, even at the expense of realism of analysis. Moreover, part of the attraction of such pure models and the state of mind that they generate is that they reflect "the ideological preference of powerful socio-economic groups for a neoclassical type of theory," which justifies the status quo by excluding all questions of power. As Rothschild pointedly put it: "Extremely formulated one could say that societal power promotes the study of models of powerless societies."57

It goes without saying that Piketty's acceptability to neoclassical economics is dependent on his avoidance of the question of *inequality and power*. Hence the contrast between his *Capital in the Twenty-First Century* and Marx's *Capital*, as

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we observed, could hardly be greater. Moreover, it is precisely because Piketty is discussing inequality divorced from power that his analysis is inevitably disjointed and cannot approach anything like a general theory. It is not the mere recognition of inequality in itself, but the wider perception of its promotion as part of a system of power that raises questions that are dangerous to the system. Hence, the real importance of Piketty's analysis only comes out when the implications are taken beyond what he himself, as a representative of orthodox economics, is willing or even able to address: issues of class power and monopoly power, and how these relate to overaccumulation, stagnation, and financialization.

Piketty starts with the fact that some individuals and groups of individuals arranged into percentages of the population have more income or wealth than others. He does not explain the origins of this or why, but he makes it clear that it is not simply a product of individual skill or productivity, as neoclassical economics has traditionally argued. In reality the basis of a capitalist society is the private monopoly of the capitalist class over the means of production, whereby the great majority of the population is relegated to a position in which it has nothing to sell but its labor power, i.e., its capacity to work. This sets up an extremely uneven power relationship, allowing the owners of the means of production to appropriate the greater part of the surplus produced. Far from being a description of society that pertained only to the nineteenth century, this, as Piketty helps us to understand, is probably a better description of our society today than at nearly any previous time in history. It is not difficult to discern who these owners of the means of production are: they are not so much the top 1 percent, as the top 0.1 percent of society (or even higher) in terms of income and wealth. In the United States a mere four hundred people, the Forbes 400, own approximately as much wealth as the bottom half of the population, or something like 130 million adults.58

Due to their power to appropriate the society's surplus, which takes the form of financial wealth, and has a rate of return that, as Piketty tells us, normally grows faster than the income of society as a whole, those in the dominant class become richer both absolutely and relatively, benefitting from the upward flow of value, which seldom trickles down. Over the years 1950 to 1970, for each additional dollar made by those in the bottom 90 percent of income earners, those in the top 0.01 percent received an additional $162. From 1990 to 2002, for every added dollar made by those in the bottom 90 percent, those in the uppermost 0.01 percent (around 14,000 households in 2006) garnered an additional $18,000.59

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Just as class power tends to concentrate, so does the power of the increasingly giant, oligopolistic firms which, in economic parlance, reap monopoly power, associated with barriers to entry into their industries and their ability to impose a greater price markup on prime production costs (primarily labor costs). The bigger firms, as Marx explained, tend to win out in the struggle over the smaller, while the modern credit system facilitates ever-larger mergers and takeovers, leading to the increased centralization of capital and a heightening of monopoly power.[60] In 2008, the top 200 U.S. corporations accounted for 30 percent of all gross profits in the economy, up from around 21 percent in 1950. At the same time the revenues of top 500 global corporations were equal to about 40 percent of world income.[61] Under these circumstances corporations, nationally and internationally, operate less as competitors than as—to borrow a term from the great conservative economist, Joseph Schumpeter—co-respecters.[62] In some sectors, such as Internet Service Providers, and communications in general, we are seeing the reappearance of cartels—with the state, if anything, supporting such developments.[63]

Writing for the *Wall Street Journal*, Peter Thiel, co-founder of PayPal, declared that "Capitalism is premised on the accumulation of capital, but under perfect competition, all profits get competed away…. Only one thing can allow a business to transcend the daily brute struggle for survival: monopoly profits…. Monopoly is the condition for every successful business." Indeed, this might even stand as the credo of today's generalized monopoly capital.[64]

The class power of capital in the widest sense—as powerfully argued by economist Eric Schutz in his 2011 work, *Inequality and Power: The Economics of Class*—extends to all spheres of society and penetrates increasingly into the state and to civil society in general (including the media, education, all forms of entertainment).[65] As Kalecki long ago pointed out, a labor party such as exists in many countries in Europe, even where it gains control of the government through popular election, is hardly likely to be in control of the state as a whole, much less the economy, finance, or media. It therefore remains subservient to those who retain the class power of capital, which controls production and through it the main organs of society.[66]

For Piketty himself there is no organic relation between the two main tendencies that he draws in *Capital in the Twenty-First Century*—the tendency for the rate of return on wealth to exceed the growth of income and the tendency toward slow growth. Nor is his analysis historical in a meaningful sense, which requires scrutiny of the changing nature of social-class relations.

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Increasing income and wealth inequality are not developments that he relates to mature capitalism and monopoly capital, but are simply treated as endemic to the system during most of its history.

In reality, however, capitalism matures as a system over the course of its history, as do its contradictions, which are an inescapable part of its being. Today the existence of inordinate class power coupled with ever-greater monopoly power (at both the national and global levels) are producing a more acute condition of overaccumulation at the top of society. This in turn weakens the inducement to invest, leading to a powerful tendency toward a slowdown in growth or stagnation. Under these conditions, as the system continues to seek outlets for its enormous actual and potential economic surplus, while at the same time enhancing the wealth of those at the top, it inevitably resorts to financial speculation. The result is what Summers has recently called "over-financialization," associated with massive increases in total (primarily private) debt in relation to national income, leading to financial bubbles, one after the other, which inevitably burst.67 This dialectical relation between stagnation and financialization constitutes the primary reality defining today's monopoly-finance capital.68

Here it is useful to recall that for Keynes the danger was not only one of secular stagnation but also the domination of the rentier. He thus called for the "euthanasia of the rentier, and consequently the euthanasia of the cumulative oppressive power of the capitalist to exploit the [artificial] scarcity-value of capital."69 In today's financialized capitalism, we face, as Piketty recognizes, what Keynes most feared: the triumph of the rentier.70 The "euthanasia of the cumulative oppressive power of the capitalist" is needed now more than ever. This cannot be accomplished by minor reforms, however—hence Piketty's advocacy of what he calls a "useful utopia," a massive tax on wealth.71

Yet, today we live in a world of *global monopoly-finance capital*: a system of class power, monopoly power, imperial power, and financial power. Just how unrealistic Piketty's "useful utopia" is as a mere reform program becomes immediately apparent once we look at the class dynamics of society. It is even more apparent when we move beyond a national to an international outlook. Piketty's data and analysis do not take him far beyond the rich countries, and hence he does not look at inequality in global North-South terms, much less recognize the reality of imperialism or a world ruled by global monopolies (multinational corporations). He therefore takes no account of the imperial transfer of value as a historical phenomenon or the consequences of this for

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the concentration of world capital. As Indian economist Prabhat Patnaik states in "Capitalism, Inequality, and Globalization":

> It is significant that imperialism plays no role in Piketty's analysis, neither in explaining the growth of wealth and wealth inequalities, nor even in the analysis of past growth, or prognostication of future growth. On the contrary the book is informed by a perception according to which capitalist growth in one region…is never at the expense of the people of another region, and tends to spread from one region to another, bringing about a general improvement in the human condition. What this perception misses is that capitalist growth in the metropolis was associated not just with the perpetuation of the pre-existing state of affairs in the periphery but with a very specific form of development, which we call "underdevelopment," which squeezed the people in an entirely new way. For instance, over the period spanning the last quarter of the nineteenth century and the first two of the twentieth (until independence), not only was there a decline in per capita real income in "British India," but also the death of millions of people owing to famines.72

In such an imperial system, carrying down to our day, a tax on capital—Piketty's one solution—would, as he realizes, have to be international in scope in order meaningfully to address issues of inequality and power. This then takes us inexorably to the question of a revolutionary reconstitution of society on a global level. Indeed, there is no real solution that does not require the worldwide transcendence of capital as a mode of production.

None of this of course is to deny that Piketty's wealth tax would be a good, strategic place to start in promoting a new radical social project, since it challenges "the divine right of capital."73 But this would require in turn a reorganization and revitalization of the class/social struggle, and in every corner of the globe. The goal must be a truly "utopian" struggle for a *society of all*; one that is of, by, and for the people—the 99%. Moreover, the 99% here must be understood as representing the dispossessed of the entire world, while recognizing their varying conditions. Today "members of the top percentile [among global wealth holders] are almost 2000 times richer" than the bottom 50 percent of world population.74 Issues of inequality must be seen as ubiquitous in today's capitalism, occurring at every level, the product of imperialism as well as class, race, and gender—none of which are addressed directly in Piketty's analysis.

Yet, despite the numerous gaps in Piketty's argument from the standpoint of existing power relations, *Capital in the Twenty-First Century* embodies positive messages for social struggle in our time, which it would be a grave mistake to

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overlook. Significant in this respect is that he chose as the epigraph of his book a line from the *Declaration of the Rights of Man and Citizen* from the French Revolution: "Social Distinctions can be based only on common utility."75 One could hardly pick a statement more opposed to the system in which we live, which seeks not the *common* but the *individual* utility. Indeed, Piketty's saving grace, we believe, is that he cares for "the least well off," beyond his own class. Although a social-democratic supporter of capitalism, he is also in many ways a critic of what he refers to as "the globalized patrimonial capitalism of the twenty-first century," calling for its radical "regulation."76 Coming from a neoclassical economist, this is little short of a revolutionary departure.

Notes

1. This is evident in recent mainstream discussions of what is called "secular" or long-term stagnation. For an analysis of this and recent trends see Fred Magdoff and John Bellamy Foster, "Stagnation and Financialization," *Monthly Review* 66, no. 1 (May 2014): 1–24.
2. Michael Yates, "The Great Inequality," *Monthly Review* 63, no. 10 (March 2012): 1–18; Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge: Harvard University Press, 2014).
3. Simon Kuznets, "Economic Growth and Income Inequality," *American Economic Review* 45, no. 1 (1955): 1–28.
4. See John Bellamy Foster and Robert W. McChesney, The Endless Crisis (New York: Monthly Review Press, 2012), 1–21.
5. There has been no trend showing that the growing income and wealth gap has been accompanied by similarly growing education and skills gap. Neoclassical theory tells us that rising income and wealth inequality must be caused by such an increasing differential in schooling and skills. That is, those with relatively low incomes and wealth must be falling more and more behind those with relatively high incomes and wealth in terms of their skill and schooling levels. See Lawrence Mishel, "Education is Not the Cure for High Unemployment or for Income Inequality," January 12, 2011, http://epi.org.
6. Piketty, *Capital in the Twenty-First Century*, 20–22.
7. An oversupply of aggregate output would lead to falling wages, interest rates and prices, which in turn would give rise to higher employment, capital spending, and increasing consumer demand. On the significance of Keynes's critique in this area see Paul M. Sweezy, Modern Capitalism and Other Essays (New York: Monthly Review Press, 1972), 79–91.
8. John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1936), 289.

9. John Kenneth Galbraith, *The Age of Uncertainty* (Boston: Houghton Mifflin, 1977), 216.
10. Keynes, *The General Theory*, 307–8; Sweezy, *Modern Capitalism and Other Essays*, 80.
11. Keynes, *General Theory*, 307; Alvin H. Hansen, *Full Recovery or Stagnation* (New York: W.W. Norton, 1938), 303–18; Sweezy, *Modern Capitalism*, 79–83.
12. Michał Kalecki, *Theory of Economic Dynamics* (London: George Allen and Unwin, 1954); Josef Steindl, Maturity and Stagnation in American Capitalism (New York: Monthly Review Press, 1976); Paul A. Baran and Paul M. Sweezy, Monopoly Capital (New York: Monthly Review Press, 1966); Harry Magdoff and Paul M. Sweezy, Stagnation and the Financial Explosion (New York: Monthly Review Press, 1987). It is worth noting that Hansen took Steindl's theory seriously, modifying some of his own assumptions. See Alvin H. Hansen, "The Stagnation Thesis," in American Economic Association, ed., *Readings in Fiscal Policy* (Homewood, IL: Richard D. Irwin, Inc., 1955), 540–57.
13. Lawrence Summers, "Speech to the IMF Fourteenth Annual Research Conference," November 8, 2013, http://larrysummers.com.
14. Magdoff and Foster, "Stagnation and Financialization."
15. Feldstein quoted in "Grounded by an Income Gap," *New York Times*, December 15, 2001, http://nytimes.com.
16. Lucas quoted in Paul Krugman, "Why We're in a New Gilded Age," *New York Review of Books*, May 8, 2014, http://nybooks.com.
17. The example outlined in this and the preceding paragraph are based upon the critique of neoclassical wage theory presented in Eric A. Schutz, *Inequality and Power: The Economics of Class* (New York: Routledge, 2011). One of the authors presented this example in a slightly different way, in Yates, "The Great Inequality."
18. A search in the *New York Times* archives show that between January 1, 2007 and January 1, 2014, there are 4,260 articles listed under the term "income inequality." Between January 1, 1977 and January 1, 2007, there are only 2,660 articles listed under this term.
19. Edward N. Wolff, *Top Heavy* (New York: New Press, 2002); Economic Policy Institute, *State of Working America*, http://stateofworkingamerica.org; Branko Milanovic, *The Haves and Have-Nots* (New York: Basic Books, 2011); James K. Galbraith, *Created Unequal* (New York: Free Press, 1998), *Inequality and Instability* (Oxford: Oxford University Press, 2012).
20. See "The World Top Incomes Database," http://topincomes.g-mon.parisschoolofeconomics.eu.
21. The *Wall Street Journal* used Amazon's "popular highlights" page associated with its Kindle e-book device to get an idea of how much books were being read. For every book, the top five most highlighted passages by Kindle readers are listed. All five pages most highlighted for *Capital in the Twenty-First*

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Century, which at that time had been out for three months to wide acclaim, were in the first twenty-six pages, suggesting that the beginning of the book (2.4 percent of the whole) has had the most impact on Kindle readers, and are the most closely read. Although one cannot draw much in the way of conclusions from this, it is undoubtedly here, in the beginning, that Piketty puts his argument and conclusions most clearly and forcefully, minus much of the detailed elaboration that follows. "The Summer's Most Unread Book Is…," *Wall Street Journal*, July 3, 2014, http://online.wsj.com.

22. Karl Marx, *Capital*, vol. 1 (London: Penguin, 1976), 97. Two other what we might call "empirical economists" are David Card and Alan Krueger, whose book, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, NJ: Princeton University Press, 1997), demolished the neoclassical "law" that raising the minimum wage leads inevitably to higher unemployment. Their book led to such a severe backlash from their neoclassical brethren that they stopped doing minimum wage research. Piketty's findings have also been attacked, but he has the great advantage of teaching in France, where economists are not tied as tightly into the establishment—and required to toe the line—as they are in the United States, and where there is still a strong sense of social justice within the part of the working class. He says, "Hence they [economists] must set aside their contempt for other disciplines and their absurd claim to greater scientific objectivity, despite the fact that they know almost nothing about anything"; 32. It is difficult to imagine an orthodox economist in the United States saying this.
23. Piketty, *Capital in the Twenty-First Century*, 13–16, 20–22.
24. Piketty, *Capital in the Twenty-First Century*, 25–27.
25. Piketty, *Capital in the Twenty-First Century*, 72–74, 93–96, 353–58. It should be noted that Piketty likes to work with big data sets encompassing large parts of the world, and often bases his assumptions on data stretching back to the eighteenth century or earlier. Although he sees the Industrial Revolution as a turning point, he often skates over true historical analysis, often arguing as if all the societies covered by his data on all continents were essentially the same, and capitalist in structure from approximately 1700 on. Such crude practices naturally undermine his conclusions on long-term economic growth.
26. Piketty, *Capital in the Twenty-First Century*, 440.
27. Joseph Stiglitz, *The Price of Inequality* (New York: W.W. Norton, 2012), 30.
28. Piketty sometimes seems to endorse marginal productivity arguments in his book, as, for example, when he writes about the marginal productivity of capital in Chapter 6 and of labor in Chapter 9. In the latter case, he argues that over the long run education plays a very important role in determining individual worker productivity and income. However, he places so many qualifications on the marginal productivity theory that it is difficult to believe that he thinks it has much merit.

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29. For Piketty "capital" is simply wealth, whether land, money, financial assets, or jewelry. Piketty, *Capital in the Twenty-First Century*, 45–50; James K. Galbraith, "Kapital for the Twenty-First Century?," *Dissent*, Spring 2014, http://dissentmagazine.org.
30. The consequences of effacing the concept of capital with the concept of wealth are profound, but space does not allow their detailed treatment here. It took Marx three whole volumes to define the meaning of "capital" and if time had allowed he would undoubtedly have provided even more volumes. Suffice it to say that not only does Piketty eschew a social concept of capital, as in Marx's *Capital*, but by confusing capital with wealth he also conflates *capital as invested surplus*(that is, capital accumulation or investment in new productive capacity as it is usually understood in economics) with *financial speculation* or what Marx called "fictitious capital." Hence, while Piketty provides genuine insights by focusing on wealth versus income, his approach to capital as wealth is in many ways objectionable even in terms of standard economics.
31. Piketty indicates in a number of places his understandable difficulty in reading Marx. This is a problem that Sweezy used to argue faced any establishment economist, once inculcated into neoclassical marginal productivity theory, since the Marxian perspective requires a fundamentally different outlook and set of analytical tools. It is therefore not surprising that Piketty demonstrates at times penetrating insights with respect to Marx, such as his comments on "the principle of infinite accumulation," coupled with such elementary errors as the notion that Marx failed to perceive the growth of productivity under capitalism, or that he saw the economy heading toward zero productivity growth. All of this encourages him to discount Marx's economic vision as simply "apocalyptic." Such errors seem to be the result of trying to model Marx in neoclassical terms. Although he has a lot to say about Marx, Piketty clearly has not gotten very far into Marx's system. See Paul M. Sweezy, "Interview," *Monthly Review* 38, no. 11 (April 1987), 3; Piketty, *Capital in the Twenty-First Century*, 7–11, 27, 227–30, 565; Thomas Piketty, "Interview," *New Republic*, May 5, 2014, http://newrepublic.com.
32. Piketty, *Capital in the Twenty-First Century*, 27, 573.
33. Piketty, *Capital in the Twenty-First Century*, 21, 252–55, 515–18.
34. Martin Feldstein, "Piketty's Numbers Don't Add Up," *Wall Street Journal*, May 14, 2014, http://online.wsj.com.
35. Piketty, *Capital in the Twenty-First Century*, 292–97, see especially figures 8.5 and 8.6. The original articles and data backing up the book are to be found in the Top Incomes Database, http://topincomes.parisschoolofeconomics.eu, and in the online "Technical Appendix of the book, Capital in the Twenty-First Century," http://piketty.pse.ens.fr.
36. Piketty, *Capital in the Twenty-First Century*, 315–21.
37. Piketty, *Capital in the Twenty-First Century*, 274–76.
38. Piketty, *Capital in the Twenty-First Century*, 260–62, 418–21.

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39. Edward N. Wolff, "The Asset Price Meltdown and the Wealth of the Middle Class," NBER Working Paper No. 18559, November 2012, Table 4, http://ecineq.org.
40. Piketty, *Capital in the Twenty-First Century*, 257.
41. Sylvia A. Allegretto, "The State of Working America's Wealth, 2011: Through Volatility and Turmoil, the Gap Widens," Economic Policy Institute, Briefing Paper #292, March 24, 2011, Figure D, http://epi.org.
42. Piketty, *Capital in the Twenty-First Century*, 164–71.
43. Piketty, *Capital in the Twenty-First Century*, 170–72.
44. Piketty, *Capital in the Twenty-First Century*, 166–70, 231, "Technical Appendix of the book, *Capital in the Twenty-First Century*."
45. For a critique of Solow's neoclassical growth model and a comparison with the earlier Keynesian growth models of Roy Harrod and Evsey Domar, see E.K. Hunt and Mark Lautzenheiser, *History of Economic Thought: A Critical Perspective* (Armonk, NY: M.E. Sharpe, 2011), 450–57. For a critique of Piketty's analysis itself in this respect see Prabhat Patnaik, "Capitalism, Inequality and Globalization: Thomas Piketty's 'Capital in the Twenty-First Century,'" International Development Economic Associates (IDEAs), July 18, 2014, http://ideaswebsite.org.
46. Although Piketty does not explain the long-term slow growth (below 1.5 percent per capita) that he says is closer to the norm for a capitalist economy, he does point to demographic factors and to technological innovation as guiding factors—pointing to Robert Gordon's notion of declining innovation in order partly to explain the present economic slowdown. See Piketty, *Capital in the Twenty-First Century*, 94–95.
47. Piketty, *Capital in the Twenty-First Century*, 83–87.
48. Piketty, *Capital in the Twenty-First Century*, 52–54, 166–67.
49. Piketty, *Capital in the Twenty-First Century*, 447–52, see especially Table 12.2.
50. *Economic Report of the President*, 2014, Table B-15.
51. Calculated from the St. Louis FRED database, Real Median Household Income in the United States (MEHOINUSA672N). See also Fred Magdoff and John Bellamy Foster, "The Plight of the U.S Working Class," *Monthly Review* 65, no. 8 (January 2014): 15–20.
52. Elise Gould, "Why America's Workers Need Faster Wage Growth—And What We Can Do About It," EPI Briefing Paper #382, August 27, 2014, http://epi.org.
53. Michael W.L. Elsby, Bart Hobijn, and Aysegul Sahin, "," Federal Reserve Board of San Francisco, Working Paper, 2013-27, 2013, http://frbsf.org.
54. Piketty, *Capital in the Twenty-First Century*, 252–55.
55. "In One America, Guns and Diet. In the Other, Cameras and 'Zoolander': Inequality and Web Search Trends," *New York Times*, August 18, 2014, http://nytimes.com.
56. Piketty, *Capital in the Twenty-First Century*, 254.

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57. Kurt W. Rothschild, "The Absence of Power in Contemporary Economic Theory," *Journal of Socio-Economics* 31 (2002): 437–40.
58. Arthur B. Kennickell, "Ponds and Streams: Wealth and Income in the U.S. 1989 to 2007," Federal Reserve Board Working Paper 2009–13, 55, 63, http://federalreserve.gov; Matthew Miller and Duncan Greeenberg, ed., "The Richest People in America" (2009), *Forbes*, http://forbes.com.
59. Correspondents of the *New York Times*, *Class Matters* (New York: New York Times Books, 2005), 186.
60. Marx, *Capital*, vol. 1, 777–78.
61. For data and analysis see Foster and McChesney, *The Endless Crisis*, 67–77.
62. Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper and Row, 1942), 90. Schumpeter referred here to such firms as "corespective."
63. Robert W. McChesney, *Digital Disconnect* (New York: New Press, 2013), 113–20, 138–40. It should be noted that in emphasizing the role of monopoly capital in contemporary capitalism, and Piketty's failure to incorporate this into his analysis, we are not thereby adopting a position like Stiglitz, who in his criticism of Piketty says it is not capitalism that is the problem but imperfect competition. No argument could be more ahistorical or absurd: a product of abstracted compartmentalization of neoclassical theory that thinks that capital and power can be separated. Piketty himself is free of this kind of illogic. See Joseph Stiglitz, "Phony Capitalism," *Harpers*, September 2014, 14–16.
64. Peter Thiel, "Competition is for Losers," *Wall Street Journal*, September 12, 2014, http://online.wsj.com. On generalized monopoly capital see Samir Amin, The Implosion of Contemporary Capitalism (New York: Monthly Review Press, 2013).
65. Eric A. Schutz, *Inequality and Power* (New York: Routledge, 2011).
66. Michał Kalecki, *Selected Essays on Economic Planning* (Cambridge: Cambridge University Press, 1986), 19–24.
67. Lawrence H. Summers, "The Inequality Puzzle," *Democracy* 33 (Summer 2014), http://democracyjournal.org. On the sources of financialization, see John Bellamy Foster and Fred Magdoff, The Great Financial Crisis (New York: Monthly Review Press, 2009), Fred Magdoff and Michael D. Yates, The ABCs of the Economic Crisis (New York: Monthly Review Press, 2009), and Costas Lapavitsas, *Profiting Without Production* (London: Verso, 2013).
68. Foster and Magdoff, *The Great Financial Crisis*, 63–76; Foster and McChesney, *The Endless Crisis*, 49–63.
69. Keynes, *The General Theory*, 376.
70. Piketty, *Capital in the Twenty-First Century*, 422–24.
71. Piketty, *Capital in the Twenty-First Century*, 515.
72. Patnaik, "Capitalism, Inequality and Globalization," 5. In his discussion of forces leading to less inequality Piketty, *Capital in the Twenty-First Century*, 21, stresses the dissemination of "knowledge and skills." He says this applies especially to the convergence of incomes between nations. However, even

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supposing that per capita incomes across nations are becoming more equal, this says nothing about either the transfer of incomes from poor nations to rich ones or the convergence of incomes within any particular country. Incomes have been becoming more unequal in China over the past few decades, but there has been a convergence between per capita income in China and per capita income in the rich countries. He appears to take the per capita income convergence as unalloyed good, but the issue is a great deal more complicated, as one would expect a sophisticated analyst of inequality like Piketty to recognize.

73. Marjorie Kelly, *The Divine Right of Capital* (San Francisco: Berrett-Koehler, 2003).
74. James B. Davies, Susanna Sandström, Anthony Shorrocks, and Edward N. Wolff, "The World Distribution of Household Wealth," in James B. Davies, ed., *Personal Wealth from a Global Perspective* (Oxford: Oxford University Press, 2008), 402.
75. Piketty, *Capital in the Twenty-First Century*, 1, 479–480. A society in which this is true could not be a capitalist society. In a gathering and hunting society, a superior hunter may have social distinction, but he will not get a larger share of food than anyone else. His social distinction is therefore based on his serving the common good, by increasing the group's food supply. Nothing comparable exists in capitalism, except in the ideological constructs of its apologists, especially neoclassical economists. Piketty's notion of how modern capitalist societies function can at times appear painfully naïve. His wealth tax, he says, must be democratically debated, and the data he and his colleagues have amassed will make such debate possible. Yet, the very increase in the social "weight" of those at the top of the wealth distribution corresponds with so much political "weight" that it is reasonable to ask just how democratic debate, much less decision-making, is possible. His support for serious, even radical regulation of "global patrimonial capitalism" is commendable, but his faith in the capitalist version of democracy is not.
76. Piketty, *Capital in the Twenty-First Century*, 571–77.

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