Piketty and Marx

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French economist, Thomas Piketty, is the author of the text, *Capital in the 21st Century* which is proving to be an important text in the annals of the history of economics. This text has been reviewed by many economists from all positions on the economic ideological spectrum from journals to magazines. Among the reviewers are prominent neoclassical economists such as Robert Solow, Paul Krugman, Larry Summers, and others. More heterodox theorists such as David Harvey, Deidre Mc Closkey, and Joseph Stiglitz have also had their say.

Piketty's Thesis

The central point of the text is that it attempts to show by empirical research that dating from the early days of capitalism, the rates of the return on capital(r) have consistently – except for the period 1930 to 1975 – been greater than the growth in income(g). Piketty's definition of capital(r) does not include human capital, and is defined as all forms of profit-bearing assets – including physical capital and paper finance capital.

Piketty expresses this historical inequality as r > g. In order to instantiate his thesis Piketty devises what he calls *the first fundamental law of capitalism*. This law is expressed as á = râ and states that the return on capital(r) multiplied by the capital-income ratio(k/r) equals the share of income derived from capital in time. Piketty also introduces a *second fundamental law of capitalism* which is stated as â = s/g, which in turn signifies that â = á/r. So we have â = á/r = s/g. As Piketty put it: 'In the long run, the capital/income ratio, â is related in a simple and transparent way to the savings rate s and the growth rate g, according to the formula â = s/g. For example, if s = 12% and g= 2%, then â = s/g = 600%. In other words, if a country saves 12 per cent of its national income every year, and the rate of growth of its national income is 2 per cent per year, then in the long run the capital/income ratio will be equal to 600 per cent : the country will have accumulated capital worth six years of national income'(Piketty 2014:166).

Piketty's central concept, Capital, is defined thus: 'In this book, capital is defined as the sum total of nonhuman assets that can be owned and exchanged on some market. Capital includes all forms of real property (including residential and real estate) as well as financial and professional capital (plants, infrastructure, machinery, patents, and so on) used by firms and government agencies' (46). Note that in this context Piketty excludes human capital as a form of capital on the grounds that 'human capital cannot be earned by another person or traded on a market (not permanently, at any rate)' (46). Well, individuals can own their own human capital and in the case of professional athletes their contracts do entail aspects of ownership. Of course, there are 'opt-out' clauses which can always be invoked, but how is that different from the buying and selling of physical capital on the market? Piketty writes that he uses 'capital' and 'wealth' interchangeably (47) but there is a problem here. All wealth would include capital but all capital would not include wealth. For example, an individual may own great wealth in the form of jewelry, expensive paintings and vehicles, but such would not constitute capital. Such would first have to be transformed into workable capital before it could so be described. Bank accounts and credit lines must always be expressed in terms of available liquid cash as they are normally expressed. In any case, it is clear what Piketty means by capital. But given Piketty's definition of capital as not including human capital, it is somewhat problematic not to include it given that it can indeed be traded in the market place. Wealth as putative capital cannot be so traded.

Piketty's key point in all this is that ever since the days of early capitalism the rate of return on capital(r) has always been greater than the growth rate (g) of the economy. Piketty garners economic data for Europe and the U.S. from 1700 to 2012. He argues that with the exception of the years 1945 to 1970 the returns to capital have always exceeded the growth in income. That period was the one in which Simon Kuznets's (1953) paper argued for a 'sharp reduction in income inequality in the U.S. between 1913 and 1948' (p.12). But Piketty explains that exception by the shocks caused by the destruction wrought by WW I and WW II which eventually led to the replacement of destroyed capital stocks. The virtue of Piketty's argument is that the empirical facts bear out his thesis: growing inequality brought about by the persistent centrifugal movements in time between capital and income. Piketty highlights his thesis by pointing out the growing inequalities between income and capital since 1980. As he put it: 'Since 1980, income inequality has exploded in the United States. The upper decile's share increased from 30-35 percent of national income in the 1970s to 40-50 per cent in the 2000s an increase of 15 points of national income'(294). The same observation is made concerning the Gini coefficient of the industrialised nations. According to Piketty: 'In practice, the Gini coefficient varies roughly from 0.2 to 0.4 in the distributions of labor income observed in actual societies, from 0.6 to 0.9 for observed distributions of capital ownership, and from 0.3 to 0.5 for total income inequality'(266). Piketty also states that one reason why capital ownership seems impervious to change even when there are increases in income returns derives from the existence of patrimonial capital. As he put it: 'bubbles aside, what we are witnessing is a strong comeback of private capital in the rich countries since 1970, or to put it another way, the emergence of a new patrimonial capitalism' (173).

Piketty's solution to the situation of persistent wealth and income inequality is to argue for a global wealth tax. But, as he put it: 'A global tax on capital is a utopian idea. It is hard to imagine the nations of the world agreeing on any such thing any time soon. To achieve this goal, they would have to establish a tax schedule applicable to all wealth around the world and then decide how to apportion the revenues. But if the idea is utopian, it is nevertheless useful, for several reasons. First, even if nothing resembling this ideal is put into practice in the foreseeable future, it can serve as a worthwhile reference point, a standard against which alternative proposals can be measured. Admittedly, a global tax on capital would require a very high and no doubt unrealistic level of international cooperation'(515). Piketty also informs us that 'many people will reject the global tax on capital as a dangerous illusion….When looked at closely, however, this solution turns out to be far less dangerous than the alternatives'. The alternatives would be unsustainable levels of income inequality leading to political unrest.

The basis for this situation Piketty informs goes back to Marx whose model of infinite capitalist accumulation would lead inexorably to increasingly minimal returns to capital coupled with increasing worker unrest(9). This statement on Marx is more or less most of what Piketty has to say on the issue of r > g from the dawn of history onwards. 'To sum up: the inequality r>g has clearly been true throughout most of human history, right up to the eve of World War I, and it will probably be true again in the 21st century'(358). For Piketty the return on capital in time has been generally some 4-5 percent and never below 2-3 percent (359). By contrast the rate of growth is generally not much more than 1 per cent (361). The key question that arises out of all this is 'why is the return on capital greater than he growth rate'? In fact, this is the very question that Piketty poses as a sub-heading on page 353 of his text. But the answer is not forthcoming. To answer this key question one must turn to Marx. Piketty does discuss Marx but only in the sense that Marx's capitalist accumulation model leads to 'infinite capital accumulation' which would ultimately lead to increasingly reduced returns to capital resulting in conflict between capitalists and workers. Under these conditions, workers would be increasingly pauperised.

Marx and Capitalism

The explanation for the persistent imbalance derives from Marx's analysis of the dynamics of capitalism. According to Marx the dynamic of capitalism is captured by the formula expressed by M-C-M that Marx described as 'the transformation of money into commodities, and the change of commodities back into money; or buying in order to sell'(The Marx-Engels Reader[ed. Robert Tucker], W.W. Norton, New York, 1978, 329). But M-C-M only describes a structure, it does not describe the actual dynamic that would lead to Piketty's data. The dynamic is rather M-C-M', where M' represents M + "M. It is the "M that has become the theoretical bone of contention ever since Marx wrote *Capital.* It is that "M that Marx referred to as 'surplus value' which in actual terms included the expropriated returns to labour. The returns to labour are wages and the returns to capital are profits. But that "M is derived from the sales of the commodities produced by labour, which in turn must be bought by labour for its own livelihood. The logical result of this is underconsumption and lack of effective demand. This is what leads to the instability in the capitalist system and its periodic recessions. The extension of credit to labour only puts off the days of reckoning. The result of this is that investment capital is then absorbed by other forms of capital which in turn acquire monopoly status. This is the dynamic according to which capitalism works. We see here how this analysis is at odds with that of Jean-Baptiste Say's Law of Markets. According to Say, all production of commodities is consumed so that there is no excess demand or excess supply. Marx's analysis was further vindicated during the U.S. economic crash of 1929. The solution offered was the deficit spending programme recommended by Keynes according to which government deficit spending would act as a stimulus for the economy.

According to the dynamic of capitalist competition, firms that are unable to make profits, eventually fail and their assets liquidated or absorbed by other firms. Those firms that are successful see their profits grow and eventually expand. The end result of this process is that the accumulation and growth of capital over time has outpaced the growth of income. Piketty's data testifies to this.

But the question remains: how is the dynamic of capitalism in terms of M-C-M' to be explained? For Marx, the key variable in the dynamic of capitalism is surplus value (S). In this regard, the goal of capitalist accumulation is to conjoin constant capital(C) with variable capital(V). What follows from this is that the S/C + V yields the rate of profit in the context of capitalist accumulation. This rate of profit is to be distinguished from the rate of surplus value which is derived only from S/V. Yet, there is another important relationship which Marx refers to as the organic composition of capital, C/V. Recall that the rate of profit, S/C + V is of much importance for capitalism which in turn depends on the rate of surplus value, S/V. This would mean that as the technology component of capital increases over time as capitalism seeks to cut labour costs, the organic composition of capital would tend to rise which in turn would reduce the rate of profit. Why? Because surplus value derives mainly from the exploitation of labour. So the less labour there is in the capital and labour mix, the less surplus value hence the less profits. This is the scenario according to which Marx's idea of the 'falling rate of profit' assumes theoretical validity. All this is interesting within the context of classical political economy as expounded by both Ricardo and Malthus whose theories portended stationary and dismal results for economic growth and development.

According to Marxian theory the end result of this dynamic is that workers become so impoverished that they revolt against the capitalist system leading the way to the collapse of capitalism. But capitalism is proving itself to be very resilient in time. With the demise of the Soviet Union and the transformation of China from a statist economies to one of unfettered capitalism, post-Keynesian capitalism has developed a new confidence. First, it should be understood that despite the entrance of Russia and China into the world of market capitalism this does not mean that the endemic problems of capitalism have been abated.

The question is how did capitalism mange to overcome its crises despite the observations by its critics that the evident dynamic imbalance and structural disjunction between capital and labour? The answer lies in Piketty's empirical data that states that while the per capita GDP of the countries of the North is some $45,000 per annum, in the South it hardly amounts to $10,000. It is on this basis that the raw material exports of the South are purchased by the North at cheap prices given that the amount of wages accruing to labour is a minimal factor of what is earned on a per capita basis there. This is the basis of what is labeled as neo-colonialism by critics of the present economic world structure. This is also the basis for the touting of the idea of globalisation and 'foreign direct investment' in the nations of the South. The result is that not only is there a palpable internal economic class structure within countries of the North, so too there is a much wider economic class structure between the nations of the North and those of the South. It follows that the logic of Marx's analysis of capitalism is borne out by Piketty's observation that over time r has always outpaced g: r > g.

It is on this basis that popular concepts such as globalisation and foreign direct investment must be understood. The issue here is that the tendency of profits to fall must be compensated for lower labour and commodity costs in the vast South. This is the rationale for Lenin's *Imperialism – the Last Stage of Capitalism* and Kwame Nkrumah's *Imperialism – the Highest Stage of Capitalism.* The meaning here is that in order to have as free access as possible to cheap commodities, capitalism must obtain such by political persuasion including the use of force. Paul Mattick (1980) states all this succinctly in his classic text *Marx and Keynes—the Limits of the Mixed Economy.* He writes:

> The need for external expansion of capital in order to halt its internal contraction takes on the form of an aggressive imperialism and of imperialistic competition. But this imperialism differs from the impe-rialism and colonia-lism of laissez faire capitalism because capital competes for more than just raw-material sources, privileged markets and capital exports. It also fights for its very life as a private property against new forms of capital pro-duction which are no longer subject to economic value relations and the competitive market mechanism (Mattick 1980: 264-265).

The fact that capitalism must necessarily expand is captured by the fact that of its foray into Asia to capture the huge potential markets of Russia and China. In the same context, China has now fully embraced market capitalism under a veneer of statist communism. China's now openly ongoing capitalist dynamic is due to the very expansionist nature of capitalism as Marxian theory describes it. This is an observation that Piketty avoids.

The structure and dynamics of capitalism is such that its periodic crises bring forth critiques that are descriptive but with recommendations that are essentially reformist. This was the role of Keynes as expressed in his *General Theory of Employment, Interest and Money.* The goal was to rescue the capitalist system so that it did not go the way Marx predicted. Piketty's text follows a similar routine but it does not offer a radical transformation of the system as Marx did. Yet on account of its title and the seemingly critical nature of the work, some reviewers do compare Piketty with Marx. Frederic Lordon's article 'Why Piketty isn't Marx '(*Le Monde Diplomatique*, May 2015), in response to his observation that 'The media sold Piketty as the new Marx', argues that Piketty is theoretically erroneous when he defines capital as 'the wealth of the wealthy'(Lordon 2015: 2). But Piketty defines capital thusly: 'In this book, capital is defined as the sum total of nonhuman assets that can be owned and exchanged on some market. Capital includes all forms of real property (including residential real estate) as well as financial and professional capital (plants, infrastructure, machinery, patents, and so on) used by firms and government agencies'(Piketty: 46). Marx's definition of capital is, in fact, quite similar to that of Piketty. Marx writes 'Capital consists of raw materials, instruments of labour and means of subsistence of all kinds, which are utilised in order to produce new raw materials, new instruments of labour and

Piketty and Recommendations

It is on the basis of his recommendations that Piketty is to be distanced from Marx. First, the recommendation that a global wealth tax would rectify the imbalance between r and g is naïve thinking for the simple reason that capital owners have seen to it over time that governments are maximally in their corner. A salient case of such is the open way in which the capital of the mega-corporations fund the election initiatives of the politicians who then ensure that the needs of the needs of big capital are first attended to. Thus, given the plethora of tax havens that abound in the world, taxes on wealth could easily be avoided. Second, and of much importance, Piketty advocates (538-539) that 'a seemingly more peaceful form of redistribution and regulation of global wealth inequality is immigration. Rather than move capital, which poses all sorts of difficulties, it is sometimes simpler to allow labor to move to places where wages are higher. This was, course, the great contribution of the United States to global redistribution: the country grew from a population of barely 3 million at the time of the Revolutionary War to more than 300 million today, largely thanks to successive waves of immigration' (Piketty: 538). This is certainly not any viable solution to the problem of income inequality. This gesture would only provide cheap labour inputs for the countries of the North. Piketty does indeed recognise later that migration of labor from low income areas to higher income countries does not resolve the issue. He writes: 'It bears emphasising, however, that redistribution through immigration, as desirable as it may be, resolves only part of the problem of inequality' (Piketty: 539). One might consider in this regard the pertinent question posed about economic poverty by heterodox economist Erik Reinert while on trip to Peru: 'Why are they [Peruvians] so poor? After reflection on his trip, Reinert's curiosity was whetted as the causes of poverty. He posed himself the question: 'Why is the real wage of a bus driver in Frankfurt sixteen times higher than the real wage of an equally efficient bus driver in Nigeria as the World Bank recently calculated? I set out to find an answer, and this book is the result'.

The answer to this important question requires the analysis of the structure of the world economic system and the hegemonic role that Western finance plays in that this context. There are the issues of the role that the West's reserve currencies play in all this and the globalised market system in place that forces most of the nations of the South to eschew mercantilism in favour of Ricardian type trading exchanges. It is in this context that Piketty's solution of immigration from low income areas to high income areas is not helpful.

A genuine solution would require that workers and civil societies of the countries of the South to organise into trade unions and other kinds of pressure groups against their governments to reduce income and wealth inequalities. This can be done through appeal to proper democratic election processes and direct pressure when required. This is exactly the way the countries of the

North developed in terms of winning economic rights for their citizens. Marx would certainly prefer this approach to the one offered by Piketty. The results of such worker pressures are borne out by the Gini coefficient numbers of the countries of the North compared to those of, say, Africa. The average per capita GDP of Africa's fifty four(54) countries is € 5,185[calculated from Africa's total GDP provide by Piketty(63) and not from the separate GDPs of North Africa and so-called 'Sub-Saharan Africa' according to the standard Eurocentric colonial lexicon] with the South African Gini coefficient of 0.63(UN Human Development Reports, 2015. Hdr.undp.org/en/content/income-gini-coefficient). Other African Gini indexes are Namibia from the same source are Namibia 0.70, Gabon 0.41, Nigeria 0.49, and Angola 42.7. Given that the U.S. Gini index is 0.41, one must raise questions about the Gini indexes awarded to Nigeria, Gabon, and Angola. They are certainly not accurate. One could speculate that their Gini numbers are at least on par with those of Namibia and South Africa. Casual inspection of the human development and infrastructure of those petroleum-producing nations belie their Gini index metrics. The generic case here is that of Equatorial Guinea whose average GDP is $10,210 from a GDP of $15.53 billion and a population of 821,000. The transparent case of Equatorial Guinea involves the exploitation of petroleum by international oil companies with most of the royalties diverted into private accounts held by its minuscule kleptocratic ruling group. Gini indexes derived from official sources would be most unreliable in this context. It is obvious, therefore, that the average African GDP of €5, 185 includes a people's income of less than 50 per cent of that metric.

Pikkety is no doubt aware of the pillage of Africa's economies when he advocates that 'international fiscal cooperation and data sharing' could help to 'root out such pillage in a more systematic and methodical fashion, especially since foreign companies and stockholders of all nationalities are at least as guilty as unscrupulous African elites'(Piketty: 539).

Concluding Note

The virtue of Piketty's text is that it offers a historical view of the unequal relationship between returns to capital(r) capital and income from labour(g) since the dawn of modern capitalism, but it is remiss in that it does not offer an explanation of this dynamic. In this respect, Piketty's analysis differs radically from that of Marx, despite beliefs to the contrary in some quarters. Secondly, the reformist solutions he offers are palpably utopian based on the false assumption that owners of wealth and capital would willingly fall on their own swords. Piketty seems oblivious to the ravages of world-wide class struggle as Marx so vigorously pointed out.

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