Book Review: Thomas Piketty “Capital in the Twenty-First Century”

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Abstract: Thomas Piketty's “Capital in the Twenty-First Century” It is Both a Serious Academic Work and a Popular and Easy-to-Read Bestseller. This Work Reveals the Phenomenon of Widening the Gap in the Distribution of Modern Society and the Lack of Fairness, and Trying to Find the Root Cause of It from the Economic and Social Systems, and Propose an Improvement Plan. Piketty Quotes a Large Amount of Data in the Book, Denying the Kuznets Curve and the Corresponding Benign Capitalist Views. Once Published, the Book Has Been Widely Discussed in Various Circles.

1. Introduction

The “Capital Theory of the 21st Century” by the French economist Thomas Piketty has caused topics and discussions in both academic and media circles, and has also attracted the attention of many readers. This book is a painstaking effort that Piketty spent more than fifteen years summing up the research results into a book. In addition, this book is also the result of the author's “continuous” exploration of problem-awareness and “savings”. intertwined with the charm of academics. The book also received the assistance of British economist Anthony Atkinson and French-American researcher Emmanuel Seaz. Anthony is his mentor, Piketty also said that the content of income trends and wealth inequality in the works are from Anthony. Therefore, “Capital in the Twenty-First Century” can also be said to be the result of their joint research.

In addition to Piketty's own strong sense of problem and the writing of excellent writing, the central theme (central thinking) is also the charm of this book. Piketty raised a question: If the polarization of wealth gained under the capitalist system continues to develop, what will the future economic development become? The difference in hierarchy and free democratic politics are the most concerned and most sensitive issues for the people [1]. In the face of such inequalities, like Marx, who criticized classical economics in the 19th century, Piketty fundamentally criticized the orthodox economics.

2. The Contents of the Book

First, Piketty's definition of the concept of “capital” is “Unless specifically stated, the 'capital' mentioned in this book does not include what economists often refer to (in my mind) 'human capital'...... In the book, capital refers to the sum of non-human assets that can be divided into ownership and exchangeable in the market, including not only all forms of real estate (including residential buildings), but also companies and government agencies. Financial capital and professional capital (plants, infrastructure, machinery, patents, etc.)” He also pointed out: “In order to simplify the text, the meaning of 'capital' and 'wealth' used here is exactly the same, and the two words can be replaced with each other.” Capital does not refer to physical capital alone, but also includes land, buildings, financial assets, and so on [2]. I hope to note that the “capital” here is close to the concept of “wealth”. First of all, try to analyze the purpose of this book. The purpose of this book is to analyze the integration of economic growth and income distribution theory, and to explore how the distribution of inequality will affect economic growth. For this purpose, this book selects and produces a database of capital, output, income distribution, capital return, price, inheritance, etc. in more than 20 countries over two hundred years. (The country is different, the time is also differences), and this is already a huge amount of engineering.
Second, Piketty has long observed the relationship between capital shares and income ratio, and also noted the proportional relationship between capital return and economic growth rate. Piketty spent a long time observing the relationship between capital shares and income ratio. From the observed results, the ratio of capital shares to income is: From the time of the World War II to the post-war revival, the period of fifty or six decades compared with the “classical capitalism” of the 19th century or the late 1980s shows that this is a special era [3]. In this era, the ratio of capital to output is very low, while the upper limit and tax rate of high-income earners are high, and income distribution is deliberately inclined to the laborer. Piketty believes that the reason for the lower proportion of capital and output is that on the one hand, because of war, the destruction of physical capital, on the other hand, the reduction of financial assets brought about by inflation, the implementation of nationalization, the more private capital The fewer, and so on, these factors make the ratio of capital to output lower.

Third, After entering the 1980s, the tax cap rate of high-income earners was lowered, which led to further development of capital stocks (capital savings). The gains from financial assets increased, and the rate of return on capital rose again, the share of labor income decreased, and the economic development of advanced capitalist countries began to slow down. In addition, the rise in the share of income of the high-income class has become more apparent. Most of these high-income earners are in the financial services industry, which is the “senior manager”. Their high income is often obtained through speculative trading. The reason for the increase in the rate of return on capital that he expressed in the book and his theory of capitalism later became a very important prerequisite for government policy recommendations. In the English-speaking countries such as the United States, the United Kingdom, Australia, and New Zealand, in the 1980s, the development status of income and wealth inequality was faced, and the U-shaped type appeared. The economic situation of these countries in the 21st century has led some scholars to discuss whether or not economic development has returned to the “classical capitalism” era of the 19th century. Relatively speaking, countries such as continental Europe (France, Germany, the Netherlands, Switzerland) or Japan are closer to the L-Shaped type. In a country like this, what kind of capital situation will become in the future, and Piketty has not specifically proposed a clear hypothesis in the book [4].

Forth, In the United Kingdom and the United States regarding the concentration of “wealth”, the credibility of such data, the British Financial Times reported on the calculation of Piketty. Whether it is really U-shaped, it is really difficult to judge. To take a step back, even if you accept Piketty's opinion, you can't deny the fact that the problem actually exists. Let us give some examples, Piketty uses the algorithm of Simon Smith Kuznets to estimate and restore income data based on tax data. If such methods are used, it will be able to separate the income from the income of the assets from the income, which is indeed convenient for studying the high-income layer. Piketty used the “Pareto interpolation method” in the actual presumption calculation. But such calculations must draw very bold assumptions. In this regard, Pickett and Sayzi (2011) use a specific presumption method to explain it. His example is the use of the UK's 1911-1912 income tax (super-tax) data. The number of people paying more than 10,000 pounds of income tax is about 12,000. At that time, there were about 20 million people in the UK, but only 0.06% of all the population. If they are all such proportions, Pareto presumes the distribution of other income classes based on the appropriateness of the distribution. In this way, using the fluctuations in the Gini coefficient calculated by the “Family Income and Expenditure Survey” to explore the income inequality system, and Piketty’s problem awareness and method is completely different from the Gini calculated by using the “Family Income and Expenditure Survey”. Changes in the coefficient to discuss income inequality. However, if we do not discuss the mean and variance of the distribution and only discuss the savings of the “middle class”, is it not difficult to see the stability of the economy and society?

Fifth, Furthermore, insufficient income reporting (tax avoidance, tax evasion or legal tax exemption for capital income) has greatly affected the estimates of the Piketty method. Moreover, the income from tax law and the income concept of economics (for example, capital interests are incomes in tax law, and the concept of national income is not income), It is also worth noting. On top of this, as the income, using the government to transfer the previous tax instead of using the
income that can be disposed of, it will definitely be higher than the “concentration” after redistribution.

Sixth, What Piquete called “the central contradiction of capitalism”, as he put forward the proposition that “the return on capital r is always higher than the economic growth rate g”, his explanation is very persuasive. The rate of return on capital r and the rate of economic growth g are determined by different factors. From the economic boom to the post-war Great Depression, their relationship will change relatively. The more capital savings develop, the more capital should be considered. The decline in the rate of return. If g is given by external force, then in order to restore g=r equilibrium, the capital return rate r has to be reduced. In order to reduce the excessive capital return rate of the financial services industry, he put forward the idea of “should strengthen the global capital tax”. However, the effect of this capital tax collection in only one country is not obvious. Must cause the outflow of capital. Therefore, international policy coordination is needed. In addition, Piketty also realized that his policy recommendations could not be directly accepted. If not supported by policies, the income generated by the financial business will continue to be concentrated in the hands of high-income earners at a high rate. As a result, entrepreneurial entrepreneurs have to withdraw from the economic arena, get high income from financial asset transactions, and then inherit these wealth to live. Piketty believes that this will inevitably damage the vitality of the economy. Many people who use the “heritage” like this have become “patrimonial capitalism”, which is cleverly explained in the 19th century by Jane Austen and Balzac's novels.

Last, Regarding the relationship between economic growth and income distribution, before 1950, the “Kuznets hypothesis” was always a very powerful proof. One of the hypotheses is that in the early stages of industrialization, incomes became unequal, but income distribution was gradually balanced with economic growth. For this hypothesis, Piketty stressed that capitalism itself does not include mechanisms to achieve income parity, and criticized the “Kuznets hypothesis” as the “cold war dogma” to defend the free economy. However, considering Kuznets' observation period and the difference in income between the two, Piketty's criticism seems to have a strong self-ideology.

The biggest feature of Piketty's database is the long observation and bold assumptions that restore the wealth and income of high-income earners. Perhaps the data used by Piketty is not very accurate, and even some of the calculation formulas are flawed, but in this book Piketty tries to restore Europe to the society of the last two hundred years since the industrial revolution of the eighteenth century. The role of capital in life in human society and the state of development and change. He has sourced data and charts from open sources[5], and data improvements are continuing. Although Piketty's theory in Capital Theory in the 21st Century is open to question, one of its valuable aspects can be seen in the author's powerful problem awareness and media evaluation. After the media published the conclusions of the text, the media tried to recalculate the data itself. It is important to discuss the long-term structure of the economy and the changes in the imagination, but the data is also essential. The advantage of Piketty is that he respects the data. He not only uses the data to speak, but also fills the blank part with rich imagination, which makes his theory more balanced. Whether his views can be established depends on the data. However, because Piketty disclosed the data in full, it also made the study of his viewpoint more controversial.

For readers, whether it is economics or not, this book looks at the essence through phenomena, and conveys information that there is no necessary relationship between economic development and the growth of personal wealth. Piketty's book is about economic development and individuals in Europe and America. The question between wealth is answered, and the trend is also predicted for the future direction.

References
