



Capital in the Twenty-First Century:* a multidimensional approach to the history of capital and social classes

Thomas Piketty

I am most grateful to the editors of the *British Journal of Sociology* for putting together such an impressive set of review papers about my book. I am very honoured by the very thoughtful essays written by such a distinguished group of scholars coming from sociology, political science, anthropology, history, geography and economics. I warmly thank all participants for their time and attention to my work. I would like to view my book more as work of social science than one of economics or history. It seems to me that we often lose a lot of time in the social sciences because of little disputes about disciplinary boundaries. I could not dream of a better recognition for my work than the stimulating collection of interdisciplinary essays that the *British Journal of Sociology* is now publishing. I am very fortunate to have so many great readers. There is no way I can do justice to the richness of each review and address the many stimulating points that they raise. I would like however to take this opportunity to briefly clarify a number of issues.

Capital and the social sciences

Let me first summarize what I have tried to achieve in *Capital in the Twenty-First Century*. This is primarily a book about the history of wealth, and the political and economic conflicts generated by its unequal distribution. Thanks to the cumulative efforts of several dozen scholars, we have been able to collect a relatively large historical database on the structure of national income

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and national wealth and the evolution of income and wealth distributions, covering three centuries and over twenty countries. The first objective of my book is to present this body of historical evidence in a consistent manner. I start from the evidence and then try to analyse the many economic, social and political processes that can possibly account for the evolutions that we observe in the various countries since the Industrial Revolution. I stress from the very beginning that we still have too little historical data at our disposal to be able to be sure about anything. As a consequence, there are many important issues on which my book has little to say, and even more issues where what I write is highly incomplete and exploratory. But at least we have substantially more evidence than we used to have, so it seems worth trying. My book is probably best described as an analytical historical narrative based upon this new body of evidence. By doing so, I hope I can contribute to put the study of distribution and of the long run back at the centre of economic, social and political thinking.

Many nineteenth century authors, including Malthus, Ricardo and Marx, were putting the distribution question at the centre of political economy. They were very much motivated by the impressive social and economic evolutions that they saw around them (a lesson that today's economists should remember). Unfortunately, they had limited systematic data at their disposal, so their approach was mostly theoretical. This tradition was pursued in the twentieth century with the more data-intensive and historical approaches pioneered by Kuznets and Atkinson (who contributed in a decisive manner to the data collection project on which my book is based). I am working directly in their footsteps.¹

My work is also an attempt to pursue and to renew a long tradition of research by historians and sociologists on the long run evolution of wages, prices and wealth. This line of research was particularly active in France between the 1930s and the 1970s, with major work by Simiand, Labrousse, Braudel, and others.² In his review, Savage describes my work as a 'contemporary representative of the French Annales School history'. Savage also notes that my approach to social classes and the perpetuation of inequality is consistent and complementary with Bourdieu's emphasis on the transmission of cultural and symbolic capital, and that my thinking on these issues was strongly influenced by this tradition.

In my book I also attempt to study the evolution of collective representations of social inequality in public discussions and political debates as well as in the literature and in movies. I believe that the analysis of representations and beliefs systems about income and wealth is an integral and indispensable part of the study of income and wealth dynamics.

Indeed, as stated in the Introduction, the main conclusion of my work is that 'one should be wary of any economic determinism in regard to inequalities of wealth and income'.

The history of the distribution of wealth has always been deeply political, and it cannot be reduced to purely economic mechanisms. (. . .). It is shaped by the way economic, social, and political actors view what is just and what is not, as well as by the relative power of those actors and the collective choices that result. It is the joint product of all relevant actors combined. (. . .). How this history plays out depends on how societies view inequalities and what kinds of policies and institutions they adopt to measure and transform them. (2014: 20, 35)

To put it another way:

In a sense, both Marx and Kuznets were wrong. There are powerful forces pushing alternatively in the direction of rising or shrinking inequality. Which one dominates depends on the institutions and policies that societies choose to adopt. (Piketty and Saez 2014: 842–43)

The role of political shocks and changing representations of the economy is especially obvious when one studies inequality dynamics during the twentieth century. In particular,

the reduction of inequality that took place in most developed countries between 1910 and 1950 was above all a consequence of war and revolution and of policies adopted to cope with these shocks. Similarly, the resurgence of inequality after 1980 is due largely to the opposite political shifts of the past several decades, especially in regard to taxation and finance. (2014: 20)

I also try to show that beliefs systems about the distribution of income and wealth matter a great deal if one wants to understand the structure of inequality in the eighteenth and nineteenth centuries, and indeed in any society. Each country has its own intimate history with inequality, and I attempt to show that national identities play an important role in the two-way interaction between inequality dynamics and the evolution of perceptions, institutions and policies. Throughout the book, I emphasize the importance of educational institutions (in particular the extent of equal access to high-quality schools and universities) and fiscal institutions (especially the chaotic advent of progressive taxation of income, inheritance and wealth). I also refer to a large number of other institutions and public policies that play a substantial role in my historical account of inequality dynamics across three centuries and over twenty countries. This includes: monetary regimes, central banking and inflation; labour market rules, minimum wages and collective bargaining; forced labour (slavery); colonialism, wars and revolutions; expropriations, destructions and privatizations; corporate governance and stakeholder rights; rent and other price controls (such as the prohibition or limitation of usury); financial deregulation and capital flows; trade policies; family transmission rules and legal property regimes; fertility policies; and many others.

I should make very clear, however, that many of these institutions are not analysed as completely as they should. In particular, the role of unions and wage bargaining – analysed mostly in chapter 9 – should have been dealt with in more detailed manner. In her review, Bear rightly points out that the issues of working conditions, precarious labour and the construction of labour market status, together with their interaction with property relations (including the public debt), are not sufficiently addressed.

A multidimensional history of capital, power and inequality

Let me now turn to my approach to capital. I attempt to develop a multidimensional approach to the history of capital and the power and inequality relations that come with the different forms of capital assets. Theoretical economic models of capital accumulation, abstract concepts and equations (such as the inequality $r > g$, to which I briefly return below) do play a certain role in my analysis. However this is a relatively modest role – as I believe the role of theory should generally be in the social sciences – and it should certainly not be exaggerated. By oversimplifying the real world up to an extreme point, models can sometime contribute to clarify certain interesting logical relationships between particular assumptions and conclusions. This can be useful, but only if one does not overestimate the meaning of this kind of abstract operation. One also needs to keep in mind that all economic concepts, irrespective of how ‘scientific’ they pretend to be, are intellectual constructions that are socially and historically determined, and which are often used to promote certain views, values or interests. Models are a language that can be useful only if it is solicited together with other forms of expressions, and if one recognizes that we are all part of the same conflicting, deliberative process.

In particular, let me say very clearly that the notion of an aggregate capital stock and of an aggregate production function are pretty abstract concepts. From time to time I refer to them in my analysis. But I certainly do not believe that such grossly oversimplified concepts can provide an adequate description of the production structure and the state of property and social relations for any society. One central reason why my book is relatively long is because I try to offer a detailed, multidimensional history of capital and its metamorphosis. Capital ownership takes many different historical forms, and each of them involves different forms of institutions, rules and power relations, which must be analysed as such.

As I explain in chapter 1, when I define capital and wealth:

Capital is not an immutable concept: it reflects the state of development and prevailing social relations of each society. (. . .). The boundary between what private individuals can and cannot own has evolved considerably over time

and around the world, as the extreme case of slavery indicates. The same is true of property in the atmosphere, the sea, mountains, historical monuments, and knowledge. Certain private interests would like to own these things, and sometimes they justify this desire on grounds of efficiency rather than mere self-interest. But there is no guarantee that this desire coincides with the general interest. (2014: 47)

The fact that capital ownership and property rights are historically determined is particularly clear when I study the role of slave capital in southern USA before 1865, which can be viewed as the most extreme form of ownership and domination of owners over others (chapter 4). This is also evident when I examine in chapter 5 the lower stock market capitalization of German companies relative to their Anglo-American counterparts, a phenomenon that is certainly related to the fact that German shareholders need to share power with other stakeholders (workers, governments, NGOs, etc.) a little more than in other countries. This apparently is not detrimental to their productive efficiency and exporting performance, which illustrates the fact that the market and social values of capital do often differ.

More generally, I attempt to analyse the diversity of the forms taken by capital assets and the problems raised by property relations and market valorizations throughout history. I study in some length the many transformations in the nature of capital assets, from agricultural land to modern real estate, business and financial capital. Each type of asset has its own particular economic and political history and gives rise to different bargaining processes, power struggles, economic innovations and social compromises between the different productive forces.

For instance, large upward or downward movements of real estate prices play an important role in the evolution of aggregate capital values during recent decades, as they did during the first half of the twentieth centuries (see in particular chapters 3 to 6). This can in turn be accounted for by a complex mixture of institutional and technological forces, including the evolution of rent control policies and other rules regulating relations between owners and tenants, the transformation of economic geography, and the changing speed of technical progress in the transportation and construction industries relative to other sectors.

To take another example: I study in various parts of the book the importance of oil capital and its world distribution, with special emphasis on the power relations and military protections that go with it (in particular in the Middle East), as well on the consequences for the financial investment strategies followed by the corresponding sovereign wealth funds (particularly in chapter 12).

The hypertrophy of gross financial asset positions between countries, which is one of the main characteristics of the financial globalization process of

recent decades, is another recurring theme, from chapter 1 to chapters 5, 12, 15 and 16. I analyse the very large magnitude of the net foreign assets positions reached by Britain and France at the height of their colonial empires, and I compare them to today's net positions of China, Japan or Germany. I repeatedly stress that international property relations – the fact that some countries own significant parts of other countries – are particularly complicated to regulate in a peaceful and democratic manner, and often involve violent political conflicts. This was certainly true during the colonization and decolonization period, and could happen again in the future.

Public capital, sometime positive and sometime negative, depending on the changing patterns and complex political histories of public investment and deficit trajectories, nationalization and privatization policies, also plays a critical role in the book (see especially chapters 3 and 4). I emphasize the sharp dissimilarities in country experiences (contrasting in particular the cases of Britain and France in the eighteenth and nineteenth centuries), as well as the commonalities (such as the historically large level of public capital in the postwar period, and the large decline in recent decades, in rich countries as well as in Russia or China, with important consequences on the distribution of private wealth and the rise of new forms of oligarchs).

Throughout the book, I stress that the history of capital and inequality is multidimensional and involves a large variety of institutional compromises. The fact that it is technically possible to add up all the market values of the different existing assets (to the extent that such market values are well defined, which is not always entirely clear) in order to compute the aggregate value of the capital stock K does not change anything to this basic multidimensional reality of assets and corresponding property relations. I attempt to show that this abstract operation can be useful for some purposes. In particular, by computing the ratio $\beta = K/Y$ between the aggregate market value of capital K and national income Y , one can compare the overall importance of capital wealth, private property and public property in societies that are otherwise impossible to compare. For instance, one finds that in spite of all metamorphosis in the nature of assets and institutional arrangements, aggregate capital values – expressed in years of national income – are approaching in a number of countries the levels observed in the patrimonial societies that flourished in the eighteenth–nineteenth centuries and until World War I. I believe that this is an interesting finding in itself. But at the same time this certainly does not alter the fact that a proper comparison of these different societies requires a careful separate analysis of the various asset categories and corresponding social and economic relations.

Let me make clear that my book is at most an introduction to a multidimensional history of capital and power. Many important dimensions are not sufficiently dealt with. In his review, Jones rightly points out that the geography of capital – including the North–South, city–countryside, core–periphery

dimensions – should have been addressed more explicitly. Savage notes that one of the key structural changes pointed out in my book is the transformation of top elites from land to urban centres. This geographical dimension should again have been stated in a more explicit manner.

On the notion of social class in *Capital in the Twenty-First Century*

Another important way in which the history of capital and inequality that I develop in my book is multidimensional is the following. Throughout the book, I constantly distinguish between the inequality of labour income and the inequality of capital ownership. Of course these two dimensions of inequality do interact in important ways, e.g. rising inequality in labour earnings at a given point in time may tend to fuel rising wealth concentration in following decades or generations. But they largely involve different forces and social hierarchies.

In the case of unequal incomes from labor, these mechanisms include the supply of and demand for different skills, the state of the educational system, and the various rules and institutions that affect the operation of the labor market and the determination of wages. In the case of unequal incomes from capital, the most important processes involve savings and investment behavior, laws governing gift-giving and inheritance, and the operation of real estate and financial markets. (2014: 243)

In particular, the notions of top deciles or percentiles are not the same for the distributions of labour income and capital ownership. In certain societies they might be highly correlated, and sometime they represent entirely different social hierarchies, in particular in traditional patrimonial societies. The extent to which these two dimensions differ gives rise to different representations and beliefs systems about social inequality, which in turn shape institutions and public policies affecting inequality dynamics.

Is it possible to define social classes by using deciles and percentiles? In my book, I compare two different hierarchies of social groups: one hierarchy is defined by the distribution of labour income (I typically distinguish between the bottom 50 per cent labour incomes, the middle 40 per cent, and the top 10 per cent, sometime with special emphasis on smaller groups within the top 10 per cent, particularly the top 1 per cent or top 0.1 per cent); and the other hierarchy is defined by the distribution of capital property (I again distinguish between the bottom 50 per cent property owners, the middle 40 per cent, and the top 10 per cent, with special emphasis on smaller groups such as the top 1 per cent or top 0.1 per cent). I stress that traditional agrarian societies were mostly based upon the patrimonial hierarchy, and that to large extent this situation prevailed during the nineteenth century until World War I. In the future, it could be that a new form of inequality structure emerges, combining

the return of sharp patrimonial hierarchies together with the development of large labour hierarchies and strong culpabilizing discourses for those who loose on both dimensions. Extreme inequality in income and wealth can fuel extreme inequality in access to intellectual and symbolic capital (e.g. the average income of the parents of Harvard university students corresponds to the average income of top 2 per cent of the US distribution of family income; see chapter 13). At the same time we see the rise of what I refer to as ‘meritocratic extremism’ (a set of strong statements about the fact the losers deserve to loose, so to speak). The future structure of inequality might bring together extreme forms of domination based simultaneously on property and culture (in brief: Marx and Bourdieu reconciled).

As Holmwood emphasizes in his review, social classes should definitely be analysed as power and production relations between social groups, not just as deciles in statistical distributions. In my view, deciles and percentiles should be viewed as a language allowing for comparisons between societies that are otherwise impossible to compare, such as France in 1789 and China or the United States in 2014, in particular because they themselves used very different languages to describe their social classes. In some cases, one may need to further refine the classification and analyse smaller groups. For instance, as pointed out by Soskice in his review, it would be useful to distinguish the very poor (say, the bottom 10 per cent) within the bottom 50 per cent, which I do not do in my book.

Also, the different groups could and should be broken down by sector, age and gender. In her review, Perrons rightly points out that the need of further ‘gendering’ my analysis of inequality. I fully agree on this point. Gender issues are not entirely absent from the book. I stress the role of marriage patterns for the transmission of wealth inequality. I refer repeatedly to the fact that the property regimes instituted in the eighteenth and nineteenth centuries were based upon the exclusion of women from these rights. When I analyse fertility differentials between countries, I also stress the role of policies in favour of gender equality (see chapter 2). However it is clear that the gender dimension of inequality should have been addressed in a more systematic and explicit manner. Some of the available historical data sources allow us to renew the analysis of gender inequality in important ways, and this should be considered as a central priority for future research.³

The regulation and politics of capital

In *Capital in the Twenty-First Century*, I attempt to develop a historical and political economy approach to institutional change and inequality dynamics. I particularly stress the interaction between economic forces and institutional responses (especially in the area of educational, labour and fiscal institutions).

In his review, Hopkins rightly points out that the political forces explaining institutional change could and should be analysed in a more systematic manner. I do try to analyse some of these forces, but this is clearly insufficient. I stress the role of national identities and country-specific narratives about inequality and economic development (for instance the role of comparison with other countries in the emergence of the Anglo-American conservative revolution of the 1980s). I also attempt to emphasize the role of political conflict. In particular, wars and revolutions play a large role in my account of inequality dynamics and institutional change in the twentieth century. Of course, I agree that democratic forces and the extension of suffrage also played an important role in the rise of more inclusive social, educational and fiscal institutions during the nineteenth and twentieth centuries. But many of the most important changes did not come simply from the steady forces of peaceful electoral democracy: rather, specific historical events and political shocks often played an important role. This is evident if one looks at the chaotic evolution of progressive income and inheritance taxation over the 1900–2010 period. In particular, there is little evidence of a natural movement toward more progressive taxation until the violent military, political and ideological shocks induced by World War I. Beliefs systems and collective representations about social inequality and the role of government were deeply affected by World War I and the rise of communism, as they were by the Great Depression, World War II (and then at the end of the twentieth century by the stagflation of the 1970s and the fall of the Soviet Union). Before World War I, most of the European elite refused the social and fiscal reforms, and these reforms were finally adopted in the wake of the 1914–1945 shocks.

It is particularly interesting to note that the French elite was very strongly opposed to the creation of a progressive income tax until 1914, and that in order to justify their conservatism they were often referring to the French revolution. In their view, France had become equal after 1789 thanks to the end of aristocratic privileges and the development of well-protected property rights for the entire population. Since everybody was made equal under the right of property, there was no need for progressive taxation (which would be suitable for aristocratic Britain, the story goes, but not for republican France). What I find particularly striking in this pre-1914 debate is the combination of strong beliefs in property-rights-centered institutions and an equally strong denial of high inequality. One key finding of my historical research is that wealth inequality was in fact as extreme in France as in Britain at the eve of World War I (with about 90 per cent of total wealth for the top 10 per cent, and 60–70 per cent for the top 1 per cent). In my book, I try to understand what we can learn from the fact that wealth inequality was as large in France in 1914 than in 1789, and also from the fact that much of the elite was trying to deny this. I believe there are important warning lessons for today. In particular, it would be a mistake to believe that the forces of modern growth and

competitive markets are sufficient to address these challenges. Pre-1914 France or Britain were not static, agrarian societies: this is the time when major innovations occurred, such as the automobile, the electricity, the radio, financial globalization, etc.; these innovations were arguably at least as important as today's innovations in information technologies. However this was not sufficient to prevent extreme concentration of income and wealth to prevail, in large part due to the $r-g$ logic. I.e. modern industrial growth did not substantially affect the gap between the rate of return to capital and the economy's growth rate. This high and persistent differential between r and g seems to be an important part of the explanation for the very high and persistent level of wealth concentration that we observe in most societies in the eighteenth–nineteenth centuries and until World War I.⁴

Of course I am not saying that it will always take wars, revolutions and other violent political shocks to make institutional changes happen. Beliefs systems and resulting perceptions and policies can also be affected by peaceful public discussion. For instance, rising inequality in the USA or at the global level might generate appropriate policy responses in the near future. However we should not take this for granted. It is important to recognize the role of political conflict in the history of inequality and institutional change. It often took major fights to deliver change in the past, and it is not impossible that it will be the same in the future.

Finally, I should again make clear that my historical and political approach to inequality and institutions should be viewed as exploratory and incomplete. In particular, I say far too little about how new forms of social movements and political mobilizations will give rise to institutional change in the future. Also, I tend to devote too much attention to progressive taxation and too little attention to a number of other important institutional evolutions, such as the development of alternative forms of property arrangements and participatory governance. One central reason why progressive capital taxation is particularly important is because it can also bring increased transparency about company assets and accounts. In turn, increased financial transparency can help to develop new forms of governance (for instance it can facilitate more worker involvement in company boards). In his review, Plachaud mentions that excessive reference to global capital tax proposal might divert attention from more feasible progress. I probably did not explain sufficiently clearly that I strongly believe in the possibility of a step-by-step approach in the direction of more progressive wealth taxes. In particular, most countries already have property tax systems (sometime they have had such taxes for centuries). It is possible to gradually transform them into progressive taxes on net wealth, and to some extent this is already starting to happen, including in Britain.⁵ I should also have explained more clearly that this evolution, if it happens, is only one of the many institutional changes that would allow democracy to regain control of capitalism.

The last chapter of my book concludes as follows:

Information must support democratic institutions; it is not an end in itself. If democracy is someday to regain control of capitalism, it must start by recognizing that the concrete institutions in which democracy and capitalism are embodied need to be reinvented again and again. (2014: 570)

The fact that I do not push this line of investigation much further is certainly one of the major shortcomings of my work. This is certainly one of the key reasons why my book is at best an introduction to the study of capital in the twenty-first century.

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Notes

* This is a response to the papers published in the Piketty Symposium (*British Journal of Sociology*, December 2014) which explore Thomas Piketty's *Capital in the Twenty-First Century*. Contributions from Mike Savage, John Holmwood, Tony Atkinson, Laura Bear, Diane Perrons, Jonathan Hopkins, David Piachaud, Frank Cowell, David Soskice and Gareth Jones.

1. In particular, the historical data collection project on which my book is based directly follows the pioneering works by Kuznets (1953) and Atkinson and Harrison (1978).
2. Classic references include Simiand (1932), Labrousse (1933), Bouvier, Furet and Gilet (1965) and Daumard (1973).
3. For instance, historical inheritance files can be used to study the interplay between the evolution of matrimonial property regimes and within-household inequalities. See Piketty, Postel-Vinay and Rosenthal (2006, 2014).
4. In their review, Cowell and Hopkins point out that $r > g$ might induce rising inequality via rising capital-income ratios

and capital shares in national income. I should point out, however, that the main mechanism I have in mind is the following: for given capital-income ratios and capital shares, a higher gap $r-g$ tends to amplify long run wealth inequality in any dynamic model of capital accumulation with random shocks, and this amplification effect can be quantitatively very powerful. This is further explained in the on-line technical appendix to my book (see appendix chapter 10). See also Piketty and Saez (2014) and Piketty and Zucman (2014: section 5).

5. In recent years, there has been a bipartisan move toward more progressive taxation of real estate transactions in Britain (with the creation of upper brackets for properties worth more than one and two millions pounds). It would be preferable to follow the same evolution in the context of an annual property of wealth tax. As noted by Atkinson in his review, it is time to take a fresh look at the possibility of an annual wealth tax in Britain.

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Capital in the Twenty-First Century (original title). 16+ | 1h 43min | Documentary | 12 September 2019 (Russia). 1:44 | Trailer. 3 VIDEOS | 13 IMAGES. Adapting one of the most groundbreaking and powerful books of our time, *Capital in the 21st Century* is an eye-opening journey through wealth and power, that breaks the popular assumption that the accumulation of capital runs hand in hand with social progress, shining a new light on the world around us and its growing inequalities. That's the chapter of the history of economic thought that most of the presenters in this film seem to have missed. The names most clearly associated with it are Adam Smith, David Ricardo, John Stuart Mill and Henry George. Today, the people who know these ideas are often known as Georgists. [Capital au XXI^e siècle. English] *Capital in the twenty-first century* / Thomas Piketty ; translated by Arthur Goldhammer. pages cm Translation of the author's *Le capital au XXI^e siècle*. Includes bibliographical references and index. ISBN 978-0-674-43000-6 (alk. paper). 3. The Metamorphoses of Capital 4. From Old Europe to the New World 5. The Capital/Income Ratio over the Long Run 6. The Capital-Labor Split in the Twenty-First Century. Part Three: The Structure of Inequality. 7. Inequality and Concentration: Preliminary Bearings 8. Two Worlds. Part Four: Regulating Capital in the Twenty-First Century. 13. A Social State for the Twenty-First Century 14. Rethinking the Progressive Income Tax 15. A Global Tax on Capital 16. In their recent working paper, "Capitalists in the Twenty-First Century," the authors reveal that most in the top 1 percent do not depend on capital income for their earnings (see Figure 2); rather, they rely on their labor, networks, reputation, and other forms of what economists define as human capital. Even among the top one-tenth of 1 percent where non-human capital income plays a significant role, human capital income remains more important. Understanding how the very wealthy earn their income is important, especially as many consider tax policies to address disparity, and others worry th

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