Book review

PIKETTY Thomas, Capital in the Twenty-First Century,

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A few people have heard about Thomas Piketty[1] till recently, but for now on, they will be more numerous; thanks to his new book ***Capital in the Twenty-First Century.*** The book brings into the public attention a very intriguing subject: wealth and inequality. In almost 600 pages, the author tries to track and explain the roots of inequalities. The novelty here is that the inequalities are analyzed not between the poor and the rich ones, but between the poor and the very rich ones, the so called "one percent".

The book is structured in 4 major parts, covering the issues of income, capital and above all the inequality.

In Introduction the author raise the first major question regarding the wealth: is the wealth distributed according to the 19th century theory of Marx or to the 20th century theory of Kuznets? In order to answer this question and the result to be relevant, the author is using data for 20 countries, covering almost three centuries. As novelty, the author is using tax records, instead of surveys as was used to, for economic inequality data. Tax records are going back in late 18th century, unlike income surveys that run back in 1947 (for USA). Another useful tool is the historical overview of previous thinking about these issues, passing from Malthus to Young and French Revolution, from Ricardo to Marx, and finally to Kuznets.

Part 1 *Income and Capital*, brings into discussion a thorny subject, but not necessary contemporary: what share of income should go in wages and what share in profits, or in a simpler way toward labour or capital? Although the economists stated that the share of capital and labour in national income was pretty much around same numbers over the long run, Piketty demonstrates that this is not necessary correct, especially in the 20th century. In supporting this, in Chapter 1, are defined and presented the notions and concepts like national income, labour and capital, capital/income ratio and global distribution of production. The theoretical aspects are supported by numbers/data, so there are 5 figures and one table, showing what the author thought is important and relevant: the distribution of world population or output, exchange rates etc. In Chapter 2 is made and presented an evolution of growth rates over the time, actually a very long time, since Industrial Revolution, but there are data for comparison even from Antiquity.

Having the background settled, in Part 2 the author take a step ahead and brings into discussion *The Dynamics of the Capital/Income Ratio*. In Chapter 3, interweaving literature and real facts, the author reveals the metamorphose of capital. The starting point is the equation: National Capital=farmland + housing + other domestic capital + net foreign capital (Piketty, 2014) and based to this there are 2 Figures Capital in Britain respective France, 1700-2010 that prove the statement

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we mentioned before: the capital/income ratio was stable in the 18^{th} and 19^{th} century, but had wide fluctuations during the 20^{th} century. Other subjects discussed here are the foreign capital, public and private wealth and public debt and their implications. Chapter 4 leads the reader *From Old Europe to the New World*, from Germany to America, meaning both USA and Canada. The conditions in North America are very different from old Europe: land was abundant, so cheap, work force was provided by slaves, and the amount of capital accumulated by this region was smaller than Europe's. Eleven figures make the things more comprehensible. Based on this, in Chapter 5, are discussed the fundamentals of capital/income ratio in long term. The first fundamental law of capitalism $\alpha=r*\beta$, was presented in first chapter, as basic notion. The second fundamental law of capitalism $\beta=s/g$ is discussed now (especially its limits), along with issues like private savings and the capital in rich countries after '70s. In the end of the chapter, the author answers the question: what will be the capital/income ratio in the 21^{st} century. Chapter 6 makes the transition from capital/income ratio to capital-labor split. For this is necessary to be defined the notion of return on capital, its historical perspective, and other notions and concepts related to capital (real and nominal assets, marginal productivity of capital, Cobb-Douglas production function etc.).

Part 3 deals with *The structure of inequality*. As expected, the Chapter 7 begins with some Preliminary Bearings about Inequality and Concentration. In the middle of attention now is the distribution of wealth to the individual level, unlike the analysis from previous chapters that were at national levels. Starting from Balzac (yes, Honore de Balzac – Pere Goriot) the author raise a legitimate question: Work or Inheritance?. (An ample approach of this subject could be found in Chapter 11). To best illustrate the magnitude of inequality and concentration, there is a table that comprise *Inequality of labour income across time and space*, covering Scandinavia – as low inequality, Europe – medium and USA – high, between 1970s and 2010, making some prognosis for 2030. A more extent analysis is made in Chapter 9. The inequalities with respect to capital are also discussed here and extended in Chapter 10. For the picture to be complete, the inequality of total income is also taken into consideration. In Chapter 8, helped by 8 figures the author is making an incursion till 19^{th} century, around the world, actually two worlds – Europe and America, for a historical evolution of inequality. The last chapter (12) of Part three is about inequality in the 21^{st} century. An interesting thing here is the analysis made on return on university endowments.

Part 4 focuses on *Regulating capital in the 21^{st} century.* Based on history lessons drawn by the previous parts of the book, in this one, the author is trying to predict the features of 21^{st} century regarding the distribution of wealth and inequality. If in the 20^{th} century the wars played a major role related to inequality, in 21^{st} century what will be? May be the progressive taxation of incomes as a powerful force limiting inequality?

As a *Conclusion* the author resume all to *r* versus *g*—the rate of return on capital versus the rate of economic growth. Also, it seems that social and political forces can play a bigger role rather than strictly economic forces. The bottom line here is that now we haven't just gone back to nineteenth-century levels of income inequality, but we're also on a path back to "patrimonial capitalism," in which family dynasties overpass talented individuals.

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