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Book Review: *Capital in the Twenty-First Century*

Thomas Piketty set out with the goal in mind of uniting together again the notions of economics and the social sciences it is fundamentally grounded in. For too long, economists tried to hide behind their formulas and separate themselves from the pervasive uncertainties that exists in all social sciences. Instead of trying to lay out a prediction, create a mathematical formula that fit his prediction, and then claiming his prediction to be nothing but the truth, Piketty decided to work the other way around and evaluate how capital and income have evolved over time and draw conclusions based on the facts rather than some specifically-fitted abstraction. The results contained in his book *Capital in the Twenty-First Century* are pretty dismal, at best.

Piketty mainly analyzes capital and income, how their relationship has changed, and how capital's share of income has changed over time. The capital-income ratio stood high and lofty, much capital and wealth was concentrated in the hands of the rich, and your inherited wealth all but determined your lot in life with hardly any social movement at all. Then, the two world wars and the Great Depression hit, and most of this rigid structure fell apart as capital was lost, both in stocks and physically, and the income tanked as well. Taxes skyrocketed and the governments of various governments stepped in and helped out in different ways to reconstruct a more egalitarian society, grow back the economy, and make sure everyone was pulling their own weight. However, things have started to go backwards ever since the 1970s due to progressive taxes turning into regressive ones, the government stepping back from regulating the economy, and the economy has slowed up. Nowadays,

we are starting to see the same levels of inequality rise up again as capital income increases faster than capital income, return on capital accumulates faster than total economic growth, and we experience a return to “patrimonial capitalism” last experienced before World War I. In fact, Piketty notes that in the U.S. alone, the top 0.1% of “supermanagers,” as he likes to call them, currently own 60% of the wealth.

Piketty proposes two solutions to the growing problem. The first is a progressive income tax, much like the one instituted in most developed countries now, but far higher than the taxes on the top 1% and 0.5% today. Those at the top would be taxed 82% of income, in the top 5% would be taxed 50-60%, and the tax rate would decrease from there. The second solution is a flat global tax on capital of 15%. This is different from a capital income tax which only taxes the surplus income received from tax; it would instead tax the return on capital itself. As stated, this must be coupled with almost translucent financial transparency in both bank and corporate assets so neither side is cheating on the tax rate by manipulating the numbers.

At least with regards to whether or not the world’s economy has become almost as unequal as it had been during the 19<sup>th</sup> century and right up until World War I, this assertion is irrefutable. The data is all there, and has been meticulously collected and analyzed by a good handful of economists. However, there are a myriad of problems with his two proposals. First, there is a very miniscule chance the wealthiest in America, or anywhere, would ever fall in support of an income tax that high, even if there was another such recession. Most Republicans would decry it as well, forcing heavy lobbying on two fronts and a potential veto from the president as well. In addition, it can still be argued profits and income of any kind garnered from business are then reinvested to make the business grow, and, to the contrary, all the wealth the philanthropic top 1%ers give to charity will all be given up to the government.

Another problem is the transparency of the financial system. With all the recent news about the Panama Papers, it is quite likely this is only the tip of the iceberg. Banks, heads of state and their officials, corporations, it seems everyone who is anyone is involved in it, and Piketty is calling for more transparency when this act alone looks to have a much broader scale than the Watergate Scandal? These transactions and movements of money *should* be made known to the public because there are many organizations that front themselves as charitable organizations only to wind up have that same money snaking around to funding militant operations in the worst places imaginable (Levitt). You could probably trace back a good percentage of organizations if you got right down to it just like one could trace back any large corporation in business today back to sweatshop practices in Africa, India, or the Middle East.

A third problem is, quite frankly, the notion of the capital tax itself. Again, the return on capital could again be argued that it is going to be reinvested in the business to grow capital. However, the more important argument is the notion of taxing money they have already spent investing in that capital. It appears as if one is being taxed on money that has already been spent and is now being paid back or redeemed. It looks as if one is making no profit at all. The reality is that this capital increases in value while the rentier moseys around for however long until the rent comes back up. Eventually, they are making more money off of their capital than they originally invested, but are never quite fully paid back. It would never be framed in this way, however. This is of course not to mention what inflation and stock bubbles might do to alter the nominal wealth; what happens if capital is rated very highly, public spending trends very high as a result, and then the market crashes, leaving everyone in severe debt? Do not forget about incentives for companies and the wealthy to pay taxes and not buy public debt as well because although transparency is meant to dissuade most of this, it is still a viable option.

As far as cryptocurrency and Bitcoin goes, each Satoshi of a Bitcoin can be programmed to be spent on a certain transaction or for a type of commodity, among many other things. This could help increase transparency by making sure banking and corporation transactions are coming where they say they are coming from and going where they say they are going. One could also input a tracking device into each Satoshi, monitoring where that money goes after the initial transaction and decreasing the chance of it falling into the wrong hands. Of course, this would require some new security system as well so the next business or bank can apportion the same Satoshi for a different reason but not eliminate the tracking device. A quick Google search does not reveal how many lines of code can be fit into a single Satoshi, but it most likely more than enough to offer at least some form of security. The concept of paying specifically for any type of commodity with a pre-determined roster of currency could then be extended to making the bitcoins actually represent this amount of wealth. Therefore, capital could then be traded directly rather than through some type of medium. However, devising an entire system of how much of a bitcoin translates to how much of a specific commodity would be arduous and also fluctuating along with how much the particular commodity is worth in the current market. It also bears reminding the security system could be manipulated by the original company to only be used and accepted by a small number of vendors that ultimately benefitted itself, rather than letting that bitcoin travel freely.

Overall, Piketty's book confirmed many truths already evident, but also took the real data, quantified it, and analyzed it for his audience clearly enough that those not very educated in economics could still understand it. While his propositions are fraught with potential problems, a combination of them could reduce inequality. At the very least, the transparency is necessary now more than ever. Bitcoin can help facilitate this through its programmable functions, but it still needs to reach out farther than the few individuals who benefit from mining it, the wealthy who are currently hoarding it, and true global usage and acceptance to be in any way viable.