POLS/ECON 409 · *Capital's Return, Part 1*

rentier class	Kuznets curve	price index problem
capital share	depreciation	Piketty's variables: g, r, s, β, α

1. In the 18th century, Ricardo worried that since the supply of land was fixed, economic growth would evenutally lead to landlords controlling all wealth. In the 19th century, Marx assumed that capitalists would accumulate infinitely, so economic growth could only lead to revolution and communism. In the 20th century, Kuznets believed growth would initially raise inequality but eventually benefit everyone through higher wages. Why did these thinkers come to such different conclusions, and what did they get right?

2. What does $r > g$ refer to? When and where has this held true? What are the political and economic consequences?

3. What are some of the components of capital from an accounting perspective? Which of these seem hardest to measure? Why doesn't Piketty think human skills should be counted in capital stocks? What implications does this have?

4. Piketty says the capital–net-income ratio measures the "overall importance of capital in a society." Do you agree? How does this relate to the Piketty's first "law" of capitalism, which notes that the capital share by definition equals the return to capital times the capital–net-income ratio (in symbols, $\alpha = r\beta$)? How does this relate to inequality and redistribution across people or over lifecycles?

5. Does GDP measure the standard of living? Does GDP growth measure improvements in the standard of living? What are some problems with intertemporal, cross-national, or between-sector comparisons of these measures and concepts? What role does inflation play? What role do relative price changes play?

6. In what ways are demographic change and economic growth linked? What role does demographic change play in the historical, present, and future role of inherited wealth? Does economic growth necessarily lead to social mobility? Could you have one without the other? Piketty argues that growth in population and GDP will continue to follow twin bell curves from the 19th to 21st centuries. Is this likely? What are the implications?

7. Eichengreen claimed policy makers recalled some lessons of the Great Depression but forgot others. From Piketty, one might counter that today's economic elites learned exactly what they needed to avoid a second "euthanasia of the rentiers." Which events from the first half of the 20th century wiped out Western Europe's capitalists by 1950? Could a policy maker use Piketty's book as an instruction manual to prevent (or protect) the emergence of a dominant rentier class?

8. One critique of Piketty revolves around his second "law" of capitalism ($\beta = s/g$), which claims the ratio capital/net-income converges in long run equilibrium to the ratio net-savings/growth (note this assumes a constant long-run savings rate net of depreciation). This allows Piketty to predict capital will account for an ever-greater share of income as net growth stagnates. Critics note this theory has some odd features. Assuming constant net savings rates *and* growing capital stock means people must actually save more and more dollars to replace depreciated capital. So according to Piketty's second law, if growth is near zero in an economy with large capital stocks, people will save 100% of income and consume nothing! Most growth models assume instead that total (*not* net) savings rates are constant and predict moderate increases in the capital–income ratio as growth declines. What are your thoughts? How much of Piketty's argument is vulnerable if his second "law" is wrong?

9. What is Piketty's argument about the elasticity of substitution between capital and labor, and why does it matter? Thinking back to last week, could $r > g$ hold in the 21st century even if Piketty is too pessimistic about growth? What might Acemoglu and Restrepo say?

10. One reading of Piketty holds that the normal state of capitalism is the Gilded Age – which we'd know already if the first Gilded Age hadn't been interrupted by the catastrophes of the 20th century, and which we'll rediscover in the 21st century. How strong is this conjecture? Is there a role for politics in this story? And is this already happening in 2025?

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