

## POLS/ECON 409 · *Capital's Return, Parts 2 & 3*

1. What is Piketty's contribution to the study of inequality? What are some problems with synthetic inequality measures like the Gini coefficient and interdecile ratios? What does Piketty recommend instead, and what does his approach reveal? Is the top 10 percent a coherent concept in most societies? What about the top 1 percent? The top 0.1 percent?
2. Why is wealth always so unequally distributed, even in societies with egalitarian income distributions and norms? What implications does this have for justifications of income and wealth inequality? For the stability of economic systems?
3. Piketty introduces two alternative "ideal types" of unequal societies: one dominated by rentiers and one led by "supermanagers." What are examples of each? Is one type a better fit with most historical examples of unequal societies? Is one type more stable than the other? What does Piketty mean when he says "[t]he logic of  $r > g$  implies the entrepreneur always tends to turn into a rentier" (p. 395)?
4. Because shocks to economic inequality work out over such long periods – sometimes seventy years or more – Piketty argues it is valid and important to consider both short- and long-run explanations for the same data. What does he mean? Can you give examples where short- and long-run stories would reveal different causes of (or patterns in) the evolution of inequality?
5. Piketty notes that inequality is usually procyclical – rising when the economy booms and falling when the economy contracts. Does this hold for the Great Recession? Why or why not?
6. Piketty is skeptical that skill-biased technology change (SBTC) caused the rapid increase in wage inequality in the late 20th century, especially in the US and UK. He is also skeptical of claims that variation in top executives' pay reflects their marginal productivity, rather than being in the right place at the right time. Assess his arguments and evidence, particularly from comparative data.
7. One critique of Piketty is that his theories about the capital–labor ratio don't explain how wage income inequality developed over the last 35 years. What do

you think? Does Piketty need – or want – to explain wage income in this period? Which periods – and outcomes – are most important for Piketty to explain in order to predict the 21st century?

8. According to Piketty,  $r > g$  holds throughout most of history (why?), except the twentieth century (why?). Why doesn't this lead to an endless spiral of wealth concentration (or does it)?
9. What role do taxes, particularly taxes on wealth, play in Piketty's story? In general, what happens to the living standards of the wealthy and the size of bequests when there are negative shocks to capital or increasing taxes on rentiers? Put another way, can you explain the plot of *Downton Abbey* using  $r - g$ ?
10. Piketty shows that a growing proportion of wealth is inherited, argues that in the 21st century (as in the 19th century) almost all wealth will come from inheritance rather than lifetime savings, and wonders whether this will undermine current "meritocratic" justifications for extreme wealth. Is the US becoming a society – like the antebellum South or turn-of-the-century Western Europe – where the highest-paid workers fall behind the heirs? Is a return to 19th century social classes feasible? What economic, social, and political effects would such a change have? What if we are instead building a society of *petits rentiers* to replace the "patrimonial middle class"?
11. Piketty takes aim at meritocratic defenses of wealth, arguing that accumulated wealth is a hard-to-decompose mixture of merit, luck, and theft. (Note that Michael Young, who coined the term "meritocracy" in 1958, thought the concept dystopian.) What is your view: Are we witnessing the end of a meritocratic period? Can meritocracy be saved? Is it worth saving?
12. Observing early 19th century America – a remarkably equal society – Tocqueville thought inheritance taxes were necessary for democracy. Piketty updates this idea for the 21st century by proposing a periodic global wealth tax. How feasible are wealth taxes in the emerging second Gilded Age?

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 24 FEBRUARY 2015

## Tocqueville on the Inheritance Tax in 1835

I am surprised that ancient and modern writers have not attributed greater importance to the laws of inheritance and their effect on the progress of human affairs. They are, it is true, civil laws, but they should head the list of all political institutions, for they have an unbelievable influence on the social state of peoples, and political laws are no more than the expression of that state. Moreover, their way of influencing society is both sure and uniform; in some sense they lay hands on each generation before it is born. By their means man is armed with almost supernatural power over the future of his fellows. When the lawgiver has once fixed the law of inheritance, he can rest for centuries; once the impulse has been given to his handiwork, he can take his hand away; the mechanism works by its own power and apparently spontaneously aims at the goal indicated beforehand. If it has been drafted in a certain way, it assembles, concentrates, and piles up property, and soon power too, in the hands of one man; in a sense it makes an aristocracy leap forth from the ground. Guided by other principles and directed towards other goals, its effect is even quicker; it divides, shares, and spreads property and power; then sometimes people get frightened at the speed of its progress; despairing of stopping its motion, men seek at least to put obstacles and difficulties in its way; there is an attempt to balance its action by measures of opposite tendency. But all in vain! It grinds up or smashes everything that stands in its way; with the continual rise and fall of its hammer strokes, everything is reduced to a fine, imperceptible dust, and that dust is the foundation for democracy.

ALEXIS DE TOCQUEVILLE  
*Democracy in America*, Book I