Anthropological Forum
A journal of social anthropology and comparative sociology
ISSN: 0066-4677 (Print) 1469-2902 (Online) Journal homepage: http://www.tandfonline.com/loi/canf20

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To cite this article: Stephen Gudeman (2015) Review Article: Piketty and Anthropology, Anthropological Forum, 25:1, 66-83, DOI: 10.1080/00664677.2014.972339

To link to this article: http://dx.doi.org/10.1080/00664677.2014.972339

Published online: 10 Nov 2014.

Anthropological Forum, 2015
Vol. 25, No. 1, 66–83, http://dx.doi.org/10.1080/00664677.2014.972339

Routledge
Taylor & Francis Group

Involving Anthropology: Debating Anthropology's Assumptions, Relevance, and Future

Review Article

Piketty and Anthropology

Stephen Gudeman

Capital in the Twenty-First Century, by Thomas Piketty, Translated by Arthur Goldhammer. The Belknap Press of Harvard University Press, Cambridge, 2014, 685pp., figures, notes, contents in detail, index. ISBN: 978-0-674-43000-6 (hardback).

In his book, Capital in the Twenty-First Century, *Thomas Piketty demonstrates that capitalism produces income inequality. He shows that over several hundred years and across many nations the rate of return on capital exceeds the growth rate of market economies. Returns to most forms of labour do not keep up with economic growth. Piketty explains as well that when economic growth slows, the gap between capital's increase and the economy's growth expands. When this happens, inheritors of capital benefit relative to others.*

Piketty's study makes use of income tax and other records that have been systematically collected since the French Revolution and especially in the early part of the twentieth-century. His empirical and historical study covers much of Europe and the United States, as well as Japan and other countries. The cross-cultural and historical similarities in the rates of capital and economic growth are striking. They change only with major disruptions such as wars. Piketty's results contradict many theories of economic growth and development.

For anthropologists, Piketty's coupling of inheritance with capital accumulation has implications for the role of kinship and marriage arrangements in relation to status.

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Given his view, however, that economy only means markets, Piketty has difficulty justifying ways to counter capitalism's inherent inequality. Anthropologists who hold a broader vision of material life as composed of both impersonal exchange and mutuality, may usefully enter this discussion to explain and justify ways to counteract market economy's inherent inequality and instability.

Keywords: Piketty; Economy; Inequality; Capitalism; Mutuality

Few economists since Keynes have received such public attention as Thomas Piketty. Friedrich Hayek's *The Road to Serfdom* has been reprinted innumerable times. Milton Friedman published popular books, influenced several governments, and developed a television series. Paul Samuelson published many editions of his textbook, Paul Krugman has a regular column in the *New York Times*, and others publish books for the general reader. The 'unknown' French economist, Thomas Piketty, however, has suddenly burst on the scene with a best seller, *Capital in the Twenty-First Century*. The book has been the centre of discussion among economists and the public, and it has reached the top levels of the White House, as well as international institutions such as the World Bank. If anthropologists are awed by this reception, economists must be proud even if some disagree with him.

Piketty's main finding, which captured attention, is that over time the average rate of return on capital exceeds the average growth rate in capitalist economies. He writes this underlying inequality as $r > g$. The inequality of these two rates is endemic to capitalism. This finding means, of course, that if capitalists receive a higher rate of return than economy's growth, others are obtaining a smaller part of that growth. Everyone (except the unemployed, house makers, the retired, and the disabled) may be working and earning a salary, including capital owners, but the takings of capital depress the takings of labour. Inequality is an inherent feature of capitalism. The result is shocking to those who believe that the market system is fair in the everyday sense that you get what you deserve.

This inequality has two implications that Piketty discusses to some effect. When economic growth slows, the difference between the growth of capital and growth of the economy widens. Capital's share of the expansion falls by a lesser amount than other income. When economic growth is slow, the role of inherited wealth also becomes more important, because inheritance gives its recipients a head start on capital accumulation, if they spend less than their returns from capital.

The book is both historical and empirical. Piketty documents his findings by drawing on material that stretches over several centuries. Tax records of income and estates provide his principal data, which he finds is the most thorough and reliable information available for his purposes. This data began to be collected systematically by countries during the past several hundred years. Piketty's use of empirical and historical material sets the book apart from almost all of modern economics, especially as practised in the United States. Marx's empirical information was more anecdotal if pungent. Some twentieth-century economists, such as Simon Kuznets, employed empirical and historical data, and Piketty praises that part of Kuznet's work, but Piketty's study is the most thorough, documented historical analysis of capitalism's growth and pattern of distribution that has been produced.

The work is comparative, which also sets it apart from the standard fare. Piketty uses data from France more extensively than from elsewhere, but only because this material began to be collected rather thoroughly immediately after the French Revolution. For the United States, Piketty's numbers date principally to 1913 when a progressive income tax was imposed. In addition to France and the United States, Piketty looks closely at Germany, Britain, Japan, and some other European countries, such as Sweden. He includes 'less developed' economies to the extent possible and examines global flows of capital in the contemporary world as well as earlier times. His findings broadly are the same for all these countries.

The book is extraordinarily timely. Just when many thought we had reached the end of history, and capitalism had triumphed over all rivals, everyone was left bewildered by the 2008 crash and ensuing recession. To make matters worse, the high end of the income scale soon resumed exploding upwards and capital accumulation continued to shift to a few. Piketty offers a fresh understanding of these events by his historical view and depiction of inequality between the return to capital and the growth rate.

Piketty presents a macro or wholistic view of economy not only through his historical and comparative reach. He links distribution and growth through the fundamental inequality $r > g$. His interest in growth with unequal distribution reaches back to Ricardo and to Marx, but this way of putting economy together was submerged by later trends that treated stories of growth and stories of distribution separately.

Piketty briefly draws on novelists, especially Jane Austen and Honoré de Balzac, for pictures of wealth distribution in Britain and France between 1740 and 1830. Marriage strategies, he reminds us, were often devised in relation to a spouse's income. From income that was accorded by a landed estate, he figures the size of the estate held and its capital value, which provides him with the capital to income ratio that he calculates for all the periods covered. Anthropologists, many of whom have read Austen, will be fascinated by her calculations of the relation between capital—the size of a landed estate—and the income it provides, which largely matches Piketty's two-hundred-year calculations of the relation between income and capital, even as the latter shifted from agricultural land to industry, commerce, and finance.

For anthropologists, Piketty's brief forays into eighteenth- and nineteenth-century novels and his thesis that the past 'devours' the future through the inheritance of capital that accumulates faster than growth opens the door to further studies of kinship, cousin marriage, and the way status is preserved in relation to wealth. This way of looking at marriage is not new to anthropologists, but Piketty's calculations of the relative constancy between the size of estate capital and income may yield a fresh and comparative perspective on kinship and marriage arrangements.[1]

Both critics and supporters of Piketty must be impressed by his collection and mastery of a huge amount of data. He has many collaborators, but Piketty's effort and ability to see data in a new way add to the credence that he largely has been accorded. Piketty is an economist with an economist's view, however. Even if he departs from some standard perspectives of economists and his principal finding is convincing, not all is right. What is in it for the anthropologist, and what is missing?

To understand Piketty's accomplishment, I shall attend to his overall view and economic laws before turning to some of his findings and his suggestions for controlling capital's take. With his general argument in place, I then consider what anthropology might say about it.

Piketty's View

For Piketty, economics is not a science nor is it separate from the other social sciences and humanities. He harbours a distaste for the abstract models that most economists, especially in the United States, produce. He refers, for example, to economists' 'childish passion for mathematics and for purely theoretical and often highly ideological speculation' (32). His work, he thinks, will be too historical for economists and too economistic for historians, but so it must be if one examines the long-term undercurrent of wealth inequality. In addition to his findings about inequality or $r > g$, and his depiction of two 'laws' of capitalism, his departures from standard economics will interest anthropologists, specifically his empirical and two-hundred-year view of capitalism that traces the long-run constancy of the way capital dominates economies.

Piketty is no Marxist, however. He does not mention the labour theory of value, does not use the word 'exploitation', and does not extol the virtue of communism or central planning as the antidote to the perpetual wealth inequality in capitalism. To the contrary, Piketty refers to the price system, to markets, and occasionally to marginalist analysis (according to which production proceeds to the point at which the value of a final input is equivalent to the value of the final output, with a similar analysis made on the consumption side). David Ricardo on land rents and the principle of scarcity (with land considered as one form of capital) is drawn in, for Ricardo was also a forerunner of modern, marginalist analysis.

Some standard economists undoubtedly will find fault with his reliance on tax data. Martin Feldstein, a leading economist and former Chair of the President's Council of Economic Advisors, has already contested Piketty's conclusions on these grounds (2014). The more liberal Nobel Prize winners, Paul Krugman and Joseph Stiglitz, praise him. Still, like Marx and Ricardo, Piketty finds that capitalism is built on an internal contradiction, $r > g$. He takes from Marx as well the insight that capitalism has no limits to the accumulation of wealth, except for wars, natural disasters, and possible state controls. Piketty is no 'equilibrium' theorist of the type that when supply equals demand through the price mechanism, the market clears and equilibrium is reached. To the contrary, he traces the many convolutions of capitalism through the years, and his historical approach hardly allows for the place of rational choice with settling points in capitalism.

Piketty's debunking of economists in the standard pantheon is widespread. For example, Robert Solow, a Nobel Prize winner, is critiqued for the idea of a 'balanced growth path'. Likewise, Simon Kuznets, in the mid-twentieth century, using statistical data from tax returns, showed that income inequality was decreasing in the United States in the preceding fifty years as industrialisation spread. But this period was short and marked by two world wars whose effects on capital Piketty discusses extensively. The growth of inequality before and after has been the norm. So much, then, for the 'Kuznets curve', which was a 'product of the cold war' (14). Perhaps all this is cherry picking, but the cherries are ripe and Piketty is a consistent picker. As for Piketty's understanding of cultural influences such as the effect of the cold war on economic theories, I shall return to his lack of a notion of ideology and culture, not to speak of politics and power.

A personal remark may be due. Piketty's book is about the distribution of wealth and income in economy. Influenced by Marx, Ricardo, and post Ricardian analysis, my first publications in economic anthropology (1978a, 1978b) addressed distribution in the economies that anthropologists know. Influenced by this theory, fieldwork, the notion of culture, the presence of 'underdevelopment' as it was called, and my sense that distribution in the United States economy was unequal, I tried to find determinants of distribution in my ethnography and cross-culturally. Marshall Sahlins had been implicitly discussing distribution in *Stone Age Economics* (1972), which remains influential today. I made minimal headway on the topic, however, and the effort to resuscitate the subject of distribution fell on deaf ears in anthropology. In their way, both John Maynard Keynes (1963) and Joan Robinson (1970) had broached the issue by pointing to the surplus that capitalism could produce, and John Kenneth Galbraith was criticising affluence in the United States (1962) as Thorstein Veblen had much earlier (1994). But in regular economics the topic of distribution had been sidelined by the dominance of marginalist analysis. The effect on contemporary economics of Piketty's revival of distribution remains to be seen.

Figures and Calculations

For Piketty capital means wealth, and wealth means capital. It is principally held as financial assets and real estate, but includes many other forms such as equipment, buildings, machinery, patents, and financial instruments (think banking and Wall Street). The national wealth of a country consists of the financial and nonfinancial assets (less the liabilities) that are owned by its citizens and government. This wealth produces a 'rent' or return as interest, dividends, land rent, capital gains, royalties, and profits. Rent 'is simply remuneration for ownership of [an] asset, independent of any labor' (422). Labour receives a return as wages, salaries, bonuses, and other earnings from work.

Piketty figures that the long-run rate of return on capital (r) is 4–5% a year, and at least 2–3% a year. In contrast, over two hundred years, global average growth (g) has hovered between 1.0 and 1.5% annually. Economies grow as the technology of production develops (and the product is sold). This technology is held primarily in private hands as capital, which takes the lion's share of the increase in the value of the output. As Piketty shows, the difference in the growth rates of capital and the economy is an historical fact. Variations in the inequality depend on the savings rate, demography, external shocks, and other factors, but the fundamental gap remains. A capitalist system is inherently unstable.

I must insert a parenthetical note about the instability of capitalism. With his emphasis on production and distribution, Piketty does not discuss consumption, which has become so important in many advanced capitalist economies. One way of understanding the 2008 crisis is through the lens of personal debt. When returns to labour falter in relation to returns to capital, one method to keep up with the Jones' is to take on excessive debt, which can lead to further instability.

Given the difference between r and g, inheritance of wealth becomes important. As Piketty observes in several places, 'The past tends to devour the future: wealth originating in the past automatically grows more rapidly, even without labor, than wealth stemming from work, which can be saved' (178). In the world of Balzac and Austen this observation was especially true, but it has become relevant again because capital accumulation increased in the late twentieth century. (A word to the wise who want to be wealthy: become a 'super manager' or 'superstar' (265) who commands a high salary or have wealthy parents [in locales where inheritance taxes are low].)

Let us turn to some of Piketty's more detailed findings. Growth plays a determining role in his calculations. Citizens of the United States should not hold any illusions about their nation's 'exceptionalism' and the virtues of their national creativity and capacity for innovation. Between 1820 and 1913 European economies grew about 1% per year, while the United States grew about 1.5%. Between 1913 and 2012, however, Europe grew 1.9% per year, whereas the United States grew 1.5% annually or the same as in the preceding 100 years. There are many fluctuations during these intervals, but the growth rates of economies (factoring in demography) are remarkably similar over time and across developed economies. For wealthy countries, Piketty presumes growth at about 1.2% per year. This annual increase is substantial, however. For example, a growth rate of only 1% leads to a 35% increase in the economy over 30 years. Even if substantial, these growth rates for national economies (g) are lower than the annual growth of capital (r).

Economic growth has been dramatically affected by major wars. For example, in Britain and France before World War I, national capital was six to seven times the yearly national income. With the two wars and the depression, by the 1950s their national capital had fallen to two to three times' national income. (One of Piketty's useful calculations, as indicated, is the ratio of national capital to income and its inverse.) In the 1970s, after the effects of the World Wars were broadly absorbed, private capital in the wealthiest countries made a dramatic comeback due to a higher savings rate and lower demographic growth. This accumulation of private capital was aided by the privatisation of public capital in countries such as France and Germany, and by the rise of asset prices. By 2010 national capital had expanded back to five to six times' national income. Of course, capital's composition shifted among farmland, housing, and industry in the interval, but the numbers reveal the devastating and relatively lasting effects of war.

Taking up a different, almost perverse example, Piketty turns to the American Civil War. He suggests that Southern slave owners had more wealth than traditional European landowners, with the wealth primarily in slave 'capital'. By considering slaves as a form of capital, Piketty judges that the capital to income ratio in the South, also, was about 6:1 and exceeded the capital to income ratio in the North. Given his calculations, we better understand the devastating effects that the US Civil War had on Southern capitalist slave owners, and perhaps the ferocity of that war, as well as its lingering effects. Piketty is no apologist for slavery, and his figuring leaves me ever more uncomfortable with the current trend of talking about 'human capital' as if most of us are bought and sold on the market as embodiments of market capital, although perhaps that is true, too.

These and many other empirical findings provide the groundwork for the equations and ratios that Piketty deploys. The initial equation he labels the First Fundamental Law of Capitalism. It is

$$\alpha = r \times \beta$$

As before, r designates capital's rate of return. β is the ratio of national capital to national income. He calculates, for example, that on an annual basis the ratio of capital to income in developed markets today is roughly 6:1. It says that national income is about one sixth of national capital or that it takes six years of national income to equal national capital, as we have seen in some of the examples. By multiplying this ratio by the rate of return on capital, he has an identity that shows capital's share of national income, which is α. His equation ties together the rate of return on capital and the capital to income ratio with what capital receives from national income. The numbers he provides are averages, and vary over time and by country, but they are revealing. Again, for the wealthiest countries in 2010, which are the latest numbers he offers, it took about six years of national income to equal national capital (β), while national income from national capital was approximately 30%, which meant that the rate of return on capital was approximately 5% (53). He compares this return to Jane Austen novels in which land would return a rent of 4–5% annually. Again, there are variations, but the transformation of landed capital to industrial capital is not so great as might be imagined, if Austen and Balzac's numbers are broadly correct. In fact, says Piketty, the return on real estate today is roughly the same, if a little lower today. Even if one is not a devotee of calculations, these numbers are fascinating for what they reveal about the constancy of capitalism.

More intuitively understandable is Piketty's Second Fundamental Law of Capitalism, which is

$$\beta = \frac{s}{g}$$

This equation tells us how the capital to income ratio is determined. It says that the higher the savings rate and/or the lower the growth rate, the higher will be the capital to income ratio. A higher savings rate clearly can lead to an increase of capital. The interesting part of this law is that lower growth widens the gap between the return to capital and the growth rate. Slower growth hurts the salaried more than the fat cats, because capital's return is 'durably higher' (351) than the growth rate, which Piketty displays through historical statistics. Of course, everything is based on long-term averages, so I shall not refer to the Great Recession in the United States that began in 2008 after which output returned to prerecession levels (in 2010), high remuneration was quickly restored, and Wall Street reached records, but only 17 of 50 states had recovered the jobs they lost by May 2014.[2] More pointedly, when growth is slow and the rate of savings is roughly constant, capital increases and the importance of inherited wealth, or what he calls an 'inheritance society' becomes ever more important in the drama about inequality (351). (I should add but will omit for simplification that Piketty always includes the effects of demography because it influences the growth rate of a national economy and its per capita income.)

With respect to the Second Law, Piketty adds many qualifications. I found most interesting the way he combines the diverse individual motivations for saving, because they often draw the attention of contemporary economists who almost exclusively explain savings through the concept of individual preference. Some people save during the life cycle for retirement (Modigliani's hypothesis), some save for the next generation, some save as a precaution, and some save for later consumption. Piketty speaks to these individual motivations, but his law is geared to a more general or macro level.

With the ground set by the fundamental laws of capitalism, Piketty turns to the division of returns between capital and labour. This division has been of great interest to Marxists and to some anthropologists. The topic puts us directly in the centre of questions about distribution. Which tail wags the dog? Does the return on capital determine what is left for labour? Does the wage (perhaps determined in part by a 'subsistence level') set what is left for capital? Or, does the interaction of the two, the class struggle, decide the outcome? Piketty's answer, to put it bluntly, is that the return on capital, given his fundamental laws, determines the return to labour. I need to qualify this answer, as he does, and explain some lines of the reasoning. We must remember that he looks at long-term trends and averages, so there is variation as already indicated by the effects of wars. There are effects as well that depend on how income is accounted in firms, the cost of managing capital, how well the financial sector shifts capital from one project to another (intermediation), and the presence of inflation. (Here is one of

Piketty's asides for those unacquainted with the work of Markowitz: 'There is every reason to believe that the largest fortunes are often those that are best indexed and most diversified over the long run, while smaller fortunes—typically checking or savings accounts—are the most affected by inflation' [211].) Piketty's basic answer to the distributional issue, which must align him with many economists, is that technological change combined with the marginal productivity of capital determines the profit rate. With technological change, capital continually finds more and more productive uses (assuming that the fruits of the change go to capital). Capital keeps moving to its highest point of productivity or where the return for each additional unit is higher than its cost, presuming that the financial system of intermediation is in good working order. With technological change, which has been occurring for centuries, capital keeps substituting for (or displacing) labour. Capital, we might say, is in shorter supply than labour and so can keep going profitably until it becomes abundant.

Technological change is beneficial to everyone, so we are told—'a rising tide lifts all boats'—but the capitalist's yacht rises much faster than labour's rowboat. Of course, if technological change does not occur, then capital's return shrinks. Conversely, if demographic growth shrinks, then capital's return grows. Ultimately, Piketty concludes, these forces of demography, technological growth, and economic rationality have their own motives and directions that are separate from political forces, which might counter them. The market, he says, has no 'morality' (234). In contrast, I think the market has a morality (or ideology). We are told, for example, that markets are good because they are efficient in the allocation of resources. The market's value is efficiency. The struggle over returns to capital and to labour is about values and morality as well as political power. These issues bring to the fore some of the differences between market economics and anthropological economics, to which I return.

Let us assume with Piketty that the rate of return on capital has been the determining variable in distribution over two hundred years, and that it has remained broadly constant if trending downwards during this interval. The struggle today is about the division of labour's income, which has grown increasingly unequal, especially in the United States.[3] As many have commented, the 'middle class' has been eviscerated so that today income differences emerge among the low, the high, and the very highly paid, or what Piketty calls the 'centile struggle' (252). Rents level off at the top 10% of the income scale. Leaving aside gains on existing wealth, which Piketty does, salaries become the main income source up to the top centile (1%) bracket. With the rise of 'super managers' this part of the income scale has exploded upwards. Since 1980, 60% of the increase in national income has gone to the richest 1% of the population. Super managers took super salaries. Of this group, financial and banking managers are overrepresented compared to their proportion in the rest of the population.

At this stage of Piketty's analysis, without questioning the rise of super managers that he details, I am not fully clear about his handling of capital gains or returns (295). His super managers may be running companies and financial partnerships, and their 'marginal productivity' may be almost impossible to measure as the template for their rewards, but they also manage and control capital itself, which in a corporation belongs to the shareholders or in a hedge fund to the investors. In many cases, corporate management of production, distribution, and sales has been financialised or has become dominated by money management of a corporation and its stock value. A super manager's compensation usually is a combination of salary, bonus, and stock options so that a rise in the price of corporate stock benefits him. An executive or compensation committee that is drawn from the board of trustees, whom the super manager may help select, usually sets his compensation. The corporate super manager's stock options are not taxed until exercised, but their eventual value, sometimes at the cost of other stockholders whose ownership is proportionately reduced, may be enormous. For a hedge fund manager, control of the financial assets of others is more direct and rewarding, because he receives not only a salary but also an allocation of profit based on the fund's increase in net asset value for the year, and this return is composed of both realised and unrealised gains for tax purposes. The unrealised gains are taxed only when the assets are turned over in his portfolio. Piketty's data, however, is based on yearly taxes, so unrealised gains that add to capital fall outside his glimpse. Similarly, a private equity firm receives annual fees and years later a share of the profit realised when the assets are sold. In the meanwhile, in both cases, the unrealised gain or capital may itself be drawing a return. Today, controlling capital in commercial corporations and financial groups can be as important as owning capital directly.

Towards the end of his book, Piketty extends the general lines of his argument to global inequality, to billionaires, to sovereign funds, to university endowments (that are not taxed), to the effects of inflation, and, of course, to the global flows of capital today. With this material, Piketty draws the empirical part of his book to a close.

Piketty's Suggestions and Conclusions

Piketty offers two solutions to the inequality problem that is posed by the imbalance between the return to capital and the growth rate. One solution may be difficult to realise, as he admits, while the other may be appropriate but idyllic. The first solution, a progressive income tax, would reduce inequalities after tax income. Progressive income taxes developed in the early twentieth century but were partly eroded starting in the 1980s, especially in Britain and the United States, following the policies and politics of Thatcher and Reagan. Most progressive income taxes today flatten out at the higher end of the income scale or become regressive, especially when exemptions on capital returns that are not counted as income are put in place. A progressive income tax also does not capture the transmission of capital across generations or inherited wealth. The tax rate on an inheritance usually is lower than the rates on income, which means that capital differences can be passed across generations and perpetuate wealth and income inequality, or become 'patrimonial capitalism' (173, 237, 473). Also, capital gains taxes can be avoided when the inheritance for tax purposes is written up to its market value at date of death.

Piketty's second solution, which he admits is utopian, is to levy a global tax on capital. This tax would be progressive and imposed on all forms of wealth including financial assets, real estate, and other holdings. It would stop short of eliminating all capital differences and so would not lead to communism, but would attend to the growing importance of global patrimonial capitalism. Enacting a global tax on capital will most likely be impossible to achieve, he acknowledges, but the idea sets a standard or model for thinking about and understanding the problems posed by capitalism today and its inherent inequity.

Piketty's first conclusion to his study is that wealth and income inequity is a political as well as an economic issue. His notion of 'the political' is attenuated, however. Through his statistical analysis, he superbly demonstrates that the two major wars of the twentieth century devastated capital owners in the warring countries, and he documents the effects of politically influenced tax changes through that century, but some readers may wish for a deeper understanding of the way power in its many forms seeps through the institutions of an economy and pervades how income and wealth are allocated. For Piketty,

> The history of inequality 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 (20).

This part of his analysis, which is often repeated and profoundly influences inequality through 'collective choices' (and by prevailing notions of justice, morality, and politics that may themselves reflect the structure of capitalism), is underdeveloped. Piketty cites Durkheim's prediction in the *Division of Labor in Society* (1947) that modern society will put an end to inherited wealth, but he does not see that Durkheim's notion of society is a moral one (22). Even if Piketty makes little use of the economists' regnant notion of rational choice, he does not use the Durkheimian idea that by being members of a society and economy we are necessarily moral actors as well as rational calculators, which markets require.

Piketty's second conclusion is that the opposed forces of divergence and convergence lead to different degrees of economic inequality. Heightened training and education, the enhancement of skills, the rise of 'human capital', and class conflict may lessen economic inequality, however, he shows that the force of divergence driven by the return on capital is greater than that of convergence and leads to economic inequality.

The Anthropologist's Take or Piketty, the Economist

Piketty is critical of most economists for their dependence on models, inattention to inequality, and reliance on marginalist analysis, but he retains an economist's view of economy. For Piketty, economy means markets. Politics, sociology, psychology, anthropology, and the physical environment are external to the economy. This market view of economy leads to a contradiction in his argument. On the one hand, according to Piketty, the inequality, r > g, is endemic to capitalism. 'Pure and perfect competition cannot alter the inequality r > g, which is not the consequence of any market "imperfection"' (573). On the other hand, if perfect markets hold, the entrepreneur's take for his innovation will diminish or disappear with competition and imitation.

Piketty says little about the function of innovation. This creativity is the source of new value in economy, which Schumpeter so astutely outlined years ago (1934), which I have tried to document with small-scale studies (Gudeman 2001), and which has been the subject of numerous investigations, especially at business schools. Entrepreneurship is a central motor of increased productivity, whether at the small scale that anthropologists observe or at the large scale (Ruttan 2003). I do not need to remind readers of the use of conveyor belts in assembly lines, of the wheel, of viaducts, of plant breeding, of microchips, of new organisational forms, and of countless other innovations that have drawn rewards both monetary and social.

The reward to entrepreneurs, says Piketty, is a return for their labour (41), although it can be mixed with their return from capital, and it may be difficult to separate the precise value that entrepreneurship adds (204). With perfect markets and competition, however, the profits or rents of the innovator are dispersed as lower consumer prices or lower production costs so that everyone benefits and the economy grows. If there is not perfect competition, the return becomes a rent for the entrepreneur. Of course, perfect conditions do not exist. We need only consider the way pharmaceutical companies protect themselves with patents at the cost of access to drugs and good health, not to speak of the use of tariffs and copyrights.

Piketty argues, however, that if the entrepreneur's return is heavily taxed to reduce inequality, 'the motor' of growth (g) will be extinguished. 'Entrepreneurs would then no longer have the time to turn into rentiers, since there would be no entrepreneurs' (572). Thus, he concludes, 'The entrepreneur inevitably tends to become a rentier, more and more dominant over those who own nothing but their labour. Once constituted, capital reproduces itself faster than output increases. The past devours the future' (571). To underline the point, according to Piketty, an entrepreneur becomes a rentier (on the returns from his capital assets taken as dividends, interest, royalties, land rent, and capital gains), but this can happen only when the innovator has a monopoly and markets are imperfect. In a perfect market, the profits of the entrepreneur are driven to zero.

This conclusion reverses Piketty's claim that capital returns exceeding economic growth have nothing to do with imperfect markets. We thus reach the contradiction. Either the gains to innovation are short term as in a perfect market, or they become rents on accumulated or monopoly capital in imperfect markets. Piketty assumes both. He provides the fascinating empirical result that r is greater than g in capitalism, however, something is missing in his theoretical claims. How does capital arise except through innovation?

When Piketty asks ‘Why is the Return to Capital Greater Than the Growth Rate?’ he answers that it is an historical fact and not a logical necessity (353). He also says, however, that ‘if capital plays a useful role in the process of production, it is natural that it should be paid. When growth is slow, it is almost inevitable that this return on capital is significantly higher than the growth rate’ (423). Even if we grant with Piketty, contra Marx, that capital is productive and justly receives a rent, and even if we grant contra the anthropological notion of culture that capital ‘naturally’ receives this rent, how do we understand today’s inequality and the accumulation of private wealth in capitalism? Piketty’s use of the term ‘rent’ here is crucial, for it deviates from what some economists say and the way I use it.

For Piketty, the return on capital is ‘rent’ whether secured as land rent, interest, dividends, royalties, or profit (422). This rent, observes Piketty, is independent of labour, which was the original sense of the term rent, as used in Austen and Balzac. Today, however, many economists use the word rent to denote a market imperfection as in the case of monopoly rent. Piketty disagrees: ‘The problem posed by this [contemporary] use of the word “rent” is very simple: the fact that capital yields income, which in accordance with the original meaning of the word we refer to in this book as “annual rent produced by capital” has absolutely nothing to do with the problem of imperfect competition or monopoly’ (423). In contrast to Piketty’s use of the word, rent, for the natural return on capital, I think rent taking (or rent seeking) produces inequality (Stiglitz 2012). How rent taking works and ways to reduce wealth inequalities can be seen by drawing on an anthropological view of economy.

Economy for Anthropologists

Unlike Piketty and most economists, I view economy comparatively through an institutional and cultural perspective. The cultural part looks to local models and explanations (Gudeman 1986, 2008). The institutional analysis stems from Veblen (1978, 1983, 1994), Braudel (1982s), Bohannan (1955), and Polanyi (1944, 1968).

Economy has two sides. One is the high relationship economy that is rooted in the house. Neglected by standard economic theory, it is prominent in small-scale economies, and is hidden and mystified yet salient in capitalism. The other side consists of competitive trading in markets. Viewing these two aspects as a continuum, at one end lie economies based principally on mutuality and social relationships. At the other end lie economies based primarily on impersonal exchanges of commercial and financial products. Anthropologists know one aspect of economy and economists know the other, but the two are juxtaposed, often contradictory, and sometimes complementary. Neither side is complete without the other that influences it. The combination of the two varies across cultures and time, but the tension between them lies within economies and within us. We calculate our relations to others, and we feel connected to them. We measure some things and consider others to be incomparable.

This argument rests within a larger one, that economies often are made up of five increasingly abstract, institutional spheres. These spheres range from (1) the house and (2) community, in which sociality and relationships principally mediate the transmission of material things and services, to (3) the commercial, (4) financial, and (5) meta-financial spheres of markets. Ranging from the less to the more encompassing, and from mutuality to competition, the five spheres are differently emphasised and elaborated across economies. As anthropologists know, not all the spheres appear everywhere, but all are found in capitalism.

With this perspective, let us consider distribution not in terms of what individuals, corporations, and others receive as marginal returns in markets, not in terms of classes, such as landowners, capitalists, and labourers as in classical political economy, and not in terms of labour versus capitalists as in Marxism. Distribution and the way returns to capital exceed an economy's growth can be seen in terms of economy's spheres. Each sphere receives rents or uncosted returns that are outside of, or in addition to, the productive efforts of people. They are taken within and between the spheres through the powers of monopoly, abstraction, and ideology. Rents are like subsidies.

The house economy, outside markets, receives no market rents but it may have uncosted use of resources, such as game, the soil, forests, water, fish, the sun, and other natural elements. (No purely self-sufficient house economy exists just as there is no purely competitive market. Both are models by which to think practices.) Anthropologists have studied and recorded many variations of the house economy. It is usually based on kinship. Houses, which differ cross-culturally, vary in size, longevity, ideology, and other ways. Sometimes they are seen as enduring, and sometimes they are evanescent. They exist in capitalism, if reduced in scope. When we raise a garden for eating, repair a house (even change a light bulb), and clean, we are housekeeping or maintaining the house economy outside market exchanges.

When the house economy is set within communal institutions, it may be obliged to pay rent for access to a resource, although the collective, such as a kin group, and its leaders may be providing a spiritual or organisational service and the resource may be held jointly. When the house economy is set within larger political, religious, and market institutions, it may pay rents to sovereigns and owners for land use, to political and religious functionaries as tribute or tithes, or to merchants for goods and services sold above perfectly competitive prices. The rents are obtained through religious, ideological, or commercial domination, and by political force.

A community, such as a kin group, religious organisation, or collective, may hold a resource by original occupation or other means. When a community holds a resource by grant from a sovereign, its members may owe fealty, tribute, labour, or military duty for use of the resource. Similarly, a cooperative may pay rent for its use of a private resource.

Rent-taking proliferates in the three market spheres. In the commercial domain, a business may receive rents above purely competitive returns by raising prices through a monopoly or patents, or by lowering its costs through a monopsony. Governments pay rents to their suppliers through inflated cost plus contracts and as subsidies as in the case of agricultural supports. Within a corporation, as we have observed, high-ranking executives often receive salaries or stock options that they issue to themselves via a compensation committee, which raises prices to consumers or lowers returns to shareholders.

Corporations also receive rents by imposing negative (uncosted) externalities on others, such as oil spills in the oceans and rivers, and on land that are cleaned up by governments and are endured by local inhabitants. Corporations may emit pollutants in the air or receive low-cost use of natural resources from governments, such as forests, airwaves, and pasture land. They also may receive subsidies or tax credits to relocate in a community, which becomes a rent the community pays through taxes.

In the financial sector, banks receive rent on the difference between what the Federal Reserve now pays them for holding their money and what they receive through lending at rates above this cost and their own. Banks impose a myriad of charges, from high transaction costs to late fees on checking accounts, credit cards, loans, and mortgages. They also designate levels of risk for lending that may result in higher than competitive charges to certain borrowers, such as payday borrowers and subprime mortgagees. Insurance companies, from automobile to house to life, can impose nontransparent charges. As in the commercial sector, the returns to top managers, whose contributions may not be directly related to their productive efforts, receive rents through high salaries and stock options that raise prices to consumers or dilute stockholder returns.

The meta-financial sphere has a long history in grain contracts, life insurance, and other futures contracts, but it exploded in the late twentieth century with statistical discoveries about option pricing and asset allocation. In this sphere, risk becomes a commodity to be bought and sold for insurance or for speculation about price movements. In effect, the future price of a price that has a risk or statistical variation can be brought to the market for sale to others. The entirety is removed from human labour (except for the effort of pricing) and from real goods. The meta-financial sphere revolves about abstract mathematical modelling. The opportunities for rent taking in this realm are large. For example, by hiding risks from others, such as subprime borrowers and purchasers of structured investment vehicles, by relying on the government for bailouts when taking on too much risk, and by executing rapid-fire transactions which secure monies that others might have received in perfectly competitive conditions, operators in this sphere secure rents that might have gone to others in finance, commerce, and house economies. Top hedge fund managers receive money rents. According to one estimate, the 25 top hedge fund managers in 2013 received 20 billion dollars (*New York Times* 6 May 2014). They earned this amount by their efforts, but many people exerted comparable or greater efforts during the year with far less pay. Part of these rents are secured from what other investors do not obtain, or what one gets another loses, but the rents also come from the other market spheres, not to speak of the house. The high-end rents in 2013 were sufficient to found a new university with an endowment, help subsidise universal health care, or help pay for school children's lunches.

Rents flow upwards through the spheres. They are secured through political and ideological power in the house and communal spheres, through monopoly control of capital in the commercial and financial spheres, and through capital and closely held knowledge in the meta-financial sphere. In the market realm, control is aided through social relationships that 'should not' exist in perfectly competitive markets. For example, through such connections, information about possible price movements is traded and deals are made (as in the Paulson case when he bet against a risky vehicle that he devised for Goldman Sachs to sell). Market rents feed capital owners who increase their wealth more rapidly than others in the economy. They are extractions relative to a perfectly competitive market.

This picture of economy as composed of relationships and contracts, and of increasingly abstract, encompassing, and powerful spheres provides substance to Piketty's empirical findings about the dominating growth of capital in economy. Some accretions of capital as normal profit and short-term entrepreneurial profit do occur, but the increasing and outsized returns to capital can be traced to rents that are taken by the growing and more abstract spheres of economy.

For several hundred years, we have heard ideological justifications for the reward that capital receives, such as it is the return for waiting and sacrificing current consumption or it is the reward for undertaking risk. For some, rent that is secured without effort or labour is an appropriation justified by the concept of nature's beneficence or by ritual power, the gods, kinship position, or the church. According to Piketty, it is 'natural' that capital receives a rent. With his assumption about the natural return to capital, it becomes hard to see how the inequalities in capitalism can be altered except at the expense of our nature and by forces external to the economy, which is seen only as the market. Anthropologists may wish that Piketty had cast a more critical eye on the cultural idea that capital naturally receives a rent. Is Piketty's notion a rationalisation for rent taking?

At times, Piketty refers to social norms that determine the receipts, which people receive, and debunks the idea of individual marginal productivity as explaining salary levels, especially with respect to the high incomes that super managers obtain. He points here to corporate hierarchies (that is, power) and compensation committees, but refers the question of how norms are established to psychology, politics, sociology, and cultural history. Because these norms come from outside the economy, he has difficulty explaining how a global tax on capital or a progressive income tax could be established.

If we see economy, however, as composed of impersonal exchanges and social relationships, and as institutional spheres, then norms and values are part of economy. As Durkheim long argued, markets are socially framed arenas. Transgression of these normative boundaries and spillovers that reflect self-interest may be justly countered by the sociality that enables markets in the first place.

For several hundred years, as Piketty illustrates, the forces of divergence have led to the inequality he describes, $r > g$. A more tenable balance can be achieved by building better regulations on the three market spheres to limit their rent taking. Regulations on markets have long been in place but more should be added, including stopping the circulation of the elite between Wall Street and government that sets policies and laws for the market. Corporations are not sole agents like market 'individuals' (who also are made and remade through relationships). Corporations have responsibilities within the many communities that enable them. In place of shareholder value, which emphasises the role of capital and private owners, we might think of stakeholder value that underwrites broader responsibilities (Lydenberg 2014).

Markets have continually changed in response to their social and cultural conditions, just as those circumstances alter in relation to market developments. Today, we must rethink the place of markets in society depending on what we want them to accomplish as means rather than ends. One place to start this reconsideration is with their boundaries or 'margins'. We can limit and strengthen the place of markets through taxes that link them to the social or mutual side of economy. At least four types of taxes could be instituted or strengthened in relation to this other side of economic life. First, a truly progressive income tax would limit excessive takings by super managers whether in commerce, finance, or meta-finance. In addition, a progressive consumption tax would help stem consumption inequalities that often lead to invidious comparison, which in turn helps generate the drive to accumulate capital and to expand consumer debt for those lacking capital returns.[4] Third, the detrimental environmental effects that are partly produced by capital's overdrive, which often is turned into consumption displays and wastage, can be limited by imposing an 'energy added tax' at each stage of energy's production and distribution. Larger displays usually require more energy in both their production and use. This energy added tax would be applied to fuel sources that pollute, such as petroleum and coal, with the returns helping to subsidise softer energy, such as wind and solar power. Unlike the trade of pollution rights, which is a market solution to problems of pollution and resource exhaustion, this tax places communal economy limits directly on the production and consumption of energy by which all of life is sustained. Finally, with respect to Wall Street and other financial centres, a tax levied on security or financial transactions would help limit speculation and excess accumulation in the financial and meta-financial spheres. These four taxes can help control the outsize growth of private capital. The revenues can be redistributed to the communal and house spheres of economy (which are rent by rent) through improving infrastructure, supporting education, and underwriting forms of welfare. Communally framed limits on capital accumulation help bring balance to the tension in economy between mutuality and unconstrained competition. These are only the suggestions of an anthropologist, however, reflecting on Piketty's finding that r has exceeded g throughout capitalism's comparatively short history.

Notes

[1] See, for example, Kuper (2009).
[2] *Wall Street Journal*, 20 June 2014.
[3] Piketty and Emmanuel Saez have produced a number of research papers documenting this growing inequality. See, for example, Piketty and Saez (2003). Saez (2013).
[4] Robert Frank (1999) explains how such a 'luxury' tax works.

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