My Review of

Capital in the twenty First Century, By Thomas Piketty

Part I.

Mr. Piketty is a relatively young French economist, who after spending three years working in the U.S. at 'a university near Boston', decided to return to Paris because of ideological differences:

> *"Economists are all too often preoccupied with petty mathematical problems of interest only to themselves. … in France …economists are not highly respected in the academic and intellectual world … Hence they must set aside their contempt for other disciplines and their claim to greater scientific legitimacy, despite the fact that they know almost nothing about anything." (Ibid, Introduction)*

In spite of his many years of education and work in economics, Mr. Piketty has managed to preserve the innocence and gullibility characteristic of non-economic intellectuals. For example, he considers

> *"… a mistake to underestimate the importance of the intuitive knowledge that everyone acquires about contemporary wealth and income levels, even in the absence of any theoretical framework or statistical analysis. Films and literature, nineteenth-century novels especially, are full of detailed information about the relative wealth and living standards of different social groups, and especially about the deep structure of inequality, … Indeed, the distribution of wealth is too important an issue to be left to economists, sociologist, historians, and philosophers." (Ibid, Introduction)*

I agree with Mr. Piketty, but only half way. Yes, the economic profession, especially in the U.S. has been led astray ever since Adam Smith, but an understanding of the economic activity in every country in the world is much too important to be left to the ordinary Joe in the street, or even to the fiction writers of the past, or of the future. The solution to any of our economic problems can only be found through the correct understanding of the economy; just as the problem of human disease required the expertise of a medical profession, based on the understanding of biology; and as the technological advances, that characterized the industrial revolution, were based on the growing understanding of our material world achieved by physicists and chemists. The understanding of the economy is not as difficult as conventional economists pretend it to be; but it is certainly not as easy and simple as quacks and charlatans want us to believe.

Consistent with his modest understanding of economics, Mr. Piketty is quite truthful about the contribution of his book to the actual understanding of the problem it analyzes:

> *"I am only too well aware of my total inability to predict what form capital will take in 2063 or 2113. As I already noted, and as I will frequently show in what follows, the history of income and wealth is always deeply political, chaotic, and unpredictable. How this history plays out depends on how societies view inequalities and what kinds of policies and institutions they adopt to measure and transform them. No one can foresee*

how these things will change in the decades to come. The lessons of history are nevertheless useful, because they help us to see a little more clearly what kinds of choices we will face in the coming century and what sort of dynamics will be at work. The sole purpose of the book, … is to draw from the past a few modest keys to the future. … the actual usefulness of those lessons from the past remains to be seen." (Ibid, Introduction)

My guess would be that Mr. Piketty understands 'capital' as well, if not better, than most—economists and non-economists included. His tentativeness, and outright hesitation, to point to its future evolution is certainly not due to a lack of knowledge, or information; it is all due to the fact that 'capital' is an abstract, not to mention confusing' concept. In reality, capital is a microeconomic concept that refers to the productive assets, or factors, of a firm—naturally, each firm has different forms of capital. Adam Smith made it into the macroeconomic concept loved—or hated—by virtually every single economist on the planet; because he wanted to relegate the concept of 'money'—which was central to the so called 'mercantilists'—to the background, as something not really meaningful to understand the economic activity. Unfortunately for conventional economics, the word 'capital', by its own definition ('anything used in the production of goods') has no concrete reality. For example, Mr. Piketty has to specify his own definition of capital—even though, he regrets not being able to include what is known as 'human capital'; he ends up defining capital to include: "all forms of real property (including residential real state) as well as financial and professional capital (plants, infrastructure, machinery, patents, and so on)". And somewhere else, he is even more specific, asserting that 'real property' constitutes 50% of the total capital. How a residence can be a factor of production is not explained.

Another of Adam Smith's 'faux-pas' is his concept of labor: he considered that labor was the work of the factory worker—because it produced goods for sale; all other human activities, including his very own, he called them 'unproductive' labor. Karl Marx internalized these two mistaken and misleading concepts—labor and capital—and created and entire theory of economics with them; and as it happens when one feeds wrong information to a computer, 'garbage in, garbage out.'

Having quite forgotten his early warnings about underestimating 'the importance of the intuitive knowledge that everyone acquires', Mr. Piketty unearths the almost forgotten work of a doubly confused intellectual of older times, and build up his own theory of accumulation of capital, after spending fifteen years in search of the appropriate data.

End of Part I.