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Research Paper

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Capital in the Twenty-First Century - Thomas Piketty

Mr. N. Ragothaman — PhD. Research Scholar, School of Management Studies, Vels University, Pallavaram, Chennai

*** Dr. S. Vasantha** — Professor, School of Management studies, Vels University, Chennai.
* Corresponding Author.

Introduction

It is not surprising that a book on inequality wins the coveted 2014 Financial Times & McKinsey Business Book of the Year Award. The distribution of wealth is the most widely discussed and controversial issue intriguing the policy makers and CEOs alike. Do the dynamics of private capital accumulation inevitably lead to the concentration of wealth in ever fewer hands, as Karl Marx believed in nineteenth century? Or do the balancing forces of growth, competition, and technological progress lead in later stages of development to reduced inequality and greater harmony among the classes, as Simon Kuznets thought in the twentieth century?

What do we really know about how wealth and income have evolved since the eighteenth century, and what lessons can we derive from that knowledge for the century now under way?

These are the tricky questions Thomas Piketty attempts to answer in this most admired #1 Bestseller of 2014. He admits with professorial humility about the imperfections and incompleteness of the answers, nonetheless they are based on most extensively researched historical and comparative data covering three centuries and more than twenty countries including India. The book is based on a new theoretical framework that affords a deeper understanding of the underlying mechanisms.

The concrete, physical reality of inequality is visible to the naked eye and inspires sharp but contradictory judgements. Indeed, the distribution of wealth is too important an issue to be left to economists, historians and social scientists. Modern economic growth and diffusion of knowledge, Piketty argues with a sense of immediacy, has made it possible to avoid the Marxist apocalypse but failed to modify the deeper structures of capital and inequality. The rate of return on capital (r) exceeds the rate of return of growth of output and income (g), his over simplistic r > g, as it did in nineteenth century and seems quite recurrent episode of stock market in twenty-first century. Capitalism automatically generates an unsustainable inequality that radically undermines the meritocratic values on which liberal democratic societies are based. Piketty with a renewed optimism, reposes faith that democracy can regain control over capitalism and ensures that the general interest takes precedence over private interests, while preserving economic openness and avoiding protectionist and nationalist reactions. The book is a captivating narrative derived from historical experience toward a policy recommendation in this direction. Piketty is not shy in hiring the literary insights from Balzac and Jane Austen and paints a striking portrait of the distribution of wealth with an evocative power that no statistical or theoretical analysis can match.

Main Argument of Capital

Piketty's main argument is that return from invested capital (r) in the stock market and in real estate will grow faster than growth of income (g). The implications are deep: to have invested capital, you must have a stock of money already either from accumulation, endowment or inheritance. If you rely on income, as most people do, you will never catch up to the wealth of people who are already rich. Piketty's research suggests it as a structural contradiction of capitalism and questions the basic premises on which capitalism is based on.

There is an immediate appeal of such argument which has driven the book to become a cultural touch point. The themes that Piketty brings up have been enshrined in discussions of progressive economists for decades. No fewer than three Nobel Prize winners, Joseph Stiglitz, Paul Krugman and Robert Solow have all devoted much of their careers to studying inequality. What sets this book as a scholarly work to investigate changing patterns of ownership in the economy's most dominant resource is 'capital' per se. Who owns the world's stock of tangible and financial assets? Where did they get them? And how did the distribution of ownership change through time? It was Piketty whose meticulous examination of the evidence, seemed to provide fresh and impartial proof that audience was craving for.

Thomas Piketty's Capital has been a hit, most notably for the quality of the work. In the simplest version of the Piketty model, wealth grows more quickly than does the economy as a whole and thus the picture of markets changes. The relative losers are no longer low wage earners but rather anyone who is not a capitalist. Any disparity is due not to their shortcomings or imperfections in labour markets but rather to their lack of a high initial endowment. Furthermore redistribution will work like a magic, provided redistribution is enough to give the poorer individuals an opportunity with some capital to invest.

Thomas Piketty's Capital deals with very big and important questions. It takes a broad moral philosophical view, rather than a narrow technical economist view. It combines history, quantitative estimation, social science theory, and a deep concern with societal welfare in a way that is too rare these days. Piketty's grand argument may be wrong in future. It could be that in future, capital will turn out to complement rather than substitute for labour, a policy vigorously pursued by mega-PSUs in India.

It could turn out that growing fortunes will be a lot harder in the future than Piketty thinks it will. It could turn out that our plutocrats as a social class will decide to play the status game of spend-their-moneyand- change-the-world rather than enrich great grand children that they will never see. The grimmer elements of Piketty's forecast have probable chance of coming true if redistributive justice is not enshrined in the economic policies. It is right time to worry about the scenario he paints, and figure out how to guard against it. In twenty-first century no company can afford ideal differentiation, not even Rolex. Mass market is the key to survival. An expanding mass market means a rising middle class propelled by distribution of income. Audi is the best brand only after its great strategy for mass market of China and emerging economies. The future growth in metal, mining, infrastructure, shipping, in turn, depends on mass consumption in expanding markets.

This book is a high-choice for business leaders, strategists and the policy makers alike who are the participant and also the

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players in the mass-market mechanism. A truly readable book for anyone; needs no prior training in economics and social sciences

from a Professor from University of Paris.