



Piketty's Capital in the 21st Century

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Capital Income Explosion Scenario

- As K increases, r declines slowly if the elasticity of substitution is >1
- Vast direct and indirect literatures find its closer to .6
- User cost literature implies about the same (need big user cost elasticities to pull this off). Equipment's may be between .5 and 1.
- If production is CES, then the user cost elasticity is exactly on point
- CBO review by Jennifer Gravelle argues for same range
- Gross vs. Net also a problem
- Conclusion: Not a “terrifying”ly likely scenario



The Case for the Policy Recommendations Has Not Been Made

- Capital income might not be exploding, but the tax wedge is.
- Diamond and Saez dismiss Chamley and Judd stating that in a model without bequests, the exploding tax wedge becomes irrelevant. But, a key motivation for the recommendations is bequests. Relying on intuition from a model without them is an odd choice
- Diamond and Saez: “confiscatory wealth taxation would adversely affect saving and have serious efficiency costs”
- If the elasticity of substitution is high, then the benefits of consumption tax reform skyrocket. Gravelle et al. found that these increase 78 percent when the elasticity jumps from .5 to 1.



House of Cards

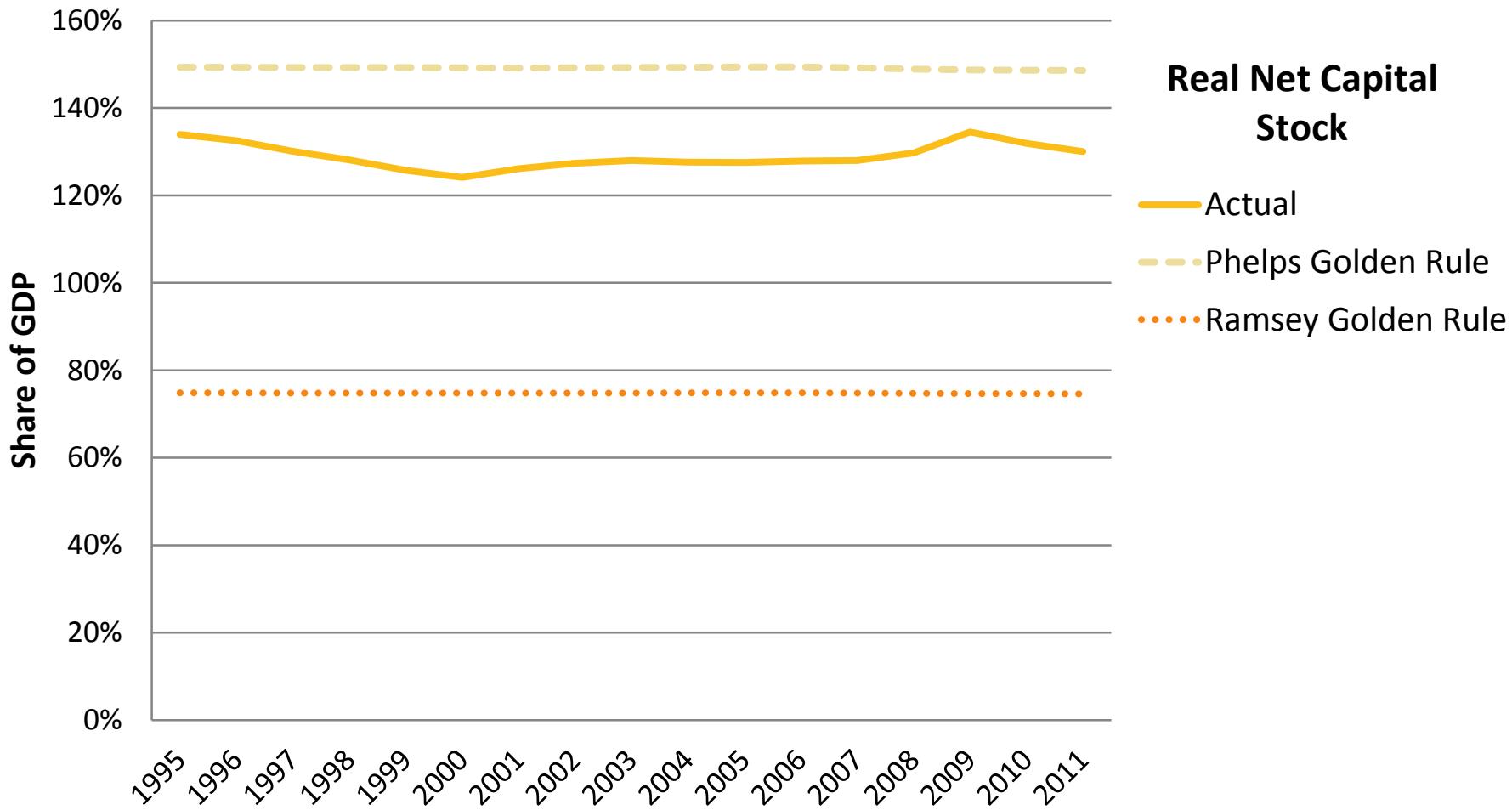
- In his data, recent movements in rK/Y and K/Y are both being driven by housing
- Housing is (from my own research) likely well above its golden rule level
- This is a serious challenge to the entire effort. Do we substitute housing for labor by replacing people with umbrellas?

Table 2: Domestic capital accumulation in rich countries, 1970-2010: housing vs other domestic capital

	1970 domestic capital / national income ratio		2010 domestic capital / national income ratio		1970-2010 rise in domestic capital / national income ratio	
	<i>incl. Housing</i>		<i>incl. Other domestic capital</i>		<i>incl. Housing</i>	
	<i>incl. Other domestic capital</i>		<i>incl. Housing</i>	<i>incl. Other domestic capital</i>	<i>incl. Housing</i>	<i>incl. Other domestic capital</i>
U.S.	399%		456%		57%	
	142%	257%	182%	274%	41%	17%
Japan	356%		548%		192%	
	131%	225%	220%	328%	89%	103%
Germany	305%		377%		71%	
	129%	177%	241%	136%	112%	-41%
France	340%		618%		278%	
	104%	236%	371%	247%	267%	11%
U.K.	359%		548%		189%	
	98%	261%	300%	248%	202%	-13%
Italy	247%		640%		392%	
	107%	141%	386%	254%	279%	113%
Canada	325%		422%		97%	
	108%	217%	208%	213%	101%	-4%
Australia	410%		655%		244%	
	172%	239%	364%	291%	193%	52%



Golden Rule for Housing





Capitalism has unambiguously reduced global inequality (Sala-i-Martin)

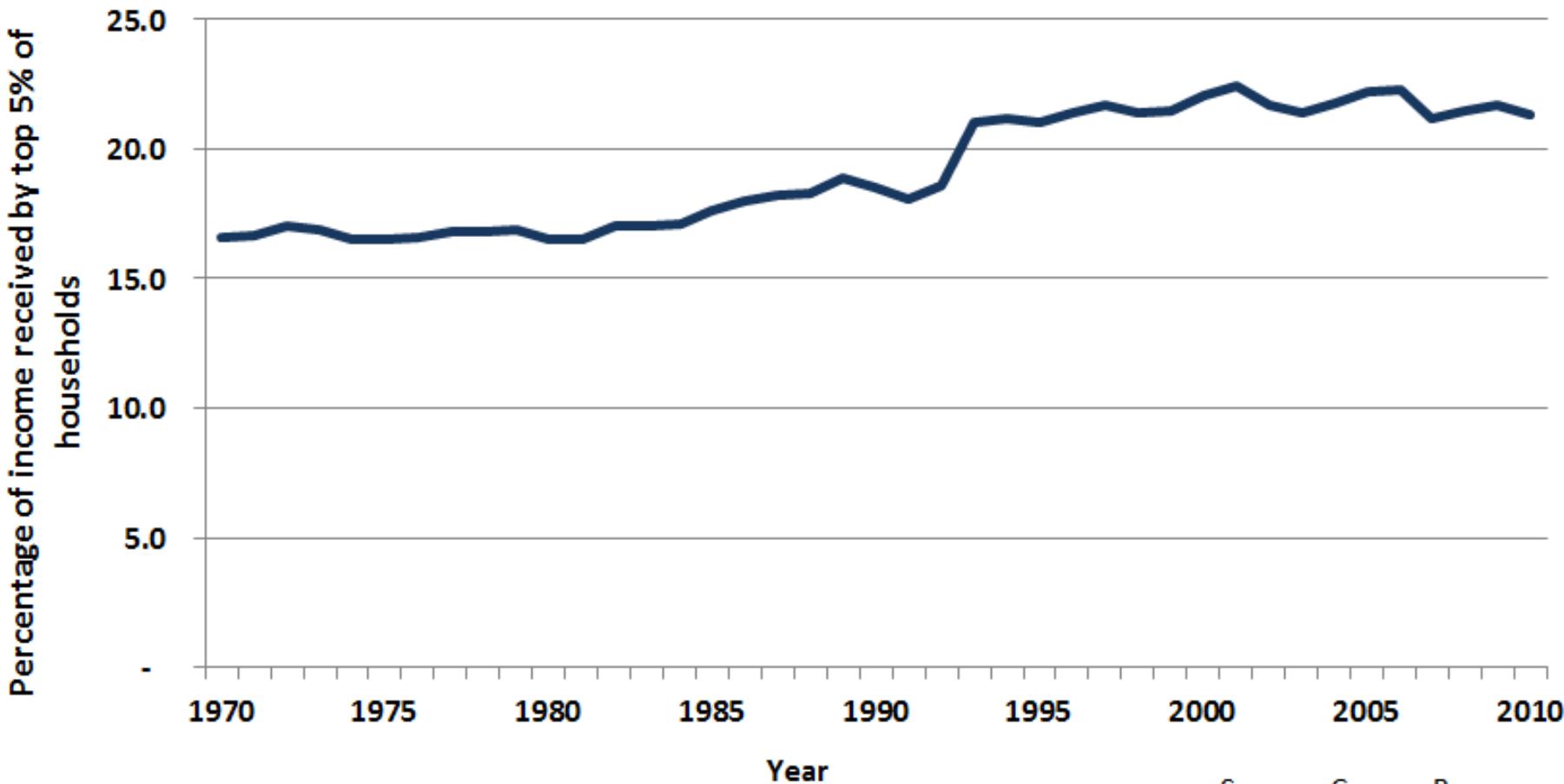
- The book focuses on within country inequality
- The Global Wealth Tax would require global governance. It is inconsistent to ignore the global wealth and income distribution and then propose a solution for the problem you identify that requires global cooperation.
- If the hostility to capitalism evident in this book becomes an accepted norm, would that halt the positive effects in the developing world? Wouldn't developed world institutions spread the 80 percent tax rates and wealth taxes to everyone and harm the poor?



Another Look at Our Just Society



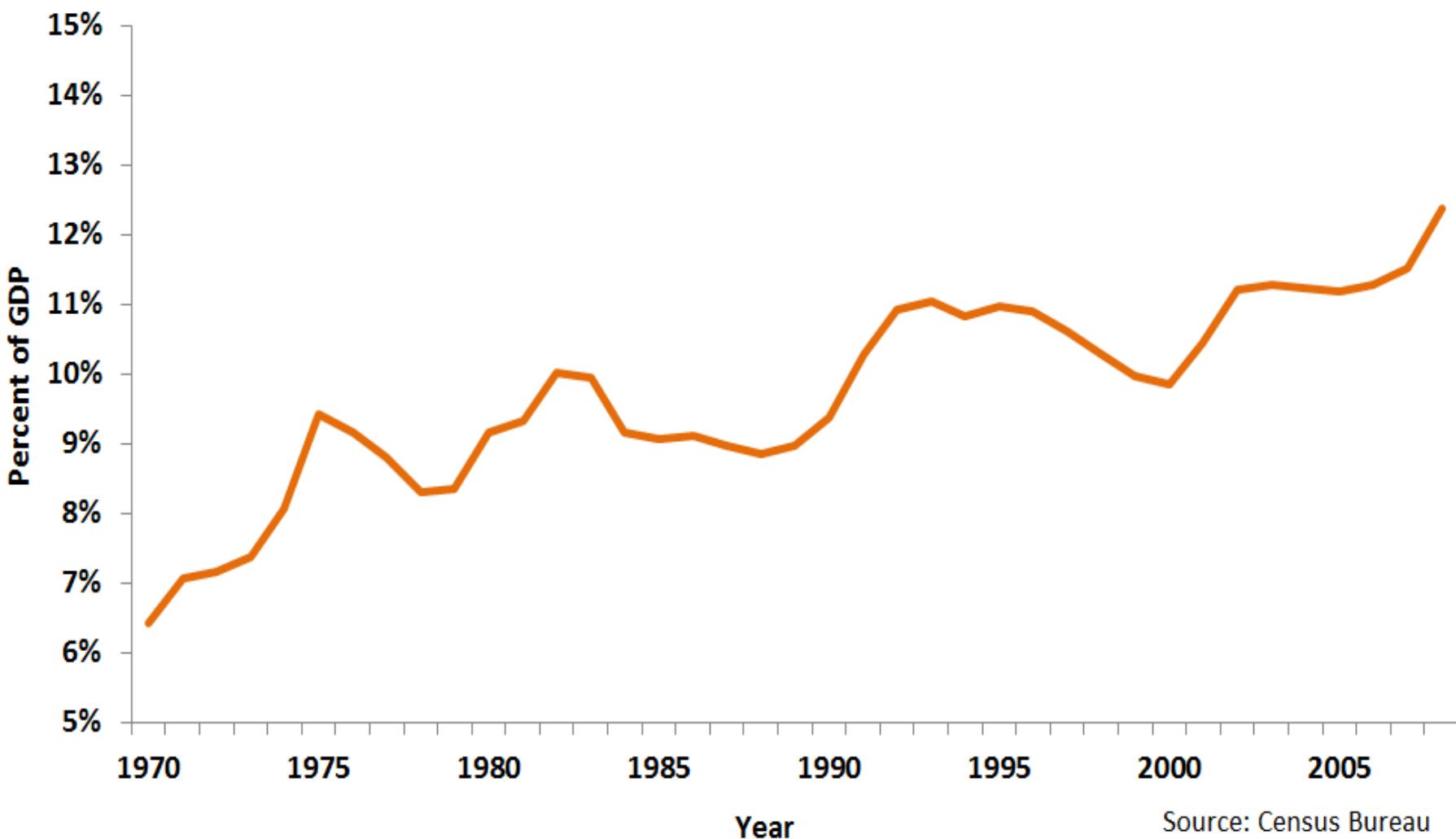
Income of Top 5% of Households in US



Source: Census Bureau



US Transfer Payments as a Percent of GDP

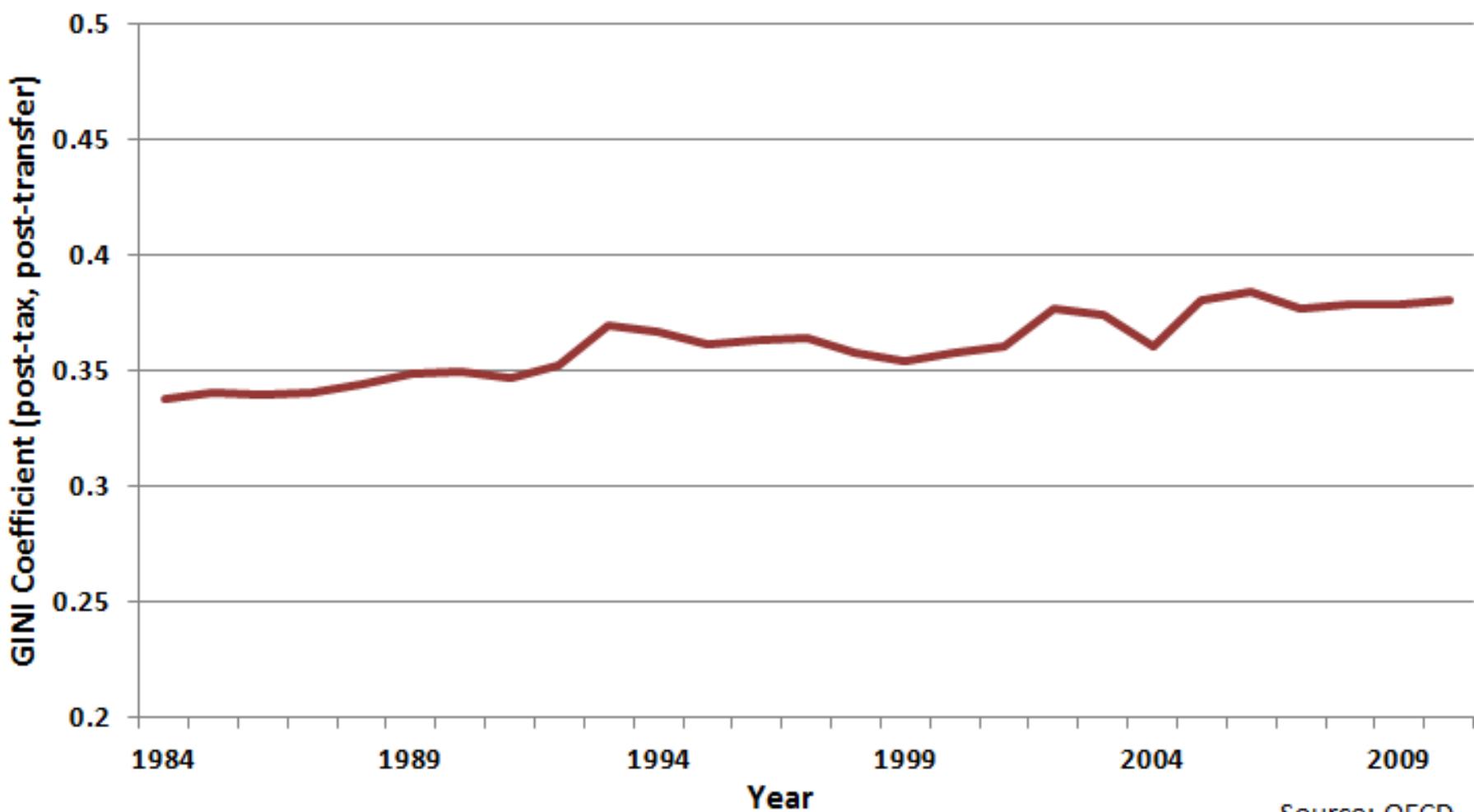


Source: Census Bureau



US GINI coefficient

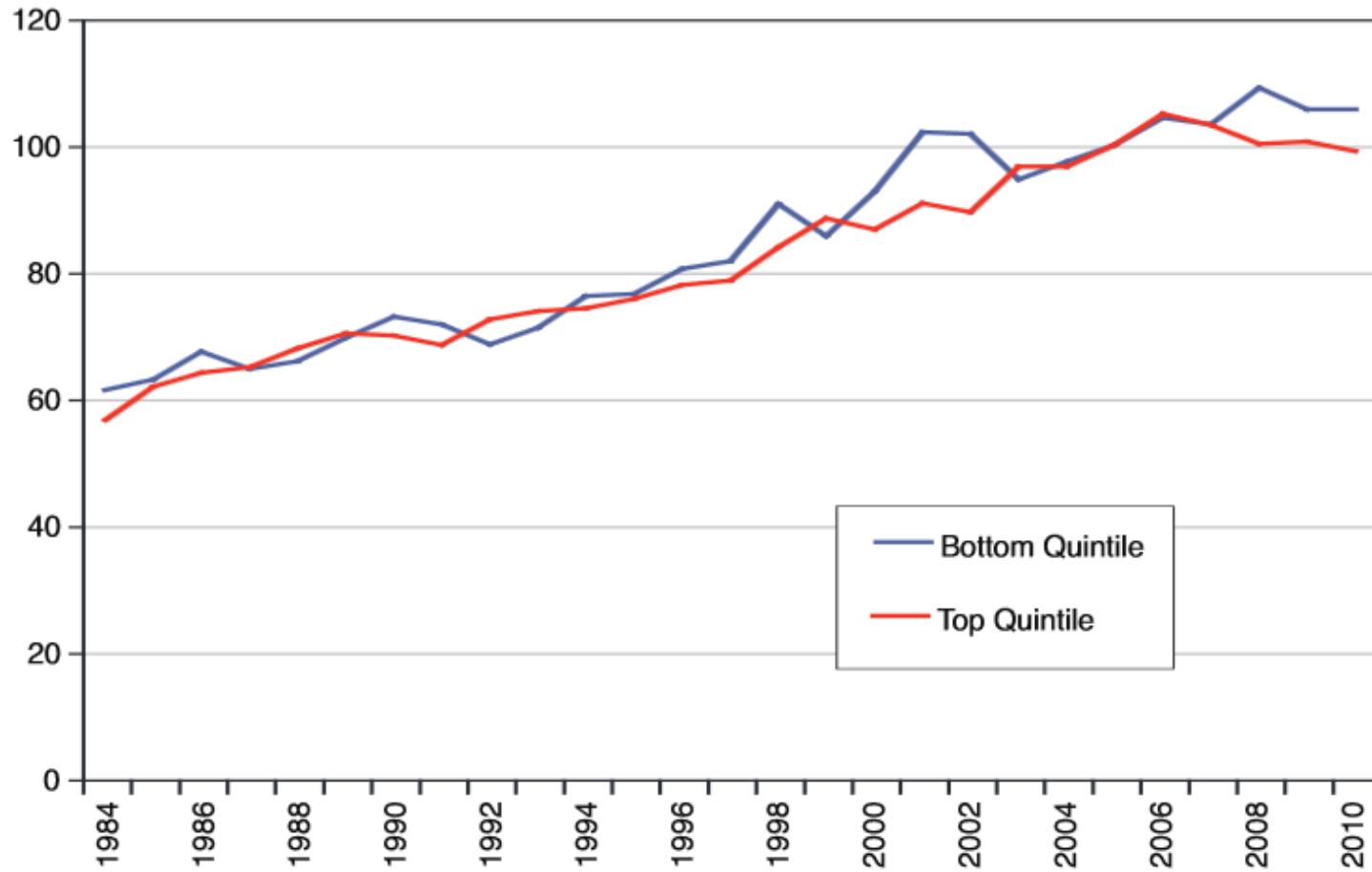
Post-tax, post-transfer



Source: OECD



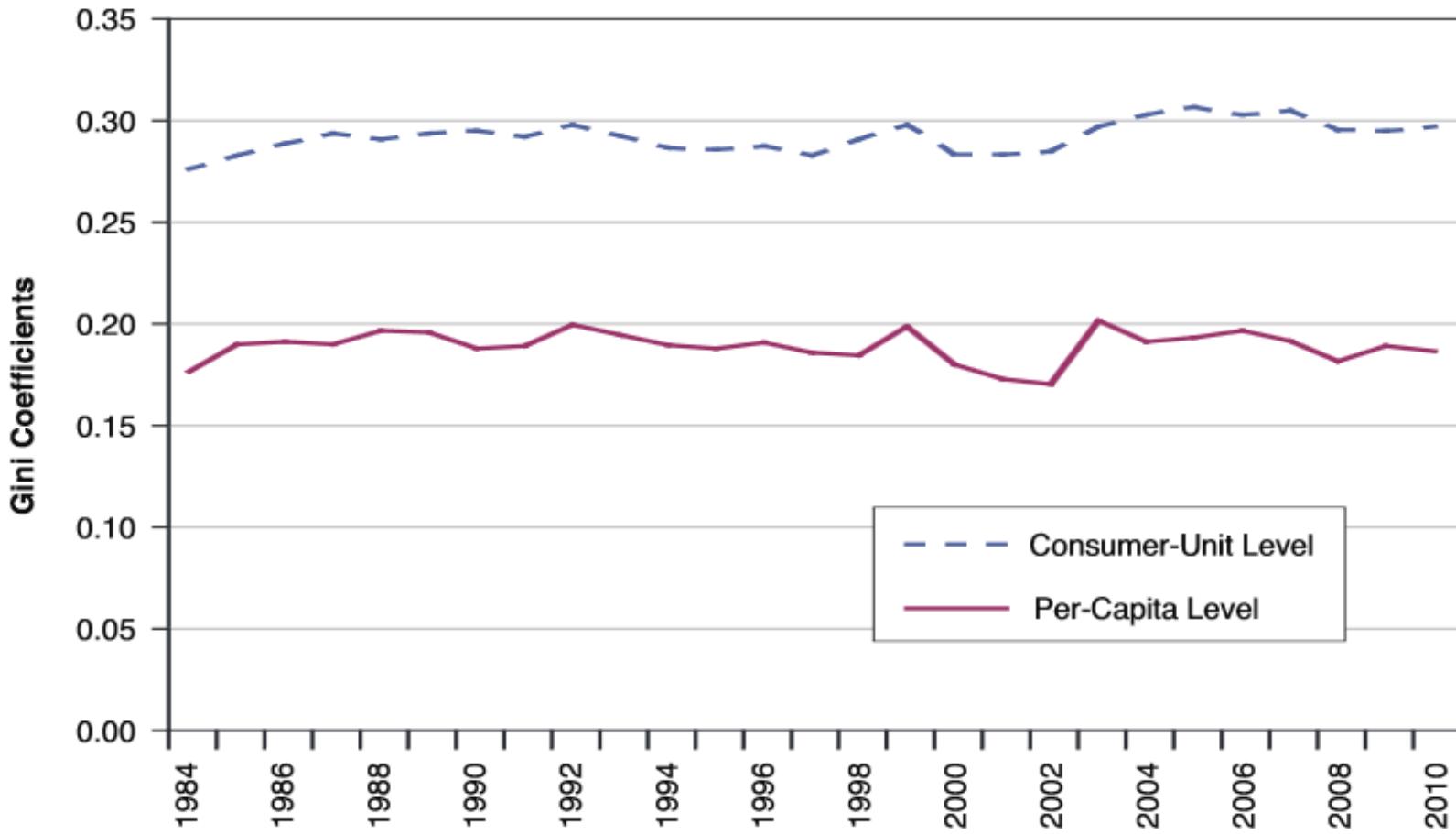
CONSUMPTION EXPENDITURES PER CAPITA FOR TOP AND BOTTOM QUINTILES (2005=100)



SOURCE: Authors' calculations based on data from the Bureau of Labor Statistics's Current Employment Statistics, Bureau of Economic Analysis's NIPA tables, and International Monetary Fund's US population statistics.



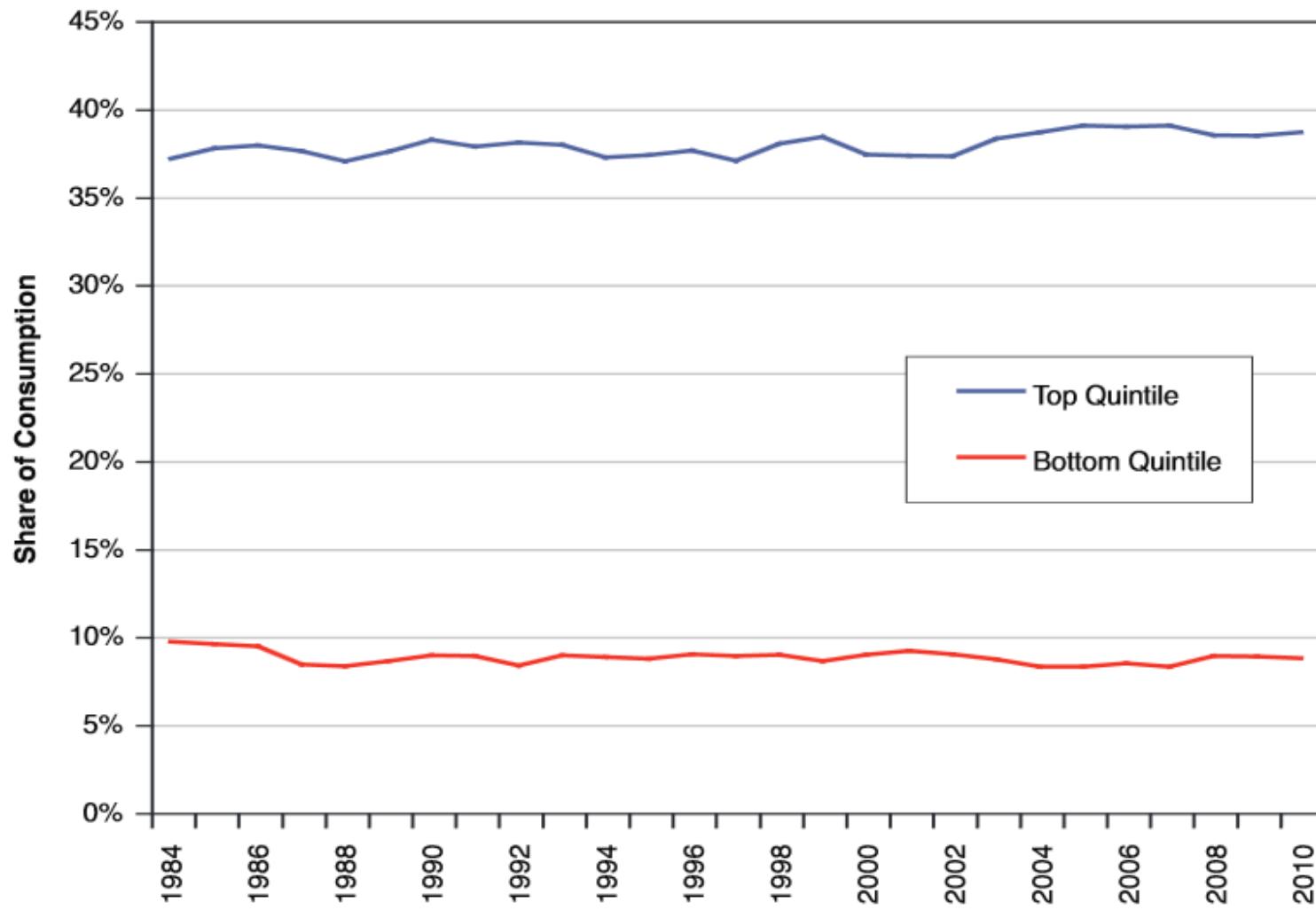
GINI COEFFICIENTS OF CONSUMPTION INEQUALITY (1984–2010)



SOURCE: Authors' calculations using the Consumer Expenditure Survey.



HOUSEHOLD SHARE OF TOTAL EXPENDITURES



SOURCE: Authors' calculations using the Consumption Expenditure Survey.



Summary of Recent Movements in Inequality

- Our society has massively expanded its transfer programs as the pretax income distribution has become more skewed
- The result is a consumption pattern quite consistent with political stability, provided the transfers can continue to be supported politically, and well funded
- There should be bipartisan agreement that charts like these consumption charts be the objective of government policy, and should revisions suggest they have a different pattern, then policy should change accordingly



Schumpeter and Marx Agreed Capitalism Would Destroy Itself, For Different Reasons

- “the relative share of wages plus salaries has also been substantially constant over time. There is, so long as we are discussing what the capitalist engine might do if left to itself, no reason to believe that the distribution of incomes or the dispersion about our average would in 1978 be significantly different from what it was in 1928.”
- The share dropped since then, so he was correct. The case for going up dramatically from here does not seem strong. Capital was destroyed in the Great Depression and WWII, and we eventually recovered.



Schumpeter and Marx continued

- “Well, here we have numbers; a well-defined group situation of proletarian hue; and a group interest in shaping a **group attitude that will much more realistically account for hostility to the capitalist order than could the theory**,” Schumpeter predicted.
- He argued that the academy would become the focal point of opposition to capitalism and would subsequently breed an intellectual elite that would control the media, and ultimately politicians themselves. The academy would reflexively hate capitalism because it is the job of the intellectual to criticize, and because academics detest people who actually accomplish something. Professors would envy the wealthy, and feel themselves more worthy.