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Methodological and Ideological Options

Piketty and the Growth Dilemma Revisited in the Context of Ecological Economics

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A B S T R A C T

Piketty's *Capital* has provoked considerable debate regarding inequality. The existence of increasing inequality creates a challenge for ecological economics. In this paper we set out some of the problems inherent in Piketty's approach and how they are addressed from the point of view of ecological economics. We use Jackson and Victor's response as a point of departure to make several points. Piketty's work involves an unreconciled inconsistency between his laws and the institutional context, which becomes problematic when one starts to think about 'inevitability'. He simply assumes away ecological problems to make future forecasts for inequality. As such, his forecasts are undermined, since ecological issues are fundamental to any viable future economy. Furthermore, Piketty effectively reproduces (rather than contests) the mainstream practice of delegating ecological issues to a sub-discipline. Jackson and Victor, meanwhile, focus on the mainstream economic aspect of Piketty's work, and construct a model to contest a model. In so doing, they provide an ideational response to what is also a problem of ideological frameworks. Though it can be important to contest an idea, they inadvertently, through family resemblance, contribute to the reproduction of the problematic position of ecological concerns within dominant ways of conceiving economics.

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1. Introduction

Piketty's (2014) *Capital in the Twenty-first Century* has provoked considerable debate regarding the existence, sources, and significance of trends in wealth and income inequality (see Morgan, 2015a; Fullbrook and Morgan, 2014; Pressman, 2016). That debate has extended to *Ecological Economics*. Martins (2015) has considered the constructive potentials of aligning Piketty's work with Sen's capabilities approach within a classical political economy framework (see also Pelenc and Ballet, 2015). Jackson and Victor (2016) have addressed the challenge of no/low and degrowth posed by Piketty. Jackson and Victor's paper appears in a special section on macroeconomics in which Fontana and Sawyer (2016) provide a post-Keynesian response to the broader issue of compatibility between the ecological critique of growth and the intrinsic focus of Keynesian approaches to demand-led full employment (a response to issues raised in Holt et al., 2009). In this short paper we revisit some of the issues posed by Piketty with more of an emphasis on underlying methodological and ideological concerns. We do so using Jackson and Victor's paper as a point of departure to illustrate some basic limitations in Piketty's work and the kind of response made by Jackson and Victor from an ecological perspective.

Piketty focuses on capitalism as accumulation, explores wealth empirically, and then expresses accumulation through his three laws. However, capitalism is also a set of institutions and technologies through which accumulation is achieved. One cannot explain capitalism and its tendencies without also addressing these. Piketty's work involves an unreconciled inconsistency between his laws and the institutional context, which becomes problematic when one starts to think about 'inevitability'. It is problematic since the laws, rather than the empirical evidence, introduce problems in general of realism, regularity and determinism, and because this then affects forecasts for the future. Jackson and Victor focus on Piketty's prominent forecast that inequality will continue to increase. This is important, since rising inequality has consequences for ecological economics. However, they address the model procedure that underpins the forecast in terms of another model. As such, they focus on the mainstream economic aspect of Piketty's work, and in so doing they provide an ideational response to what is also a problem of ideological frameworks. That is, they contest an idea or thesis and its implication, but in so doing they reproduce the mainstream aspect of Piketty's work, which is problematic from both a Keynesian (post-Keynesian) and ecological economics perspective. Jackson and Victor's approach illustrates a typical dilemma for ecological economics. It inadvertently, through family resemblance, contributes to the reproduction of the problematic position of ecological concerns within dominant ways of conceiving economics. Concomitantly, Piketty's work, despite its positive aspects, reproduces a typical problem in economics. That is, the delegation of ecological concerns to a sub-discipline. In looking to the future Piketty opts to acknowledge but

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assume away ecological problems, and thus never really contests the deep problem of how economics is understood and defined.

Piketty's *Capital* is limited as a way to argue regarding possible futures. *Capital* highlights the relative significance of oil and gas to particular economies as part of the future wealth and inequality potentials of those economies (e.g. Piketty, 2014: 455–465, 537–538). At the same time, as a general point of departure, Piketty's wealth forecasts for the future assume (not without ambivalence) that the carbon problem is solved, and yet growth and economies follow old statistical patterns with reference to technological frontiers for production (Piketty, 2014: 72, 95). Though these aspects of his argument involve some tensions, in all cases Piketty is extrapolating a future based on the past. A 'this time is different argument' can often be flawed. However, equally a 'this time *must* be different' argument can be both a reasonable conclusion and an important positioned argument to pursue. Given that Piketty's focus is wealth and income inequality, the ecological dynamics here may seem peripheral. However, putting aside the inconsistencies in his approach, Piketty positions his work as political economy and the last sections of *Capital* are about desirable futures not the inevitable outcomes built into the laws. For Piketty, the focus is his global wealth tax. However, the forecasts are implicitly concerned with the future nature of viable economies in order for the forecasts to be relevant at all. *Capital* thus should not have put aside ecological issues, since these are fundamental. Though laudable in many ways, ideologically speaking *Capital* is also a lost opportunity for something more ambitious as political economy, and this lost opportunity is also methodologically grounded. Placing *Capital* in the context of methodology and ideology returns us to the kinds of issues raised in *Ecological Economics* regarding the role of economics as a knowledge framework by Nadeau (2015), Spash (2012, 2013a, 2013b) and others. Following a series of sections that progressively set out the various inconsistencies in Piketty's position and how Jackson and Victor choose to respond we argue towards the knowledge framework issue in the conclusion.

2. *Capital's* Three Laws and the Growth Challenge

The purpose of Jackson and Victor's paper is to demonstrate that a substantively *different* world with prosperity *and* no/low or degrowth remains possible despite Piketty's 3 laws (a world argued for in Jackson, 2009).[1] Jackson and Victor provide an ideational response in the form of an alternative model, the key aspects of which I set out in the next section. Piketty defines capital as 'the total market value of everything owned by residents and governments of a given country at a given point in time, provided that it can be traded on some market [excluding human capital and wage labour]' (Piketty, 2014: 48). As he also notes, he uses 'the words capital and wealth interchangeably, as if they were perfectly synonymous' (Piketty, 2014: 47). Conceptually speaking capital becomes the net present value of all asset wealth determined in markets. This creates some degree of confusion later in Chapter 6 when he begins (following some critique) to use a Cobb-Douglas production function, a function developed to express physical product. The concept is also quite different than the more heterodox idea of capital as the social relations of the produced means of production.

Piketty's first law just states that the total return to capital in any given period (capital's share of annual national income) derives from the rate of return and from the relative amount of accumulated capital (wealth assets) compared to annual national income. If the rate of return is higher, and/or the accumulated capital to which a return flows is greater, then more of annual national income goes to capital. The second law provides a mechanism by which the relative amount of accumulated capital grows. If saving occurs faster than economic growth (adjusted by population) then a greater proportion of annual national income becomes capital over time. This is assumed to be a long-term relation. For example, if the ratio of saving to growth is 4 for an extended period then capital will accumulate to 400% of annual national income.

It is implicit in the second law that low growth implies the potential for more rapid accumulation of capital from annual national income. This then leads in the first law to an increase in capital's share of annual national income, and especially so if the return to capital does not fall.[2] For Piketty's argument it also matters who owns that capital. If capital ownership is unevenly distributed, then one can assume that consumption is negligible as a proportion for those with significantly more wealth. Thereafter, by a simple process of compounding there will be a continual increase in the concentration of capital, and thus an increase in the concentration of wealth. The greater part of Piketty's *Capital* is concerned with setting out data that establishes capital is mainly held privately, that its transmission is facilitated by inheritance, and that in modern capitalism one also has 'supermanagers' who control their own compensation culture (so there is a potential among the wealthy to use income and positional power to accumulate assets, and to do so whilst earning rates of return not available to others). To be clear, these are not assumptions or predicates in so far as they apply to the past. They are areas of empirical exploration. However, as areas of exploration they take as given institutional arrangements that enable them. This, as we shall see, creates problems of consistency and construction for Piketty once the empirical evidence is translated into the laws, and also when these laws are projected forwards. However, it is based on the data that Piketty claims that there are recognizable strata to which capital flows (the 10%, 5%, 1% and 0.1%). Piketty then introduces his third and most famous law. One can observe relatively constant rates of return to capital in excess of growth over long periods. This becomes a 'fundamental force for divergence' or inequality because of asymmetric ownership (Piketty, 2014, 424).

According to Piketty, in the contemporary period the long-term rate of return has been around 4–5%, encompassing higher rates of return for top echelons of society. Global growth has tended to be around 1–1.5%, compared to 2.5%, 1950–1980. The rate has varied across states engaged in catch-up, but all are ultimately subject to the same technological frontier. Piketty then projects this across the twenty-first century and with some comment on the following century. It should be noted that he is careful to state that forecasts are problematic. He also briefly raises, though rhetorically and without substantive explanation, the question of whether we are approaching the end of growth for 'technological or ecological reasons' (Piketty, 2014: 93). However, he then sets this aside and opts to set out a long term per capita output growth rate of 1.2% for wealthy countries and based on the assumption that 'sources of energy are developed to replace hydrocarbons' (Piketty, 2014: 95).[3] To be clear, Piketty simply assumes this for the purpose of making projections about growth unencumbered by concerns with possible ecological limits. He does not justify, explain or explore the assumption. Based on these dynamics and assuming no fundamental change via the introduction of institutions able to control the ownership of and returns to capital, he projects the continued concentration of wealth (Piketty, 2014: 353–360).

Clearly, continued wealth concentration creates a basic problem for no/low and degrowth approaches to ecological economics. This provides background regarding what it is Jackson and Victor feel required to respond to, though the fundamental issues have been acknowledged for decades. Daly (1974: 19), for example, clearly states two reasons. First, if more of annual national income goes to the few there is less remaining for the majority, if the system is steady state, since there can be

[1] Jackson and Victor refer to 2 laws but for clarity we follow Piketty's original broadest account in *Capital*.

[2] It is, therefore, significant that Piketty opts for a constant rate of substitution between capital and labour of between 1.3 and 1.6 (Piketty, 2014: 221). Though he simultaneously notes that 'there is no reason why the technologies of the future should exhibit the same elasticities as those of the past' (Piketty, 2014). This acknowledgement does not affect his actual procedure.

[3] Since the initial future periods will continue to involve catch-up growth in world per capita output is initially higher than this.

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