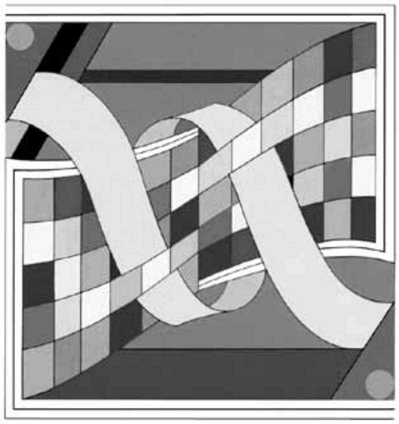

Two New "Post-Piketty" Books

By Norman A. Bailey

A review of

The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality by **Brink Lindsey** and **Steven M. Teles,** Oxford University Press, 2017, and

Capitalism Without Capital: The Rise of the Intangible Economy by **Jonathan Haskel** and **Stian Westlake,** Princeton University Press, 2018

Two phenomena in recent years have seriously shaken traditional economic analysis: the unprecedented concentration of income and wealth in the western world, as famously documented by Thomas Piketty, and the agonizingly slow recovery from the 2008 "Great Recession," despite the massive quantities of liquidity poured into financial pipelines by the major central banks, especially the Federal Reserve and the European Central Bank.

Two recent books have joined in the discussion of these phenomena and have suggested that they are linked. In *The Captured Economy,* Brink Lindsey of the Niskanen Center and Steven Teles of Johns Hopkins University place the blame for both phenomena on Piketty's one percent of the holders of society's wealth (defined as income-producing assets) and the ten percent who service the one percent, through their joint control of the policymaking process, resulting in rent-seeking through distortions to market processes, especially barriers to entry and special subsidies, leading to massive moral hazards and widespread corruption. Included in their list of distortions and subsidies are the tsunami of liquidity mentioned above, and significant expansions of licensing, patenting, copyrighting, and land-use regulation, which taken together have resulted in "…economic stagnation and…unjust enrichment…." There you have it—the one percent and the lawyers, accountants, managers, and technocrats who serve them (the ten percent) use their wealth to increase their power, and use their power to increase their wealth.

The one percent use their wealth to increase their power, and use their power to increase their wealth.

This is hardly new news. It has, in fact, been ever thus throughout human history. What is new is the scale of the concentration of wealth and income and the shrinking of economic opportunity for the remaining 90 percent. Lindsey and Teles prove their thesis beyond any reasonable rejoinder, but their suggested "solutions" are less than

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THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
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Washington, D.C. 20002
Phone: 202-861-0791 • Fax: 202-861-0790
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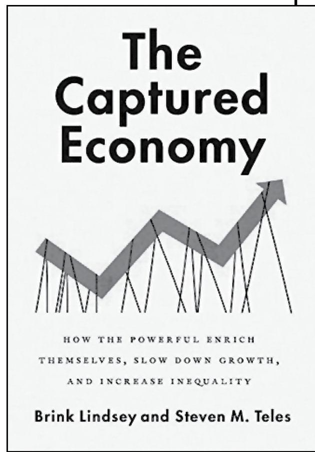

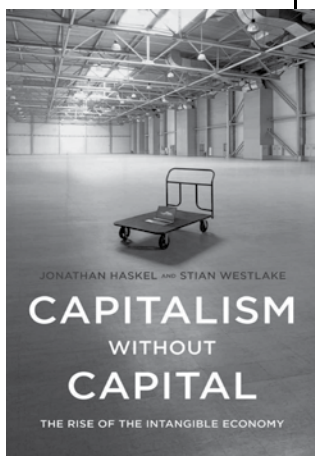

convincing. They propose the creation of "countervailing forces" which will pressure the policymakers to adopt "countervailing measures," but provide no convincing explanation of where the countervailing forces will come from and from where they will obtain the necessary resources to reverse or at least moderate the current disastrous path being followed by the economy.

I would suggest that if in fact such countervailing forces can be created and develop enough political clout both in civil society and in the political system to force significant changes, it will come about through combining the anger being generated in the 90 percent with a growing realization in part of the one and ten percenters that the path they have been following is inevitably leading to a popular backlash that will result in a cataclysmic social and political upheaval from both the extreme left and the extreme right. Think fascists and communists in post-World War I Europe. Think also Trump, Sanders, Corbyn, Macron, Le Pen, Wilders, and so on. As a result of the realization of what such an outcome would mean for them, that segment of the one percent will finance the formation of countervailing forces, hopefully coupled with the strengthening of liberal democracy.

Capitalism Without Capital by Jonathan Haskel of Imperial College, London, and Stian Westlake of the United Kingdom's National Endowment for Innovation is the perfect complement to *The Captured Economy.* Despite the misleading title of the book, it is not about the disappearance of capital but rather the constantly increasing percentage of intangible *vs.* tangible capital as factors of production in advanced countries. Software, databases, research and development, design, training, branding, and other intangibles are replacing the traditional capital assets of buildings (and therefore land), vehicles, and machinery and other physical equipment. The authors argue that this shift is inadequately accounted for in company and national accounts and that they have different sunk cost and spillover effects and thus exhibit synergies different from tangible assets. This results in secular stagnation, income and wealth inequalities, challenges to the financial system, and the need for significant changes in infrastructure and leadership, both public and private.

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Both books make the point that policies that enhance market forces will increase the likelihood of a successful transition into the new economy, while policies that inhibit market forces will increase the already too-great likelihood of social upheaval. A stronger case is made for the contribution of these factors to income and wealth concentration in Western countries than to secular stagnation. Although they probably had some effect on the prolonged recovery from the great recession, a more important factor was the repression of demand for liquidity as companies and families tried to rationalize their debt situations, compounded by the misdiagnosis of the malady by the major central banks. Proof of this can be found in Canada and Israel, where their respective central banks took no extraordinary liquidity measures. Both countries came through the recession in good form.

Capitalism Without Capital is meticulously and extensively researched, whereas *The Captured Economy* is more of an extended essay, but they both make valuable contributions to the expanding post-Piketty literature, along with such contributions as David Smick's *The Great Equalizer.* Neither book addresses another contemporary economic conundrum—the phenomenal growth of robotization and artificial intelligence and its effect on the relationship of labor and capital, which is also adding to the concentration of wealth. ◆