Financial Times' attack on Piketty under fire

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The campaign by the *Financial Times* against economist Thomas Piketty and his book *Capital in the Twenty-First Century* appears to be unravelling less than a week after its launch last Friday.

In an article posted on May 28, the *Financial Times*' economics editor, Chris Giles, the author of the attacks, sets out to address what he calls "a few misunderstandings" and some "very legitimate questions" that have been raised since the publication of the newspaper's anti-Piketty articles.

The overwhelming response has been support for Piketty's central thesis that income and wealth inequality is on the rise in both Europe and the United States, coupled with criticism of the *Times* and its motivations for the attack.

As Giles himself notes: "Many people online have suggested that the articles were a premeditated attack on Prof. Piketty, with suggestions that the FT's motives were in making a splash or pursuing a political agenda."

While acknowledging that the FT "likes making a splash," Giles claims that his "true motivation" was much more mundane, namely that he was concerned by what he saw as discrepancies in Piketty's data and his use of it.

This assertion that there was no wider agenda does not square with the record.

Giles' criticisms concerned one chapter, some 40 pages long, dealing with the inequality of capital ownership, in a book of 577 pages.

On the basis of some apparent mistakes in the transcription of data onto spreadsheets (a problem that is clearly not confined to Piketty, as Giles had to acknowledge mistakes in his own work) and Piketty's failure to use a statistical series the *Times* favoured, the newspaper denounced the entire book and its key findings.

The headline of the initial article was "Thomas Piketty's exhaustive inequality data turn out to be flawed," while an editorial was entitled "Big questions hang over Piketty's work."

There is no mistaking the intent of such an approach: it was aimed at calling the entire analysis into question. According to the FT, its criticisms were "sufficiently serious to undermine" Piketty's claim that the "share of wealth owned by the richest in society has been rising."

As a number of critics of the FT have pointed out, when Giles used an alternative series based on other sources of data for France and Sweden, the results turned out to be almost identical to Piketty's.

The main difference was in the figures for Britain. According to Giles, Piketty cited a figure showing that the top 10 percent of the British population held 71 percent of the wealth, whereas the latest survey by the Office for National Statistics (ONS) put the figure at only 44 percent.

Piketty will no doubt provide details of his approach. But there are compelling reasons for seeking data sources other than those provided by the ONS. The series was started only in 2006 when the previous Inland Revenue figures for United Kingdom wealth were abandoned because they were regarded as unreliable. And it appears that the ONS itself has considerable doubts over the new series. *Newsweek* reports that the ONS told it that its data series was still in an "experimental" stage. "In other words," *Newsweek* continued, "these figures, according to the office doing the survey, are not yet ready for prime time."

Researchers in the field of economic inequality have sided with Piketty's findings against the attacks of the *Financial Times*.

A typical response was set out in a letter to the newspaper by David R. Cameron from the Department of Political Science at Yale University. He wrote that

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while there were "flaws in the data," noting the considerable difficulties in comparing the extent of inequality across time and across countries, Piketty's conclusions stood up.

"[Y]our reporters are wrong to say there is little evidence to support Prof. Piketty's thesis that an increasing share of total wealth is held by the richest few and that the European numbers do not show any tendency towards rising wealth inequality after 1970. And they are most certainly wrong in claiming that the US data are too inconsistent to draw a single long series and that none of the sources supports the view that the wealth share of the top 1 percent in the US has increased in the past few decades," he wrote.

In its initial response to the FT's attack, the *World Socialist Web Site* noted that while Piketty made it abundantly clear that he was not an opponent of capitalism, "the material he has gathered and presented in coherent form has clearly made the FT, and those for whom the newspaper speaks, very nervous."

Even as that assessment was being issued, it was confirmed by remarks made at a London conference held Tuesday evening by International Monetary Fund Managing Director Christine Lagarde and Bank of England Governor Mark Carney.

Lagarde told the conference that progress in building a safer financial system was being held back because of "fierce industry pushback" against the introduction of new regulations.

Carney went much further, warning that the entire capitalist system is at risk. Unbridled faith in financial markets, corruption and rising inequality had damaged the "social fabric," he said. Inequality was "demonstratively" growing and risked undermining what he called the "basic social contract" based on fairness.

"We simply cannot take the capitalist system, which produces such plenty and so many solutions, for granted," he declared. "Prosperity requires not just investment in economic capital, but investment in social capitalism."

Unchecked market fundamentalism, he warned, could "devour the social capital essential for the long-term dynamism of capitalism itself."

In its editorial on Piketty, the *Financial Times* asserted that if there were problems in the accumulation of extraordinary wealth derived from "monopoly profits," then "enlightened governments" should step in and "remove barriers to entry so that unfair rents disappear."

In other words, let the "magic of the market" and competition do their work in lessening inequality.

The fundamental flaw in this analysis was exposed by Marx more than 160 years ago. As he explained, the very aim and logic of competition is not more competition, let alone fairness, but the creation of monopoly as "one capitalist kills many."

The present economic situation, in which a few dozen major banks and transnational corporations monopolise and dominate the world economy, providing ever greater wealth to the ruling corporate and financial elites and their hangers-on, is precisely the outcome of the "free market" and competition.

The FT's attack on Piketty is an attempt to deal with social inequality and its explosive political consequences by denying it.

Carney has decided to follow a different course in an attempt to head off deepening opposition and hostility to the capitalist system.

He is calling on the very financial interests that have plundered the wealth of society for their own benefit to undergo a miraculous transformation and become more socially responsible, in order to prevent political and social upheaval. Both efforts are doomed to failure as social reality brings an intensification of the class struggle.

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