

# LECTURE 7: THE METAMORPHOSES OF CAPITAL IN EUROPE

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# Introduction

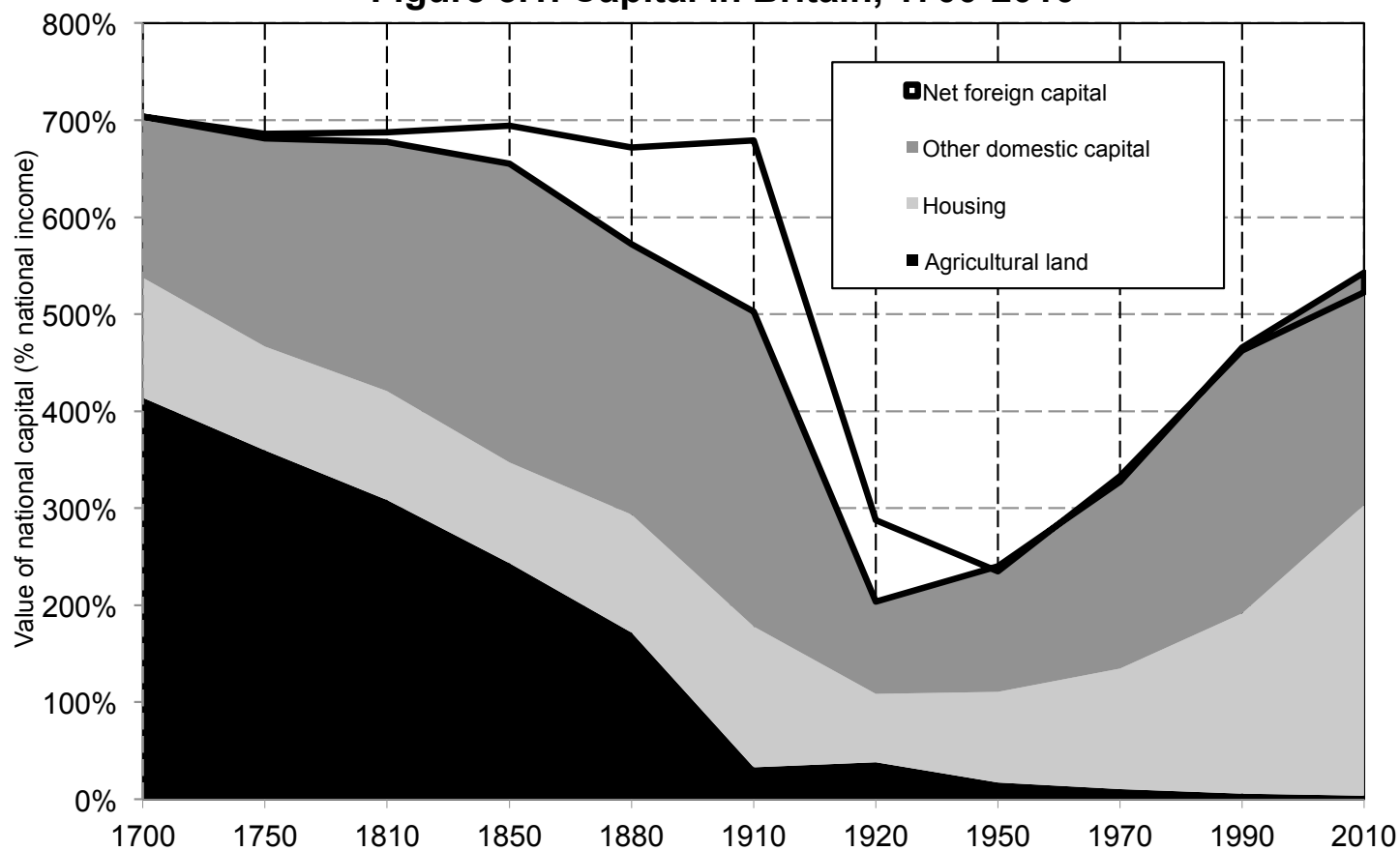
- When markets are left to their own devices they will produce the inequality  $R > G$ .
  - This increases the capital/income ratio.
- Remember: the total amount of capital stock divided by national income gives us the capital/income ratio ( $\beta$ ).
- If the total capital stock is equal to 6 years of national income then we write  $\beta = 600\%$ .
- In the low growth, zero inflation economies of the 19<sup>th</sup> century, wealth was accrued through land/government bonds
  - Has capital become more entrepreneurial in the 21<sup>st</sup> century?

# Public/private wealth

- The purpose of owning a capital asset has not changed. It is to produce a reliable steady income flow.
- A government bond is a claim of one portion of the population from another portion of the population.
  - Those who lend to government and those who re-pay in taxes.
- For Piketty capital at its inception is always risky and entrepreneurial but evolves into rent as fortunes grow.
  - Père Goriot the pasta manufacturer in Balzac.

# Britain

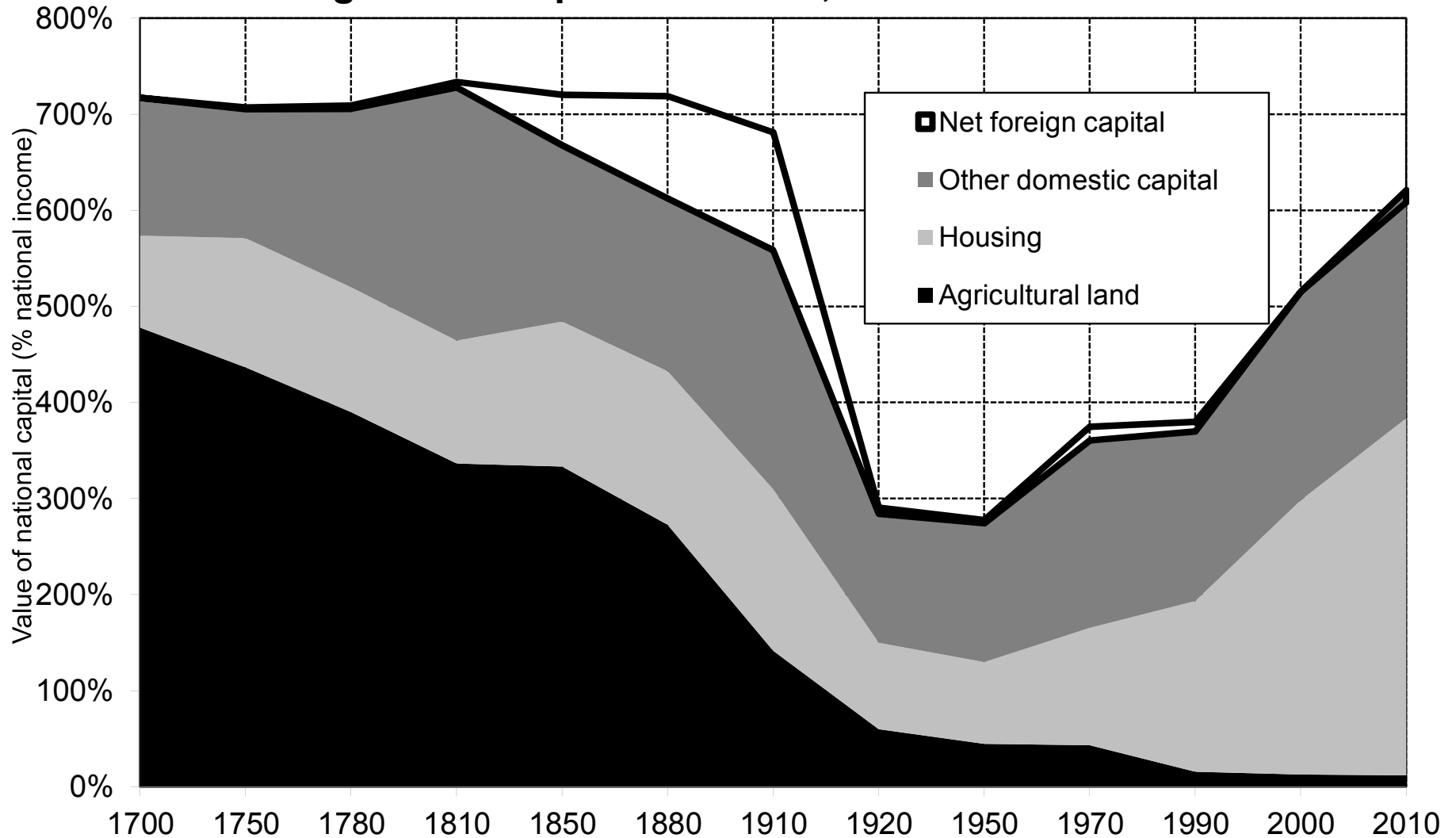
Figure 3.1. Capital in Britain, 1700-2010



National capital is worth about 7 years of national income in Britain in 1700 (including 4 in agricultural land).

Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

**Figure 3.2. Capital in France, 1700-2010**



National capital is worth almost 7 years of national income in France in 1910 (including 1 invested abroad).

Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

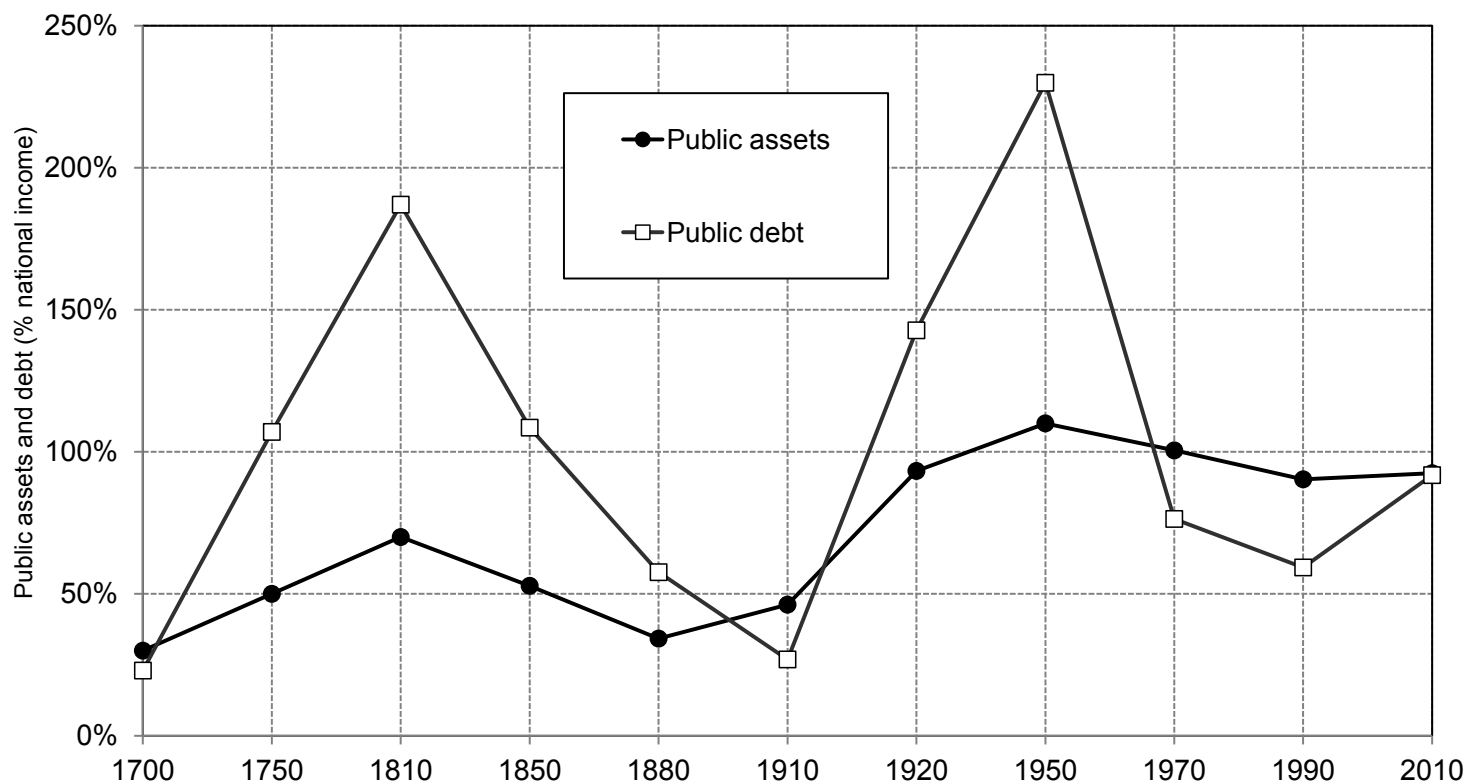
# Britain and France

1. The capital/income ratio follows a similar U-shaped curve (it fluctuates between 6-7 to 2-3 to 6-7 times national income). These are very large swings.
2. Despite the long-term stability of the capital/income ratio the composition has totally changed (the collapse of farmland and rise of housing and financial capital).
3. Net foreign capital is no longer significant (reflecting the end of colonialism and imperialism).

We need to discuss whether capital is public or privately owned.

# Public Wealth Britain

Figure 3.3. Public wealth in Britain, 1700-2010

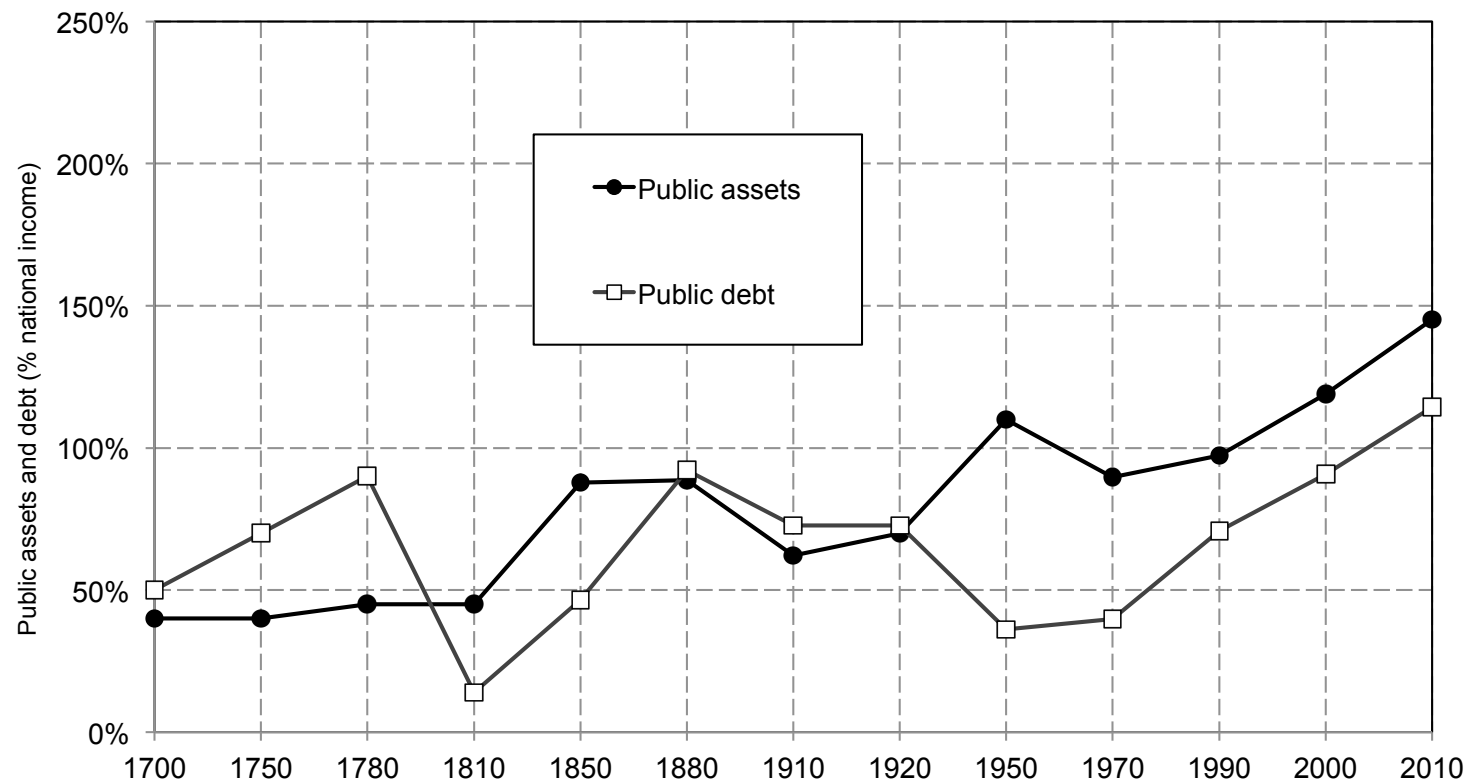


Public debt surpassed 2 years of national income in 1950 (vs. 1 year for public assets).

Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c)

# France

Figure 3.4. Public wealth in France, 1700-2010



Public debt is about 1 year of national income in France in 1780 as in 1880 and in 2000-2010.

Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c)



# Government debt

- Britain and France offer two different case studies on the relationship between public debt and private capital.
  - After the Napoleonic wars and WW2, Britain never defaulted (even with a debt/GDP ratio of 200%).
  - After 1798 and WW2 France cancelled all public debt, raised wealth taxes and created a large public sector.
- Important point: public debt is a vehicle for redistribution whether it is repaid or not.
  - How is the Irish government repaying its bank debt?

# Inflation

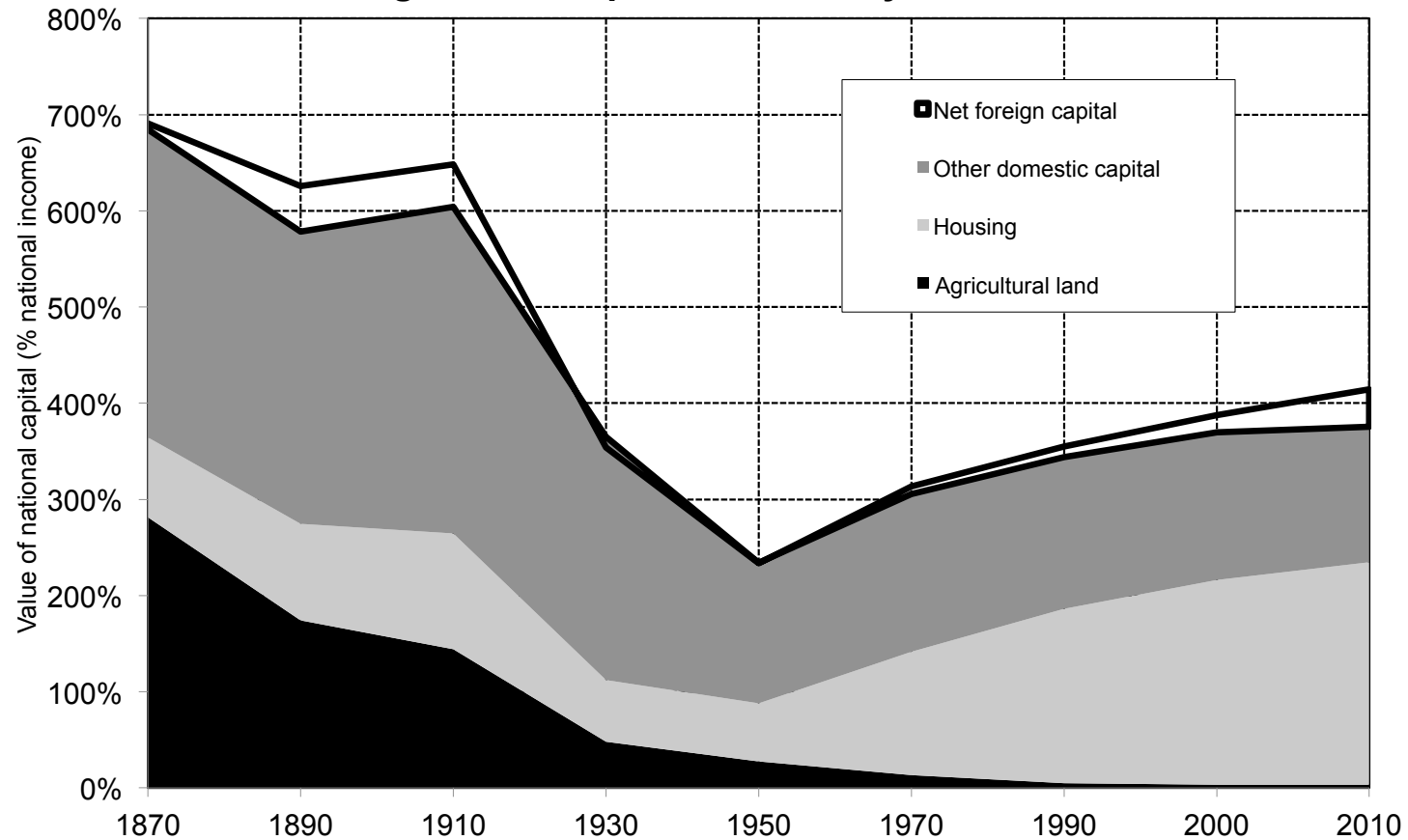
- In the 20<sup>th</sup> century most European governments reduced public debt through inflation.
- From 1914-1950 inflation was 13 per cent per annum in France and 17 per cent in Germany.
- Britain only reduced its post-war debt when it experienced high-inflation during the 1970's.
- Inflation is also a vehicle (inefficient one) of redistribution.

# Public assets

- Public assets rose from 50 to 100% of national income during the interventionist years (1950-1970).
- Governments owned around 30% of national wealth.
- In France this economic system is often referred to as 'dirigisme' – capitalism without capitalists.
- The rise of 'national models' of capitalism
  - Rhenish, Rehn-Mender, Dirigisme, Anglo-Saxon

# Germany

Figure 4.1. Capital in Germany, 1870-2010



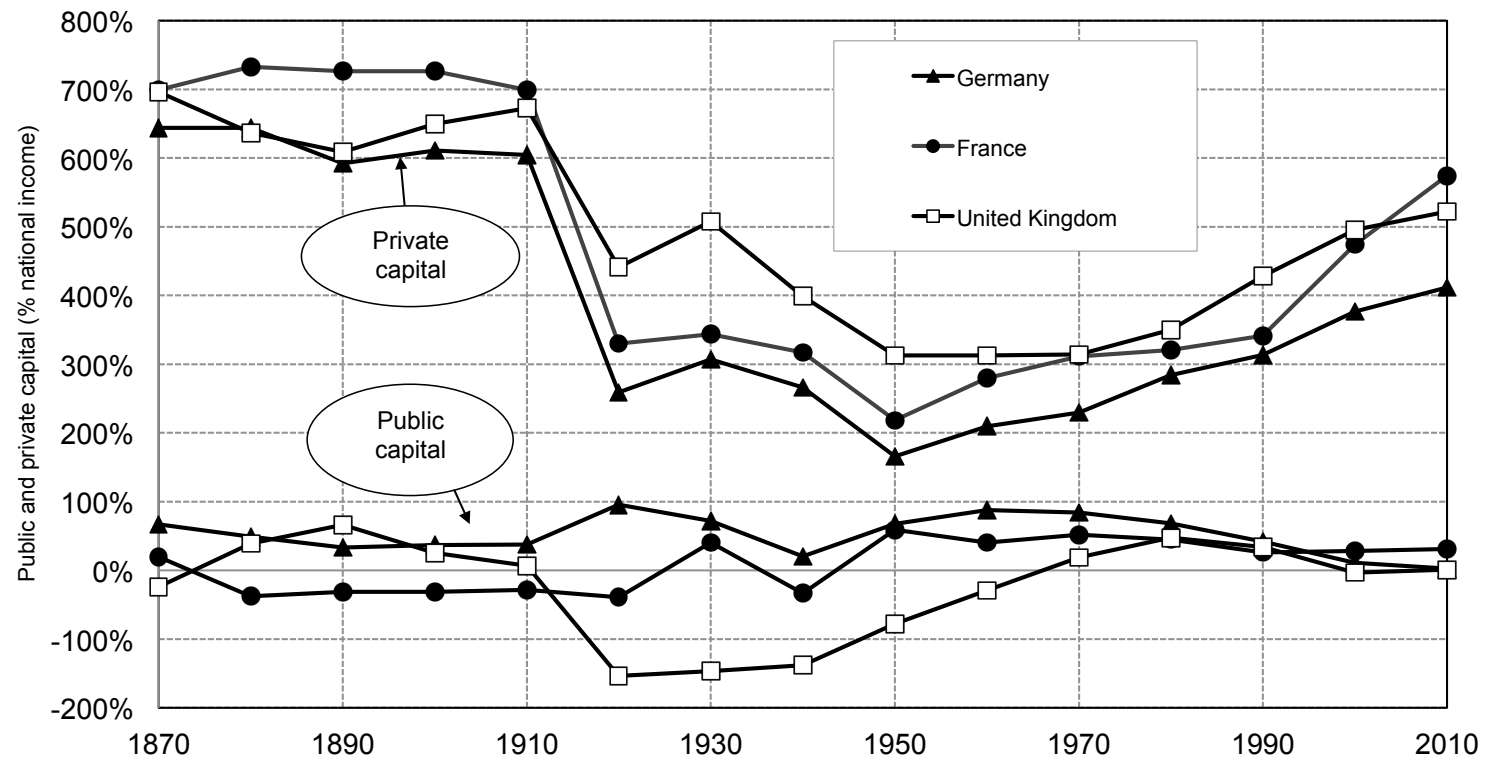
National capital is worth 6.5 years of national income in Germany in 1910 (incl. about 0.5 year invested abroad). Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

# Germany

- The trend is much like France and Britain
  - Agriculture has given way to residential and commercial real estate
  - But the capital/income ratio is around 4 times national income
- Unlike most countries Germany now has a net foreign asset position (equal to 50% of national income).
- Lower capital/income ratio can be explained by lower stock market valuation and stricter rent controls.
  - The stakeholder variant of capitalism

# Conclusion

Figure 4.4. Private and public capital in Europe, 1870-2010



The fluctuations of national capital in Europe in the long run are mostly due to the fluctuations of private capital.

Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).