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Capital and labour in the twenty-first century: SSA theory and the surplus approach

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ABSTRACT.
Thomas Piketty's *Capital in the Twenty-First Century* documents a trend of increasing inequality in the *longue duree* of capitalism. This conclusion has been widely welcomed by progressives, social democrats and socialists as confirming both their political analyses and a popular unease with contemporary trends. Piketty's proposal for a progressive global tax on capital has received a more controversial welcome, not least by Piketty himself who sees his own proposal as a utopian idea. Can a structural critique of Piketty's approach to capitalist history also serve to address doubts about the feasibility of Piketty's favoured solution to rising inequality while also opening the door to more radical proposals?

Social structure of accumulation (SSA) theory draws insight from the Marxian, post-Keynesian, and institutionalist traditions. In particular it shares with Marxism an understanding of capital as not a 'thing' but rather a relationship – specifically the relationship between capital and labour. In this sense the dynamics of inequality over time depend on the nature of this relationship and more particularly class conflict over the production and distribution of the social surplus product. Such an approach places capital and labour as the primary, antagonistic agents of distributional conflict and change.

It is capital's capacity to ensure this surplus is produced by the working class and subsequently appropriated by the capitalist class which underpins the distribution of income in capitalist society. To the extent that this surplus is reinvested in expanded production, accumulation of capital takes place. The SSA theory argues that this accumulation process is necessarily conditioned by social institutions at each of its steps. The dynamic interaction of the accumulation process and the social structures lead to an alternating pattern of crisis and recovery based on the inauguration of new SSAs. Rising inequality is both conditioned by this process and contributes to it, promoting capital accumulation or undermining it depending on the character of the accompanying SSA.

In this way the level and direction of inequality will vary historically from SSA to SSA. The long run tendencies to crisis within each SSA also poses the necessity of periodic more or less radical institutional change. The currently favoured establishment response to the crisis of global neoliberal capitalism – the intensification of global neoliberalism – is unlikely to succeed. New responses are demanded. In this context, Piketty's proposal may turn out to be less utopian and poses a more general strategic question: how can the political left push for the implementation of progressive policies such that 'the politically impossible becomes the politically inevitable', to appropriate Milton Friedman's parlance?
Keywords: SSA theory, surplus approach, political economy, class, Thomas Piketty.

‘Whenever one speaks about the distribution of wealth, politics is never far behind, and it is difficult for anyone to escape contemporary class prejudices and interests.’

– Thomas Piketty [2014, 4]

Capital in the Twenty-First Century has almost surely had its considerable length quickly exceeded in reviews and commentary. Within the orthodoxy of the economics profession, reactions have ranged from laudatory, on the one side, to somewhat desperate efforts to locate Reinhardt-and-Rogoff-style errors in data or technique which could serve to call its conclusions into question, on the other. Commentary from the heterodox side of the house has also not been lacking.

Much of this commentary from the left can be justly summarized in the following way: ‘Piketty has done great service in assembling a massive amount of useful international data on wealth and inequality. His book has also been immensely useful in calling more attention to the relationship between capitalism and growing inequality in the current period. Perhaps especially in light of these contributions, it is regrettable that Piketty has chosen to locate his analysis on conventional neoclassical theoretical foundations. His definition of capital diverges strongly from Marx’s treatment, but, more seriously, his deployment of marginal productivity theory to explain the return to capital is indefensible. The notion of the separable contribution of capital (or any other single factor of production) to productivity at the margin is unsustainable in reality. Even if this were possible in the case of other factors, there is no coherent definition of a unit of capital to be added at the margin. Finally, even in the absence of these theoretical problems, the return to capital is a complex distributional question subject to multiple historical and social determinations. Further, marginal productivity theory implicitly assumes full employment, making it impossible to incorporate Kaleckian-Keynesian insights on the role of demand and investment in influencing profit rates and growth. In attempting to understand the extraordinary sales and impact of the volume, this orthodoxy in theory is one of the crucial conditions of this impact. While the identification of a long-run inherent tendency to largely unjustifiable income inequality within capitalism is disturbing, and capital taxation is hardly at the top of the neoliberal policy agenda, it is reassuring that this can be understood and addressed without abandoning the comfortable neoclassical worldview. At the very least, the volume’s theoretical tractability prevents its being summarily consigned to the heterodox margins’.

A. THE THEORY OF DISTRIBUTION

Piketty does compile an impressive and invaluable historical time series regarding wealth and income distribution across a number of developed economies; yet he does choose, as others have argued [Varoufakis : 2014, Kapeller : 2014, Patnaik : 2014, Foster and Yates : 2014, Syll : 2014, Bernardo et al. : 2014, Aspromourgos : 2015], to analyse these empirical trends within a discredited, mainstream theoretical framework.

Piketty’s most explicit discussion of theoretical foundations comes in his treatment of the return to capital. This discussion is rooted in the marginal productivity theory of orthodox, ‘neoclassical’ economics [2014, 212-217, 220-222]. A full employment economy is assumed within this framework and the inputs or ‘factors’ of production – capital and labour – are each remunerated according to their ‘marginal products’; this reflects the additional output brought about by an extra unit of capital or labour, all else equal – a hypothetical proposition that can’t be tested empirically [Moseley : 2012, 131-133; Patnaik : 2014, 3; Syll : 2014, 37-38]. Hence, the implication of marginal productivity theory is that ‘each social class gets the value created by the factors it happens to own’ [Hunt : 2011, 434].

Piketty partially deviates from the neoclassical theory of distribution, however, if only to discuss bottom- and, in particular, top-end labour incomes [Piketty : 2014, Chapter 9]. Here it appears that the role of labour market institutions takes precedence:

> The main problem with the theory of marginal productivity is quite simply that it fails to explain the diversity of the wage distributions we observe in different countries at different times. In order to understand the dynamics of wage inequality, we must introduce other factors, such as the institutions and rules that govern the operation of the labour market in each society. To an even greater extent than other markets, the labour market is not a mathematical abstraction whose workings are entirely determined by natural and immutable mechanisms and implacable technological forces: it is a social construct based on specific rules and compromises.
>
> [Piketty : 2014, 308]

At the same time, he can't quite bring himself to break with marginal productivity theory more generally:

> To be clear, I am not claiming that all wage inequality is determined by social norms of fair remuneration. As noted, the theory of marginal productivity and of the race between technology and education offers a plausible explanation of the long-run evolution of the wage distribution, at least up to a certain level of pay and within a certain degree of precision. Technology and skills set limits within which most wages must be fixed.
>
> [Piketty : 2014, 333]

Piketty wants to abandon marginal productivity theory for certain segments of labour income; but 'when it comes to factor shares and the return to capital, technology and marginal products rule again' [Bernardo et al. : 2014, 10]. His reasoning is inconsistent: once it is accepted that bargaining power is the primary determinant for particular segments of the income distribution, it must be so for the entirety [Patnaik : 2014, 5-6; Syll : 2014, 41-42].

As if this weren't issue enough, he chooses to skirt around the distributional implications of the Cambridge Capital Controversies [Cohen and Harcourt : 2003]. Piketty [2014, 230-232] diverts attention from the central focus of the debates: 'the question of treating 'capital' as a 'factor of production' for a theory of distribution in a capitalist economy' [Bhaduri : 1969]. The problem for neoclassical theory is one of identifying a physical unit, independent of price, with which to aggregate 'capital' goods [Robinson : 1970, 311-313]. As discussed above, the price or 'reward' that capital receives depends on its marginal product; but this can't be calculated until capital is first aggregated [Hunt : 2011, 436]. The result is that the neoclassical aggregate production function, and, by extension, theory of distribution are empty of content. What's more, leading orthodox economists of the day – most notably, Paul Samuelson – openly conceded the debate [Keen : 2011, 142; Syll : 2014, 41], contrary to the impression conveyed by Piketty [2014, 231].

It is clear that, in reality, the various kinds of labour income and income-earning wealth – regardless of how the latter is acquired – are remunerated in accordance with institutional norms and practices, which, to a large degree, reflect the relative power of contending social classes. Only a political economy framework, rooted in the classical tradition, is capable of capturing the complexities of distribution in a capitalist economy [Aspromourgos : 2015, 11-12]. A theoretical framework that makes the capital-labour relation explicit would be more in keeping with the empirical evidence: technology and skills are, at best, of secondary importance in the determination of functional income distribution – the role of bargaining power is paramount [Stockhammer : 2013].

B. THE THEORY OF SOCIAL CLASS

This brings us to Piketty's theory of class. At a theoretical level, capital and labour are conceptualised as harmonious factors of production earning a return on their marginal products, rather than antagonistic social classes employed in the capitalist production process [Wright :

2015, 60-61]. Where class is discussed in any broader sense, Piketty follows the conventions of contemporary mainstream sociology: classes are categorised according to their proportional shares in the national income [2014, Chapter 7]. To be fair, he does conceded that this analysis is 'quite obviously arbitrary and open to challenge' [2014, 250].

In spite of appeals to a revival of the classical political economy approach in the opening and closing chapters of his book, Piketty largely reverts to a mainstream analysis in the intervening pages.

C. HETERODOX ECONOMICS AND CLASSICAL POLITICAL ECONOMY

It is important to place the development of contemporary mainstream economics in its historical perspective. There is little doubt that the genesis of neoclassical economics represented an ideological backlash against Marx's extension of classical political economy. While a class analysis – duly provided by Smith and Ricardo – was necessary for capitalists in their struggles to upend the ruling feudal aristocracy, it turned dangerous by the time of the mid-nineteenth century revolutionary waves, as the capitalist class struggled to consolidate its power. From a political economy perspective, the progressive mantle passed from the capitalists to their gravediggers: the emergent working class. Clearly, such an analysis was no longer in keeping with the interests of the newly emerging ruling class, so it was suppressed, and marginalism was promoted in its place [Henry : 2012; Lavoie : 2014, 26-27]. This represented the transition from what Marx termed 'classical political economy' to 'vulgar economy', replacing class-conscious scientific inquiry with superficial apologetics [Martins : 2014, 9].

Political economy thus fragmented into the new and emerging fields of economics, sociology, and political science. Generally speaking, the role of the state was left to political scientists, while the concept of class disappeared from economics entirely. Class analysis was taken up by sociologists; though, as we have already seen, 'in ways increasingly abstracted from fundamental economic relationships' [Foster : 2009, 135]. Economics increasingly characterized itself as a so-called 'neutral science', supposedly purged of all political-class considerations – except perhaps of those its very existence served to justify [Foster : 2009, 134-137].

Though cast to the shadows, Marx's political economy approach did continue its development, if in its own fragmented manner, within the diverse community that has become known as 'heterodox' economics. Indeed, as Lawson [2006] and Martins [2014] have argued:

> [T]he distinction between heterodox economics and mainstream economics can be seen as a modern form of Marx's distinction between classical political economy and vulgar economy. Heterodox economics, like Marx's development of classical political economy, provides a conception where human agency and social structure presuppose each other.
> [Martins : 2014, xix]

This contrasts with the atomistic social ontology that characterises the vulgar economy of marginalism and contemporary mainstream economics. While sharing a fundamental social ontology, the various strands and traditions of heterodox economics have focused on different aspects of social reality – a division of labour within the wider political economy. Moreover, whereas mainstream economics is a scarcity theory, concerned primarily with the study of how scarce resources are allocated; classical political economy is a surplus theory, concerned with the study of how an economic surplus is reproduced and distributed among contending social classes [Martins : 2014, Chapter 8]. This economic or social surplus represents that portion of the total social product which isn't necessary for the direct reproduction of the existing economic and social conditions [Martins : 2014, xi].

Social stratification into social classes can indeed be explained in terms of the exertion (and display) of power by the leisure class that appropriates a share of the surplus.

[Martins : 2014, 233]

The surplus approach is most obviously shared amongst Marxian, post-Keynesian, and institutionalist economists; though, given their shared social ontology, the potential clearly exists for a convergence with other heterodox traditions that don't explicitly adopt surplus theory – for example, feminist economics and social ecological economics [Martins : 2014, 233-237]. This points in the direction of a broader heterodox social surplus approach, which shows greater cognisance of the social provisioning process, not only in terms of how the social surplus is distributed amongst contending social classes, with an emphasis on social agency, but, also, in terms of how this process feeds back upon biological and ecological contexts [Lee and Jo : 2011].

D. SOCIAL STRUCTURE OF ACCUMULATION (SSA) THEORY

Based on his interpretation of Marx's own method, Crotty [1985] was one of the first to advocate an integration of the broader heterodox traditions, noting that:

> Whereas the Marxian tradition has an underdeveloped theory of money and finance but a rich literature devoted to the sphere of production, the Keynesians have produced interesting and important work on monetary and financial aspects of capitalist instability while almost totally neglecting production relations, the labor process, and class structure. The writings of Hyman Minsky are especially important in this regard.
>
> [Crotty : 1985, 36]

The complex nature of the contemporary crisis of global neoliberal capitalism [Kotz and McDonough : 2010] has driven home the need for such a holistic approach – both in terms of understanding the crisis and of charting paths out of it [Goldstein and Hillard : 2009; Lavoie : 2014, Chapter 1].

> The world economy is in the grips of a financial crisis that has the potential to rival the Great Depression. Yet, the readily visible aspects of the crisis are merely the superficial expression of a deeper crisis that revolves around the nexus of under-consumption, over-investment and financial crises. An integrated heterodox approach is uniquely suited to understand these interconnected crisis components due to its focus on the interrelations between social classes, the distribution of income, effective demand, Marxian competition, crisis theory, Keynesian uncertainty, financial innovation and fragility, endogenous expectations, and structural and institutional change.
>
> [Goldstein : 2009, 263]

Even more recently, Bellofiore [2014] argues that:

> An understanding of, and intervention into, the present capitalist reality requires that we put together the insights of Karl Marx on labor, as well as those of Hyman Minsky on finance. The best way to do this is within a longer-term perspective, looking at the different stages through which capitalism evolves. In other words, what is needed is a Schumpeterian-like, nonmechanical view about long waves, where Minsky's financial Keynesianism is integrated with Marx's focus on capitalist relations of production. Both are essential elements in understanding neoliberalism's ascent and collapse.
>
> [Bellofiore : 2014, 1]

Social structure of accumulation (SSA) theory provides us with a unified heterodox framework within which to analyse capitalist long waves of growth and stagnation [Kotz et al. : 1994, McDonough et al. : 2010]. Each long cycle or 'stage' of capitalism is characterised by a particular institutional form – a new SSA – comprising a self-reinforcing set of economic, political, ideological and cultural institutions. At first, the SSA stabilises long run expectations of profitability and, hence, encourages higher levels of investment, capital accumulation, and economic growth. Eventually, however, the very process of expansion undermines itself and leads to a crisis in the SSA, as the underlying contradictions of capitalist accumulation – notably, the capital-labour class relation – reassert themselves in the form of an institutional blockage. The economy enters into a long period of decline and subsequent stagnation; until, that is, arising out of the indeterminate process of class struggle, a new SSA emerges [McDonough et al. : 2010, 1-4].

SSA theory is firmly rooted in a Marxist understanding of the longer-term, transhistorical dynamics of capitalist development, which emphasises the system's tendency towards periodic crises arising out of class conflict. An institutionalist influence allows for the possibility of capitalist recovery as the system evolves through intermediate stages – that is, intermediate in length between particular historical conjunctures and overall capitalist history [McDonough : 2007]. While these Marxian and institutionalist insights provide strategic direction to working people, the post-Keynesian influence develops a complimentary consideration of the roles of money, credit and demand in reproducing a monetary production economy [McDonough et al. : 2010, 2]. In addition, SSA theory has proven its compatibility with the wider ecological concerns of the heterodox social surplus approach [Klitgaard and Krall : 2012].

It may be that Piketty's results are best understood within a broad Marxian political economy framework. In this respect, SSA theory has successfully integrated the various traditions and strands of heterodox economics, each having already built upon a specific aspect of Marx's classical political economy approach. As we have argued neoclassical economics has reason to feel at home with Piketty. However, Piketty may not be completely at home with neoclassical economics. In the section of the Introduction entitled 'The Theoretical and Conceptual Framework', Piketty literally spends the bulk of it explaining that he feels much more at home in Paris than in the United States, the epicentre of modern neoclassical economics. Piketty's judgments on the economics profession have been uniformly harsh, no more so than in the pages of *Capital*. He argues that it would be good if economists 'set aside their absurd claim to greater scientific legitimacy, despite the fact that they know almost nothing about anything' [2014, 32].

In the introduction and conclusions to his *magnum opus*, Piketty issues a welcome and timely call for a revival of the classical political economy approach of, amongst others, Smith, Ricardo, and Marx [Piketty : 2014, 15-16, 30-33, 573-575]. Without doubt, the fragmentation of the social sciences has signalled a retreat from questions of distribution and class – Piketty's main preoccupation. He is especially scathing of the economics profession in this regard:

> To put it bluntly, the discipline of economics has yet to get over its childish passion for mathematics and for purely theoretical and often highly ideological speculation, at the expense of historical research and collaboration with the other social sciences. Economists are all too often preoccupied with petty mathematical problems of interest only to themselves. This obsession with mathematics is an easy way of acquiring the appearance of scientificity without having to answer the far more complex questions posed by the world we live in.
>
> [Piketty : 2014, 32]

Political economy, on the other hand, seeks to integrate the social sciences – in particular, history, economics, sociology, anthropology, and political science [Piketty : 2014, 573-574].

> If we are to progress in our understanding of the historical dynamics of the wealth distribution and the structure of social classes, we must obviously take a pragmatic approach and avail ourselves of the methods of historians, sociologists, and political

scientists as well as economists.

[Piketty : 2014, 33]

It has been disappointing to his heterodox colleagues that Piketty did not carry out this programme more consistently in the intervening pages of *Capital*. In considering the relationship between *Capital in the Twenty-First Century* and SSA theory, it may be possible that the location of SSA theory within the surplus tradition within economics could open the possibility of a conditional welcome for Piketty in an alternative home. Setting aside the Austrian tradition [Martins : 2014, 233-235, Lavoie : 2013, 29-30], the major existing trends in economics today consist in the binary opposition between orthodox and heterodox economics, vulgar and classical economics [*pace* Martins : 2014], the scarcity and the surplus tradition. Is it possible that reading *Capital in the Twenty-First Century* against the grain (or at least against the grain of Chapter 6 which discusses marginal productivity theory) may open up the possibility of reinterpreting Piketty's findings in the context of the surplus tradition?

The other papers in this seminar argue that the historical breakpoints in Piketty's data series can be fruitfully understood in the context of the SSA framework's historical analysis of periods of growth and crisis which characterize a succession of capitalist stages. We will argue here that an alternative understanding of income distribution can be gleaned from Piketty's framing of the relationship between the return to capital and income distribution. In this argument we will be considering primarily Piketty's 'First Fundamental Law of Capitalism: $\alpha = r \times \beta$' rather than his subsequent excursions into growth theory. The discussion of the return to capital in this context will have some implications for Piketty's now famous conclusion that over time in capitalism $r > g$.

It will be initially convenient to rearrange the First Fundamental Law as $\beta \times r = \alpha$, as Piketty in fact takes up the discussion of each of these variables in that order, starting with β. β is the ratio of capital to national income. Piketty defines capital in the following way:

> I define "national wealth" or "national capital" as the total market value of everything owned by the residents and government of a given market value of everything owned by the residents and government of a given country at a given point in time, provided that it can be traded on some market. It consists of the sum total of nonfinancial assets (land, dwellings, commercial inventory, other buildings, machinery, infrastructure, patents, and other directly owned professional assets) and financial assets (bank accounts, mutual funds, bonds, stocks, financial investments of all kinds, insurance policies, pension funds, etc.), less the total amount of financial liabilities (debt).

[Piketty : 2014, 48]

Piketty's inclusion of land and financial assets as well as productive assets is particularly controversial among heterodox economists. Nevertheless, this inclusion, in an odd sort of way, contributes to opening the possibility of considering Piketty's results within the surplus tradition. In the surplus tradition, profit has its origin in the production of surplus, but, as Marx [(1894) 1993] emphasized at some length in Volume 3 of the original *Capital*, rent and the returns to financial assets also find their origins in the produced surplus. Thus, while Marx would certainly not see these assets as capital proper (financial assets are 'fictitious capital' and much land ownership is the artificial monopolization of a natural resource in the Marxian framework), he would see the returns to these assets as forms of the social surplus.

The inclusion of these assets also serves to render Piketty's discussion of r as the rate of return to capital as particularly non-tenable. Much has been made of Piketty's non-discussion of the Cambridge Controversy's conclusion that the marginal productivity of capital is conceptually incoherent because the marginal unit of capital cannot be defined. It is certainly true that no production function can be described which smoothly substitutes capital for labour because of this. But it is even more implausible that a financier could substitute labour for money in producing a financial return. Substituting labour for land is imaginable in the case of agriculture, but a landlord's ability to substitute labour for his apartment in the provision of housing services would appear to be very strictly limited. Neoclassical theory only appears in the discussion of the marginal return to capital in Piketty's book 212 pages into its considerable length. This discussion then only continues for another 12 pages. The suspicion arises that Piketty is not particularly concerned with this argument. As observed earlier, Piketty actually denies marginal productivity explains the return to labour at the bottom end of the distribution (this is ruled by legal minimums) and the top end of the distribution (this is governed by the ability of top managers to set their own compensation as a group and by changing tax incentives). If Piketty cared, this would be a fatal concession as in marginal productivity theory output is exhausted in the distribution to the factors of production. If it does not explain the returns to one factor it cannot explain the levels of return to the others except by unlikely chance.

The inclusion of land and financial assets in the definition of capital also raises another problem for the First Law. Standard financial theory identifies the value of capital assets as the capitalized returns which these assets generate. In the case of land and financial assets, many heterodox theorists would agree. Thus, in these cases, the quantity of capital does not determine the rate of return, *r*. Rather, the rate of return, *r*, determines the quantity of capital, at least if it is measured in monetary terms. The possibility of the direction of the determination flowing in the opposite direction emphasizes the tautological character of the First Fundamental Law. The tautology is emphasized by Veroufakis [2014] for instance, but is also admitted by Piketty [2014, 52].

This prompts us to re-rewrite the First Fundamental Law as originally ordered: $\alpha = r \times \beta$. α is the share of national income which goes to capital. Piketty sums up the forms this income takes in the following way: '[T]he rents produced by an asset are nothing other than the income on capital, whither in the form of rent, interest, dividends, profits, royalties, or any other legal category of revenue' [2014, 422]. In Piketty's neoclassical version, the quantity of capital determines the rate of return and then the quantity of capital in conjunction with the rate of return determines the income of capital which when divided by national income determines the capital share. In the surplus approach by contrast, it is this division of the surplus which then determines the return to capital, *r*, which then determines the value of certain capital assets, while the value of concrete capital goods is determined by their costs. Can this surplus approach interpretation be found in Piketty?

In Piketty's volume the return on capital, *r*, is actually calculated by directly relating the value of the capital (as Piketty defines it) and the income derived from capital. These numbers are empirically found in an analysis of the historical data. Piketty describes this process:

> [T]he capital shares and average rates of return indicated in Figures 6.1-4 were calculated by adding the various amounts of income from capital included in national accounts, regardless of legal classification (rents, profits, dividends, interest, royalties, etc. . . . and then dividing this total by national income (which gives the share of capital income in national income, denoted α) or by the national capital stock (which gives the average rate of return on capital, denoted r).
>
> [Piketty : 2014, 201, 203]

Thus the analysis of the return to capital is, in the actual analysis, concretely subordinated to the empirical work. Piketty regards this process, however, as more than the assembling of a series of numbers. 'National accounts represent the only consistent, systematic attempt to analyze a country's economic activity' [2014, 58]. It is a form of analysis which is 'completed with additional historical and distributional data' [2014, 59]. This is not a simple empiricism. For Piketty, 'national accounts are a social construct in perpetual evolution' [2014, 58]. The dependence of capital values on rates of return is also recognized by Piketty in the case of rental returns where rent controls lower real estate values [2014, 144, 187].

In this way, Piketty's approach resembles that of Wesley Clair Mitchell in analyzing business cycles, described by Mitchell himself in the following passage:

> To observe, analyse, and systematise the phenomena of prosperity, crisis, and depression is the chief task. And there is better prospect of rendering service if we attack this task directly, than if we take the round about way of considering the phenomena with reference to the theory.
>
> [Mitchell : (1913) 1970, 20]

This was not, however, a renunciation of theory by Mitchell, but a commitment to the inductive method [Sherman 2001]. This resemblance on the part of Piketty may not be entirely accidental. Piketty identifies Simon Kuznets as his most admired non-Francophone theorist. Kuznets himself was heavily indebted to Wesley Clair Mitchell with whom he worked closely at the National Bureau of Economic Research. As a student of Veblen's, Mitchell is securely located in the very heterodox American institutionalist tradition. Piketty lends an institutionalist flavour to his analysis of the price of capital:

> [I]t is important to stress that the price of capital . . . is always in part a social and political construct: it reflects each society's notion of property and depends on the many policies and institutions that regulate relations among different social groups, and especially between those who own capital and those who do not.
>
> [Piketty : 2014, 188]

But an institutionalism is perhaps not the only connection between Piketty's analysis and the heterodox surplus approach. Within his discussion of marginal productivity, Piketty himself poses the major alternative explanation of his empirical observations:

> The available data indicate that capital's share of income increased in most rich countries between 1970 and 2010 to the extent that the capital/income ratio increased. . . . Note, however, that this upward trend is consistent not only with an elasticity of substitution greater than one but also with an increase in capital's bargaining power vis-à-vis labor over the past few decades, which have seen increased mobility of capital and heightened competition between states eager to attract investments.
>
> [Piketty : 2014, 221]

This bargaining power theory of the return to capital has echoes of a more Marxist approach to the division of the social surplus between capital and labour. Indeed, in discussing the political consequences of this division, a kind of Marxism emerges almost explicitly:

> For those who own nothing but their labor power and who often live in humble conditions (not to say wretched conditions in the case of eighteenth-century peasants or the Marikana miners), it is difficult to accept that the owners of capital – some of whom have inherited at least part of their wealth – are able to appropriate so much of the wealth produced by their labor.
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> [Piketty : 2014, 40]

In this way, a different and somewhat contradictory reading of *Capital in the 21st Century* emerges. The point here is not that the reading of Piketty in *Capital* as an orthodox theorist is incorrect. It is certainly more than defensible and this case was repeated by ourselves in the opening section of this paper. Piketty's heterodox critics have recognized the value of his empirical work. Appropriating this empirical work and placing it in a heterodox context does not necessarily involve a wholesale repudiation of the rest of the book. That said, it is certainly true that a more consistent class based approach would alter the accumulation of the empirical quantities at the centre of Piketty's argument. As Eric Olin Wright [2015] points out the inclusion of working class housing in capital is questionable. Even more consequential in the current period is the failure to understand the high levels of executive remuneration as a transfer of surplus. Indeed, it is this particular failure at an empirical level, more so than the inadequacies of marginal productivity theory, which demonstrates the necessity of a proper theorization. In addition, a greater emphasis on the heterodox side of the house would also have thrown a somewhat more optimistic light on Piketty's preferred policy response, consisting of an international tax on wealth. If the split of national income is based on the conflict between capital and labour, this conflict could potentially be expressed in the realm of taxation.

E. CLASS AND STATE POWER

Central to our argument in the opening section of this paper was the proposition that contending economic paradigms reflect contending class interests. Following Marx, we distinguished broadly between orthodox economics as bourgeois political economy and heterodox economics as a political economy of working people. As Hobson argued at the turn of the twentieth century:

> [T]he selection and rejection of ideas, hypotheses, and formulae, the moulding of them into schools or tendencies of thought, and the propagation of them in the intellectual world, have been plainly directed by the pressure of class interests. In political economy, as we might well suspect, from its close bearing upon business and politics, we find the most incontestable example.
>
> [Hobson : (1902) 2005, 217-218]

It is our contention that not much has changed at the turn of the twenty-first century: the dominant political economy in contemporary capitalist society, as in any class society, reflects the balance of class forces. As such, class power at is generally exercised through a state apparatus among other sites.

> From the outset, political economy sought to study scientifically, or at any rate rationally, systematically, and methodically, the ideal role of the state in the economic and social organisation of a country.
>
> [Piketty : 2014, 574]

Wolfson and Kotz [2010, 82-83] argue that, by virtue of its monopoly over the means of coercion, the capitalist state plays a key role in the construction of new SSAs. While the most fundamental institutions of capitalist society – those concerning private property – rig the game in capital's favour, the working class, struggling through its economic, political, and cultural organisations, has periodically been able to exert a considerable degree of influence over the capitalist state. Consequently, capitalist history exhibits a tendency for SSAs to emerge in two broad varieties: 'liberal' SSAs, in which capital largely dominates over labour, and 'regulated' SSAs, in which labour forces a class compromise [Wolfson and Kotz : 2010, 85].

Growing inequality is characteristic of a liberal SSA; with labour's bargaining power weakened, income and wealth inequalities tend to grow, resulting in deficient aggregate demand and a tendency towards financial crises. Regulated SSAs, on the other hand, strengthen labour's position: wage growth and a general reduction in inequality results in a 'profit squeeze' crisis tendency. In either case, an SSA's crisis tendencies reveal themselves in both short run recessions and longer term structural crises [Wolfson and Kotz : 2010, 86-87].

The economic and financial crisis of 2008 has its precedent in the Great Depression of the 1930s – both represent the structural crisis of a capitalist dominated SSA. Just as a liberal programme was unlikely to resolve the Great Depression, so it is unlikely to solve the contemporary crisis of global neoliberalism [Kotz and McDonough : 2010]. In fact, the Great Depression was only eventually resolved in the postwar period, after a protracted struggle on the part of organised labour, and with the inauguration of a new, regulated SSA based on the active integration of the working class in the regulatory regime. This postwar SSA itself entered a structural crisis in the 1970s, which was also unlikely to be resolved within the institutional structures of a regulated SSA. In any structural crisis of capitalism, the eventual outcome is indeterminate and depends on a long, protracted period of class struggle. This may indeed produce long swings between liberal and regulated capitalist SSAs, or, depending on the length and depth of the crisis – itself indeterminate – even a transition away from capitalism to an alternative system [Wolfson and Kotz : 2010, 86-87; Kotz and McDonough : 2010, 116-118; Varoufakis : 2014, 30-32]. Thus, at any particular historical conjuncture, SSA theory provides strategic direction to working people.

Milton Friedman understood all of this very well, though from the perspective of organised capital.

> Only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.
>
> [Friedman : (1962) 2009, p. xiv]

Friedman and his associates in the Mont Pèlerin Society – a 'neoliberal thought collective' formed in 1947 – were far from mere idealists, however, and understood the necessity of undertaking a long march through the all of the institutions of the postwar SSA [Mirowski and Plehwe : 2009]. Allied to neoliberal ideology, capital would emerge – by the 1980s – victorious in the struggles surrounding the structural crisis of the postwar SSA [Wolfson and Kotz : 2010, 86-87].

There are lessons here for organised labour in responding to the structural crisis of neoliberal capitalism. Just as neoliberals reshaped the institutions of the postwar SSA, a broad alliance of progressive left forces must undertake a long march through the institutions of the contemporary global neoliberal SSA. It is important to recognise that the crisis of a liberal SSA represents a low point in the power of organised labour. Plainly, the prospect of socialist revolution appears distant and the immediate struggle is to regain lost ground. Even in a situation within which popular forces may be able to move beyond capitalism, initial efforts are likely to resemble the rebuilding of the institutional structures of a regulated SSA. In such a process the working class strengthens its own hand and may open up more radical avenues [Patnaik : 2014, 12].

It is this potential response to the current crisis, theorized within the context of the SSA framework, within which Piketty's global wealth tax [2014, 471] could transcend its description as a useful utopia. It is through this policy that Piketty hopes that the growing inequalities and instability characterising contemporary capitalism can be tamed. Yet he is less explicit about the wider institutional shifts that are required to make such 'utopian' proposals a reality. We are left wondering who the agents of change are – what social actors, organisations, and movements are needed. He doesn't say. Instead, following Keynes [(1936) 1964, 383-384] in a somewhat ambiguous manner, he appeals to the power of ideas over that of vested interests [2014, 513-514]. The explicit recognition of the role of struggle in the distribution of income and therefore in the level of r (>g) over time may give a socially more concrete reason for hope.

This conviction about the importance of ideas appears to partially underlie Piketty's decision to entertain the mainstream, neoclassical framework. In setting out to influence intellectual and political debate, he may have felt it necessary to push the boundaries of orthodoxy, rather than breaking with it conclusively. Keen [2010, 217-218] argues that Keynes' presentation in the General Theory may also have been swayed by a similar political climate. Both are reluctant to acknowledge Marx's analytical contribution.

This is quite clear from a recent interview where Piketty was asked the following question:

> Are you saying that notwithstanding your rhetorical strategy to communicate with neoclassical economists on a ground where they feel comfortable, in your view it is not just that you reject marginal productivity explanations of income for those at the very top but more generally as well?

Piketty's response:

> Yes, I think bargaining power is very important for the determination of the relative shares of capital and labor in national income. It is perfectly clear to me that the decline of labor unions, globalization, and the possibility of international investors to put different countries in competition with one another–not only different groups of workers, but even different countries–have contributed to the rise in the capital share.
>
> [Dolcerocca and Gokhan : 2015]

Earlier in the interview, Piketty states baldly, 'I do not believe in the basic neoclassical model'. And follows this with 'But I think it is a language that is important to use in order to respond to those who believe that if the world worked that way everything would be fine'.

As already discussed, neoclassical economics exists as an ideological justification of the status quo; masquerading as a 'cutting edge' neoclassical economist runs the risk of lending credibility to the core neoclassical axioms [Vernengo : 2010; Arnsperger and Varoufakis : 2006]. We believe that Piketty's rhetorical strategy perhaps sacrifices too much. There is definitely a Cobb-Douglas Piketty in the pages of *Capital in the Twenty-First Century*. But he is more diffident than often recognized by those who would welcome Marikana Piketty. The spread of ideas has its place, but more important is how this process interacts with the mobilisation of class power. Piketty's increasing engagement with heterodox economists, as well as organisations of the left more broadly, should be well received. We hope that this will continue, and that, in the final analysis, a social scientist of Piketty's stature will find it empirically and theoretically necessary to more thoroughly break with the neoclassical tradition in vulgar economics.

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