

Some suggestions on implementing Piketty's insights in economic theory

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This contribution investigates the role of wealth and wealth inequality in the analysis of economic activity and in economic theory. We argue that wealth, its unequal distribution, its impact on institutions, and its relation to power are major parameters in real-world economies, however, these are mostly neglected by mainstream economics. We provide empirical evidence from wealth survey data for Europe which show a notably skewed distribution. The unequally shared assets strongly relate to the distribution of economic and political power. A pluralist perspective should consider the enormous wealth inequality in order to obtain a better understanding of economic activity and capitalist history. This argument aligns with the extensive research by Thomas Piketty. Accordingly, we try to identify starting points for the implementation of wealth inequality into heterodox economic analysis. Concerning economic theory, we believe that a number of wealth-related issues should be addressed more than is currently done in the theoretical literature:

- the structure and restructuring of wealth (shares of real vs. financial assets) and its relation to the development of modern financial capitalism
- differential savings rates between households and, relatedly, differential rates of return of assets depending on the size of wealth
- the role of wealth inequality and indebtedness for the (in)stability of financial markets and capitalism in general
- consumption out of wealth compared to consumption out of income
- the relationship between private and public wealth and its implications for institutions, political power and economic policy

In the wake of the global economic crises of 2008, literature on inequality has surged in order to find the triggers of the massive turmoil. However, the focus was mostly put on income inequality (probably due to the better data availability). With the seminal publications by Thomas Piketty and Emanuel Saez, the attention to wealth inequality grew significantly. Still, mainstream economics failed to implement the implications of a skewed wealth distribution into their economic models. Even in heterodox theories there is still room for improvement on some of the counts discussed below.

One caveat of our contribution is that we do not develop new theories or models, however, we discuss the importance of inequality and its nexus to multiple social and political processes for the analysis of economic activity.