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Piketty's paradox: a comparison to the Keynesian paradox of thrift

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Abstract:

In Piketty's model, a fall in the growth rate causes a higher share to be saved and invested. This paradox of growth is interpreted as a dynamic version of Keynes's paradox of saving. The familiar graph of the Keynesian paradox is modified—simply by changing the labels on the curves and axes— to illustrate both the weak and strong forms of Piketty's paradox. Side-by-side comparisons focus on the similarities of the Pikettian equations to their somewhat Keynesian antecedents.

Key words::

income inequality | wealth | distribution | Keynes | Marx | Piketty

View correction statement:

Erratum

Notes

[1]Apparently Piketty (2014) does not explicitly state the paradox as such, nor does he presume to name it after himself. Similarly, Keynes (1936) did not state or name the "Keynesian" paradox of saving. Wright noted that "explicit reference to the paradox of thrift cannot be found in Keynes' General Theory…. One must look to the disciples for more explicit statement" (Wright, 1965). The disciples Wright viewed as sources of the Keynesian paradox were Joan Robinson, Seymour Harris, and Paul Samuelson. Of course, Samuelson' s (1997) textbook originated the (still controversial) graph that we call the "Keynesian cross.".

[2]Note the method used here for numbering equations: Equation (K-1) is the first equation in the Keynesian model, Equation (P-1) is the first equation in the Pikettian model, and so on.

[3]This assumption simplifies the comparisons by giving lowercase s the same meaning in the Keynesian notation (K-2) as in the Pikettian notation (P-1).

[4]Unlike Harrod (1939) and Domar (1946), Piketty (2014, p. 230) treats the growth rate as exogenous.

[5]In Piketty's notation, K includes wealth in the form of housing and other assets not traditionally considered as "capital."

[6]Or perhaps "Piketty-Swan" model. Swan (1956) used a diagram similar to Figure 2 but with Y/K on the horizontal axis and growth rates (of population, K and Y) on the vertical axis. Regarding Swan, see Spencer and Dimand (2010).

[7]Recall that autonomous saving is assumed to be zero.

8

$$dYdt=AE-Y=[C+I]-Y=[(1-s)Y+I]-Y=I-sY$$

.

9

$$d\beta dt=d(KY)dt=YdKdt-KdYdtY2=dKdtY-KYdY/Ydt=IY-\beta g=i-g\beta$$

.

[10]Harrod (1939) and Domar (1946) viewed the capital–output ratio as exogenous; it was fixed by technology, in the classical tradition. That made

$$g = s\beta^{-}$$

; the saving rate determined the growth rate. In the neoclassical approach taken by Piketty (2014, pp. 2030–2032), the capital/output ratio (where capital includes housing) is endogenous: the growth rate is exogenous, and the saving rate determines the capital/output ratio in (P-5).

[11]Recall that when the share actually saved and invested (s and i) is less than the growth-balancing saving and investment share gβ, capital growth is insufficient to match Y growth, causing β = K/Y to decline.

[12]See Kaldor (1966). Piketty himself sometimes uses saving propensities that differ by class or type of income: see, for example, Piketty (2012–13).

[13]In the extreme case where capital received all of the country's income, this would degenerate to

$$s = sL + (sK - sL)1 = sK$$

. If labor received all of the country's income, then

$$s = sL + (sK - sL)0 = sL$$

.

Additional information

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