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Thomas Piketty: Marx 2.0

Rana Foroohar

Le hot hand Author Thomas Piketty near his office in Paris
Christopher Morris—VII for TIME

How one French economist's unlikely blockbuster set the world's leaders spinning.

It's not often that a 685-page economics tome almost overnight captivates Main Street, Wall Street and the cream of Washington's trend-minded policymakers and think tankers. But that is what's happened with Capital in the Twenty-First Century and its 43-year-old author, Thomas Piketty. Just a few days after its February release, the massive study of global inequality hit No. 1 on Amazon's best-seller list. With more than 200,000 copies sold–the most ever during a book's first year in the history of Harvard

University Press–hardbacks are hard to come by. It's safe to say the French academic is now the most talked-about economist on the planet.

The sudden acclaim only partly describes the impact Piketty's book–the title is a nod to Marx's Das Kapital–is having. On a recent trip to the U.S., Piketty met with Nobel laureates, billionaire financiers and such top policymakers as Treasury Secretary Jack Lew and Council of Economic Advisers head Jason Furman. Liberal economist Paul Krugman has already hailed the book as the economic work of the decade, and many influential economists agree with him.

Of all those who have railed against widening economic inequality in recent years–Occupy Wall Street, Barack Obama, the Pope–how is it that a wonky math whiz toiling away in Paris found a way to get global elites to pay attention to, and even worry about, the divide between rich and poor? Perhaps it's because Capital is rooted not in theoretical abstractions so much as archaeology. The book analyzes hundreds of years of tax records from France, the U.K., the U.S., Germany and Japan to prove a simple idea: The rich really are getting richer. And their wealth doesn't trickle down. It trickles up.

It turns out that making a data-rich case for the conventional wisdom has profound implications. "The 1% in America right now is still a bit lower than the 1% in prerevolutionary France but is getting closer," says Piketty. The idea that the U.S. today could be on the same economic trajectory as late 18th century France, a society in which many of the 1% eventually had their heads lopped off, may seem, as Piketty writes in his book, "terrifying." Yet the stark historical consequences of unchecked inequality are at the heart of Capital.

Data Deluge

Piketty was born outside Paris in 1971. He was put on a high-end academic track studying math and economics at some of France's top schools. He earned his Ph.D. at 22. Early in his career, Piketty also taught at MIT. That was in the 1990s, when American economics had come to be dominated by theoretical mathematics. At the time, economists had physics envy: academics won prizes for building multidimensional models of currency movements or complex securities transactions. They were useful as far as they went, but they tended to ignore the role of bad actors and resulted in disasters like the Long-Term Capital Management hedge-fund meltdown and the 2008 subprime meltdown.

Math was king. And Piketty was good at it, but he was also interested in history and literature. "I think if I had stayed at MIT, I would have been encouraged to do theoretical papers, not historical research," says Piketty, who is a devotee of Honoré de Balzac and Jane Austen.

Instead he went back to France and married. His wife Julia Cagé is an economist who studies media. And they had three children. By the late 1990s, he had begun the decidedly unsexy work of poring through hundreds of years of French tax records, which were surprisingly detailed, since the bureaucracy became determined to document exactly who was wealthy and how much they had in the years following the French Revolution. With the help of others, like Berkeley scholar Emmanuel Saez, Piketty eventually took his study global, spending 15 years analyzing data across 30 countries.

The book is something of a rebuttal of U.S. tax policy over the past 100 years. When Congress put a graduated income tax in place in 1913, lawmakers hoped, in part, to level the economic playing field, taxing richer Americans at a higher rate while permitting those with smaller incomes to keep a relatively bigger portion of their paychecks. Since then, U.S. politics has survived many cycles in which either raising or cutting taxes was in vogue. But the overall impact of the century clearly favored the few over the many. Piketty is particularly hard on the past 30 years of U.S. economic policy, when tax cutting has been the rage at both the federal and state levels. His findings show that the wealthy, from billionaires to those merely holding healthy stock portfolios, have gotten much richer while people who make most of their money from plain old income have gotten relatively poorer.

According to Piketty, that's the natural order of things. "It's quite possible that inequality will keep getting worse for many more years," he says. His book shows that historically, the only time inequality actually decreases is during a war–when the rich tend to lose a bundle–or when government jump-starts growth through direct intervention, as Washington did both with the New Deal in the 1930s and with the Marshall Plan in the late 1940s.

The American middle class enjoyed a period of disproportionate prosperity in the 30 or so years that followed, Piketty argues. By the '80s, though, in the absence of redistributive world events and with deep tax cuts for the rich, things began to change. Since the rate of return on capital is, according to Piketty, naturally greater than the rate of growth in the economy as a whole, people who get most of their wealth from investments inevitably grow richer and richer compared with those who get their money from salaries or wages.

In other words, the golden age of the average American may have been a brief historical anomaly rather than a permanent phenomenon. That notion will certainly strike a chord with anyone who's watched the stock market reach record highs over the past few years even as real wages have stagnated. "Nothing becomes resonant unless it relates to our experience," says Robert Johnson, president of the Institute for New Economic Thinking, a George Soros–backed nonprofit that funded some of Piketty's research. "This book definitely relates to the experience of most Americans over the last few decades."

Policy Positions

Piketty's work is not without critics. Serious thinkers on both the left and the right claim that his arguments are too simplistic, that tax records aren't the best way to study wealth. They argue that there are reasons to believe the rate of return on capital won't continue to outpace growth–that wealth inequality will decrease, particularly as technology creates new jobs we can't yet imagine. Some have argued that the main thing

Piketty has done is provide a new trove of data supporting the ancient notion that the rich really do get richer while the poor get poorer. Interesting, yes, but not really new. Parsing the book is likely to take critics years.

More immediately, Piketty's work may give the long-simmering debate over inequality a short-term stimulus. President Obama has already placed the issue at the center of his final two years in office, though few expect him to effect much change as a result. (A once-hoped-for reform of the U.S. tax code has been shelved as impossible by both parties; Obama's minimum-wage campaign is given no chance of success on the federal level.) But the issue simmers locally: New York City Mayor Bill de Blasio was elected on it. Boomtowns like San Francisco are undergoing complicated rent squeezes as high-income tech whizzes push low-income workers out of developing neighborhoods. And inequality is certain to be a theme sounded by both parties as the 2016 campaign approaches.

Piketty refuses to discuss his political leanings. His parents were leftists who took part in the May 1968 protests in Paris. But he says, "I have people who lean left and those who lean right in my family, and I love them both." Piketty says he was interested in researching inequality to better understand world events–like the fall of the Berlin Wall, globalization and sectarian violence in the Middle East–rather than to justify his personal philosophy. "I didn't start from a political position but from the goal of understanding what the facts would tell us about inequality," he says. "I wrote this book not for policymakers but for people who read books. In the end, they are the people who'll decide what politicians do, and it's more important to convince them."

Piketty argues that any real reform of the U.S. tax code–should it ever come–must do more than tinker with mere income tax rates. It must consider Americans' wealth as a whole and measure not only salaries but also other holdings, including real property and intangible assets. "The relative importance of wealth to income is rising, and yet," he points out, "the main form of wealth tax is … not adapted to the 21st century structure of wealth."

Indeed, it is not. Consider the salaries of the modern economy's "supermanagers"–the CEOs, bankers, accountants, agents, consultants and lawyers Occupy Wall Street railed against–who increasingly receive up to a third of their incomes not in salary but in stock options and stock equity. This change in paycheck makeup has the booster-rocket effect of lowering their taxes while increasing inequality in the economy as a whole. (That cycle spins faster and faster as executives paid in stock make short-term business decisions that might undermine growth in their companies even as they raise the value of their own options.) As research by economists James Galbraith and Travis Hale has shown, during the late-1990s tech boom, changing income inequality tracked the go-go Nasdaq to a remarkable degree.

The solution? According to Piketty, it's a global wealth tax. Like postrevolutionary French citizens, people all over the world would be required to declare their overall net worth. They could then be taxed on a percentage determined by local governments. That would eliminate the chance of Warren Buffett's secretary ever paying a higher tax rate than he might, as well as capture more of the capital wealth that, says Piketty, will keep rising inexorably.

Some kind of all-surveying, universal wealth duty was an idea that preoccupied both Adam Smith and Thomas Jefferson, and Piketty admits that it remains "utopian." The closest the U.S. has come to levying the fee came at death in the form of the estate tax. (Political interests from both parties joined forces to water it down over the past 25 years. Even so, the remnants of what has been derided as the "death tax" keep accountants very busy throughout the year.)

Other measures to combat inequality at the national level might include boosting access to education, increasing capital gains taxes and closing corporate tax loopholes that are partly the result of the money politics funded by powerful interests. None is likely to be enacted soon, which is probably why Piketty suggests patience. "I'm not expecting change in the next few years," he says. "I just wanted to induce a rethinking of wealth and of our tax system. It took decades of debate to create the income tax. People said it would never happen. But it did happen."

Piketty believes there's a strong possibility that some kind of global revolution is coming–even if it's just a revolution in how we think about wealth. The wage gaps are growing, the corporate dealmaking is getting more opaque, and tax codes remain impenetrable to all but those who can afford the help of accountants and lawyers. While Piketty says there's "no algorithm" to predict if and when the barricades might go up, he's not getting ready for an uprising yet.

In fact, his next plan is to spend some of his own capital doing something fundamentally French–taking a five-week summer vacation with his family.

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