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Creativity and 'Capital in the Twenty-First Century'

Adam Leipzig · Wednesday, April 30th, 2014

A funny thing happened on the way to traditional media's complete dumbing-down of the American mind: Thomas Piketty's gigantic, massively researched treatise *Capital in the Twenty-First Century* has climbed to the top ranks of Amazon's best-seller list.

While few people will actually read every page of the French economist's 700-page tome, the central premise of Piketty's research has already become part of our national discourse, and it is easy to summarize.

Based on big data compiled over many years, Piketty demonstrates how the return on capital exceeds the general economy's rate of growth. Therefore, inherited and accumulated wealth continue to increase, and become a larger and larger share of the entire economic pie. This explains the massive, and growing, rich-poor divide.

Piketty's findings enrage the Right, who argue that "inequality of capital is simply a proxy for other kinds of inequality," such as superior intelligence and motivation among the rich. They're wrong, and a couple of examples from creative industries further prove Piketty's points.

Consider the plight of the visual artist. If she sells her work through a gallery, the gallery takes fifty percent. That's fair; the gallery's curation and "seal of approval" add value to the work. But later, when the art collector sells the work, perhaps at a considerable profit, the original artist doesn't get anything. Capital (the collector's wealth) increases at a rate far greater than the general economy (that of the artist). (A bill was recently introduced in the US Congress to grant artists a meager 5% resale royalty; it won't get out of committee.)

As further evidence, we can look at the gulf in value between filmed intellectual properties and the distribution systems that bring them to market. Subscription video services, like Hulu and Netflix, are able to pay pennies on the production-dollar for the right to distribute independent movies. This may be the only income those films can make, and therefore, it is true, many of those films don't have much market value. But even as the general economic health of the artists that make these movies stays flat, or is in decline, the corporate value of the video distribution companies continues to grow.

A few years ago, I suggested that economists should recognize the Creativity Theory of Value. I wrote:

When you buy a pair of Nikes that have cost $5 to produce in a factory in Vietnam, why do you pay

$100? For their creativity, design, and innovation, and the marketing involved in selling you all of these attributes.

The Creativity Theory of Value holds that the value of anything is the product of the Creativity involved in creating it multiplied by the Labor required to produce it. In mathematical terms, we could express it as:

C * L = V

where C is Creativity, L is Labor and V is Value. This will allow us to find the Creativity Index for anything.

When the Creativity Index is the number 1 or more, Creativity has had a significant positive effect on something's value. But if the Creativity Index is less than 1, then we could say that the Creativity was a negative influence on the Labor; in other words, it wasn't worth it.

In the two examples I cited above, the visual artist who sells to a collector, and the independent filmmaker who sells to a video service, even if the Creativity Index of the work proves to be significant, the creator won't see any benefit. Piketty's conclusion resounds: the value of collectors' or distributors' capital increases faster than the value of artists' labor.

What's the solution? Piketty proposes a global tax on wealth, and he couples its urgency with core democratic principles. "If democracy is to regain control over the globalized financial capitalism of this century, it must also invent new tools, adapted to today's challenges," Piketty writes. "The ideal tool would be a progressive global tax on capital, coupled with a very high level of financial transparency." (p. 515)

This is very much in line with what Pulitzer Prize-winning investigative journalist David Cay Johnston has been saying for years: taxation is the foundation of democracy:

There's one more thing I truly love about *Capital in the Twenty-First Century:* Piketty is a lover of literature, and draws some of his inspiration from it. In one of my favorite passages, he quotes from Balzac's 1835 novel *Le Père Goriot* to show us how the accumulation of capital and inherited wealth is a longstanding tradition. Vautrin, a master criminal, tries to give a life lesson to law student Eugène de Rastignac, and explains, point by point, how simply working and doing a good job will never provide wealth and security. "There is only one way," says Vautrin. "Marry a woman who has money."

Top image: The contemporary gilded age embodied by Leonardo DiCaprio in Martin Scorsese's 'The Wolf of Wall Street.'

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