just as we need it most.

Here is his basic insight. He studied the history, not just of income, but of wealth. And he observed that there are two fundamentally different kinds of wealth:

- **Productive wealth.** This is wealth generated by work, by producing and selling things or services. The kind of wealth Adam Smith talked about. The prototypical case concerns individuals, for example a baker and a furniture maker. Each makes and sells things, and each needs and buys what the other sells. The baker's income pays the furniture maker, and the furniture maker's income pays the baker. Each works for himself, produces things, gets paid for it, and in a much oversimplified market, each produces wealth for himself and for the other. This is the kind of wealth, productive wealth, measured by the GDP. Piketty calls it "G."
- **Reinvestment wealth.** This is wealth generated by receiving returns on investments and then reinvesting those returns over and over. This kind of wealth grows exponentially, like compound interest. The more have, the more you invest, and the more you invest, the more you have. He calls it "R."

Here's where the concept of proportion comes in. Piketty looks at the proportion of the kinds of wealth, that is, the ratio between R and G over a population. Then he asks, how does it change and why?

His research was done by studying tax records in many countries, dating back to the eighteenth century. What he discovered was that, up until 1913, most wealth was reinvestment wealth. Even during the period of the industrial revolution, which is usually thought of in terms of productive wealth, R was much greater than G. In other words, Piketty showed that the common wisdom is false. Even in capitalist democracies, where individual liberty and the market were supposed to allow for productive wealth through work, it turns out that reinvestment wealth was overwhelming. For instance, in France, a capitalist democracy concerned with égalité, in 1910, 70 percent of the wealth was reinvestment wealth, held by the very wealthy—not