Is Inequality unjust?
Reflections on Piketty’s Work

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Starting from Piketty

- **Empirical research** on the long term evolution of inequality in major wealthy countries
- Tradition of political economy: oriented towards policy advice
- Commitment to social justice, but **no ideology**
- Reference to Marx, but **no anti-capitalism**: contemporary capitalism conceals a self-destructive logic, but this can be countered by sound policy
Research questions

1. Why does inequality increase in so many countries since 1980?
2. Why the top 1% performs so well

P.: effect of tendencies that characterise capitalism in the very long run
Definitions

• Comparison of the quantity of capital or wealth in major developed countries
• Capital: land, machinery, infrastructure, (capital goods) but also houses
• Net capital = marketable value – debts (hence public capital is mostly zero)
• International comparison by dividing the value of the capital stock of a country by its yearly national income \( \beta = \text{capital-income ratio} \)
Graphique 4.5. 
Le capital national en Europe, 1870-2010

Lecture: le capital national (somme du capital public et privé) vaut entre 2 et 3 années de revenu national en Europe en 1950.
Sources et séries: voir piketty.pse.ens.fr/capital21c.
Graphique 5.8.
Le rapport capital/revenu dans le monde, 1870-2100

Lecture: d’après les simulations du scénario central, le rapport capital/revenu au niveau mondial pourrait s’approcher de 700% d’ici à la fin du XXIe siècle.
Sources et séries: voir piketty.pse.ens.fr/capital21c.
How to explain The U-shape of $\beta$?

$r > g$

In the long run the return of capital $r$ is greater than the rate of economic growth $g$

Exception: 1914 -1980 - interbellum and the period after WWII
Figuur 1. Rendement na aftrek van belastingen vs. groei op wereldniveau, van de oudheid tot 2100.

Netto rendement kapitaal (na aftrek belastingen en verliezen)
Groeivoet wereldwijde productie (g)
Explanation

- For centuries a very high return on capital
- Collaps after 1914
- Increase of r after WWII, but less than economic growth until 1980
- Expectation for het XXIst century: again r > g, as has always been the case; r → 1 or 1,5 %
- ‘Les trente glorieuses’ as the exception not the norm
Political explanation of decreasing $r$ in interbellum

- Destruction of capital through wars
- Crisis of the 1930’s
- Increasing role of regulating government
- Very high income and bequest taxes in GB and USA after WWII
- After 1980: reagonomics and thatcherism – decreasing taxation on wealth and high incomes
- Remark: capital investment by the rich yields much more than savings of the poor and middle classes
Transition to functional distribution of income

- First fundamental law of capitalism: \( \alpha = r \times \beta \)

With \( \alpha = \) share of income from capital in the GDP of a country
\( r = \) return on capital
\( \beta = \) capital/income ratio

Example: if \( \beta = 600 \% \)

and \( r = 5 \% \),

then \( \alpha = 30 \% \)

If capital owners save sufficiently, \( \beta \) and \( \alpha \) will increase
The second fundamental law of capitalism

\[ \beta = \frac{s}{g} \]

With \( \beta \) = ratio of capital versus GDP of a country
\( s \) = saving rate, rate of savings to GDP
\( g \) = rate of growth

Example: with a saving rate of 9% and a growth rate of 1.5%, in the long run capital/income ratio \( \beta \) will be 6 or 600%.
Transition to Personal Income Distribution

1. If capital yields more than economic growth,
2. And if wealthy economic agents save and invest an important part of their income
3. And if the return on these investments is distributed amongst a small number of people,

Then inequality between persons increases
The three conditions seem to apply!
United States

• Capital/income ratio $\beta$ is lower than in Europe: first abundant cheap land, then massive immigration and high productivity of capital

• More inequality through huge bonuses for supermanagers, CEO’s of big firms
Graphique I.1.
L'inégalité des revenus aux États-Unis, 1910-2010

Lecture : la part du dixième supérieur dans le revenu national américain est passée de 45-50 % dans les années 1910-1920 à moins de 35 % dans les années 1950 (il s'agit de la baisse mesurée par Kuznets) ; puis elle est remontée de moins de 35 % dans les années 1970 à 45-50 % dans les années 2000-2010. Sources et séries : voir piketty.pse.ens.fr/capital21c.
Is growing inequality a problem?

• **Harry Frankfurt and Derek Parfit**: equality is no ethical value

• We should rather aim at improving the situation of the poorest, bringing them above a decency level

• Cfr. Blair and the ‘new social democracy

• Against ‘levelling down’

• The Right against egalitarianism as the expression of a culture of jealousy
Piketty’s answer

1. High incomes or wealth as a result of personal effort or merit is not problematic. However, a good deal of het accumulated wealth at the top is the result of bequest. Growing importance of rent income. Back to patrimonial capitalism, mainly in the form of financial activa. USA: high income of CEO’s as the result of ‘collusion’: self remuneration of a small elite.
Graphique 8.10. 
La composition des hauts revenus aux États-Unis en 2007

Lecture : les revenus du capital sont dominants au sein des 0,1 % des revenus les plus élevés aux États-Unis en 2007, et non au sein des 1 % des revenus les plus élevés, comme en 1929. 
Sources et séries : voir piketty.pse.ens.fr/capital21c.
Graphique 11.7.
La part des patrimoines hérités dans le patrimoine total, France 1850-2100

Lecture : les patrimoines hérités représentaient 80%-90% du patrimoine total en France au XIXᵉ siècle; cette part est tombée à 40%-50% au XXᵉ siècle et pourrait remonter vers 80%-90% au XXIᵉ siècle.
Sources et séries : voir piketty.pse.ens.fr/capital21c.
Graphique 11.9.
La part de l'héritage dans les ressources totales (héritage et travail) des générations nées dans les années 1790-2030

Part de l'héritage dans les ressources totales moyennes en fonction de l'année de naissance (successions, donations et revenus du travail capitalisés à l'âge de 50 ans)
(2010-2100: g=1,7%, r=3,0%)

Sources et séries: voir piketty.pse.ens.fr/capital21c.
Is growing Inequality a Problem? Piketty’s Answer

2. A threat of capitalism that will be perceived as non legitimate

3. A threat of democracy when a small group of superrich can influence public decision making
   → Save capitalism from the capitalists by moderating inequality

And save democracy!
Global Progressive wealth taxation

• Possibly first within Europe or the USA
• Example:
  – no taxation under 1 mio euros
  – 1 % between 1 and 5 mio euros
  – 2 % above 5 mio euros

Collective Action problem: no sovereign supranational power to prevent free ridership
Atkinson: national states still have sufficient power to implement wealth taxation
First Criticism on Piketty

1. **Not realistic**: USA will never accept global wealth taxation

   ↔ A utopia can show what way we should go

   Swiss bank secret has been defeated recently

   Same problem for CO2 taxation, Tobin takes, all forms of taxation of capital (proceeds)

   Exploitation of the relatively immobile factors of production by the relatively mobile ones

   Remedy: create a big economic space with uniform taxation and transparent regulation
Second Criticism

2. Growing capital/income ratio is mainly caused by sharply rising prices of houses, land and apartments, not by the value of machinery and firms (Matt Rognlie)

→ Real estate speculation is the problem, not capitalism

Return on most capital investments in the restricted sense is rather stable

Moreover, capital loses its value more quickly than before → need for more money for reinvestment
Figuur 1. Rendement na aftrek van belastingen vs. groei op wereldniveau, van de oudheid tot 2100.

![Graph showing the net capital return (after tax and losses) compared to worldwide growth, from ancient times to 2100.](image-url)
Third Criticism

3. \( r > g \) is a prediction for the XXIst century, an extrapolation of former tendencies. However, lower \( g \) can lead to lower \( r \).

Cfr. Offer and demand: abundant capital could decrease its price (\( \leftrightarrow \) P.: this did not happen in the XIXth century).

Is a return to XIXth c. thinkable in an inclusive democracy?

Growth prediction too low? Not for Europe or USA.
Fourth Criticism

• Piketty focuses on the top 1 %, or the top 0,1 %, or even less.
• No use of ginicoëfficients (measure of general inequality in society)
• In Belgium, France and some other countries inequality has not increased in recent years!
Is Inequality bad?

• Michael Marmot: the social gradient
  Inequality decreases life expectancy of lower classes
  Social hierarchy makes them sick
  Reason: lack of control on one’s own life
  No equality in matters of life and death!
  (the only domain in which we could be inclined to levelling down)
Piketty: Meritocracy and Utilitarianism

‘Les distinctions sociales ne peuvent être fondées que sur l’utilité commune’, Art. 1 de la Déclaration des Droits de l’Homme et du Citoyen

Nothing wrong with inequality that serves the general interest. Naïve?

Unmerited money is the problem!
Political Liberalism

Equality of income or reward is the rule, with two exceptions:

1. **Personal effort** justifies inequality
2. **Efficiency**: inequality can stimulate entrepreneurship and in a wealth society there is more scope for redistribution

Rawls: equality of basic civil rights and equal opportunities (for equal competences) + difference principle
Inheritance taxation as an alternative?

• Serves Piketty’s meritocracy better than progressive wealth taxation, but a clash of intuitions!

• Liberal intuition: all children should get the same opportunities $\rightarrow$ equal rights on natural resources and on inherited wealth

  $\leftrightarrow$ communitarian intuition: people want to be free to give to their near and dear

$\rightarrow$ legitimacy problems for inheritance taxation + stimulates short termism