

# Is Inequality unjust?

## Relections on Piketty's Work

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Prof. Antoon Vandavelde

Centre of Economics and Ethics

Institute of Philosophy

University of Leuven – KU Leuven

# 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

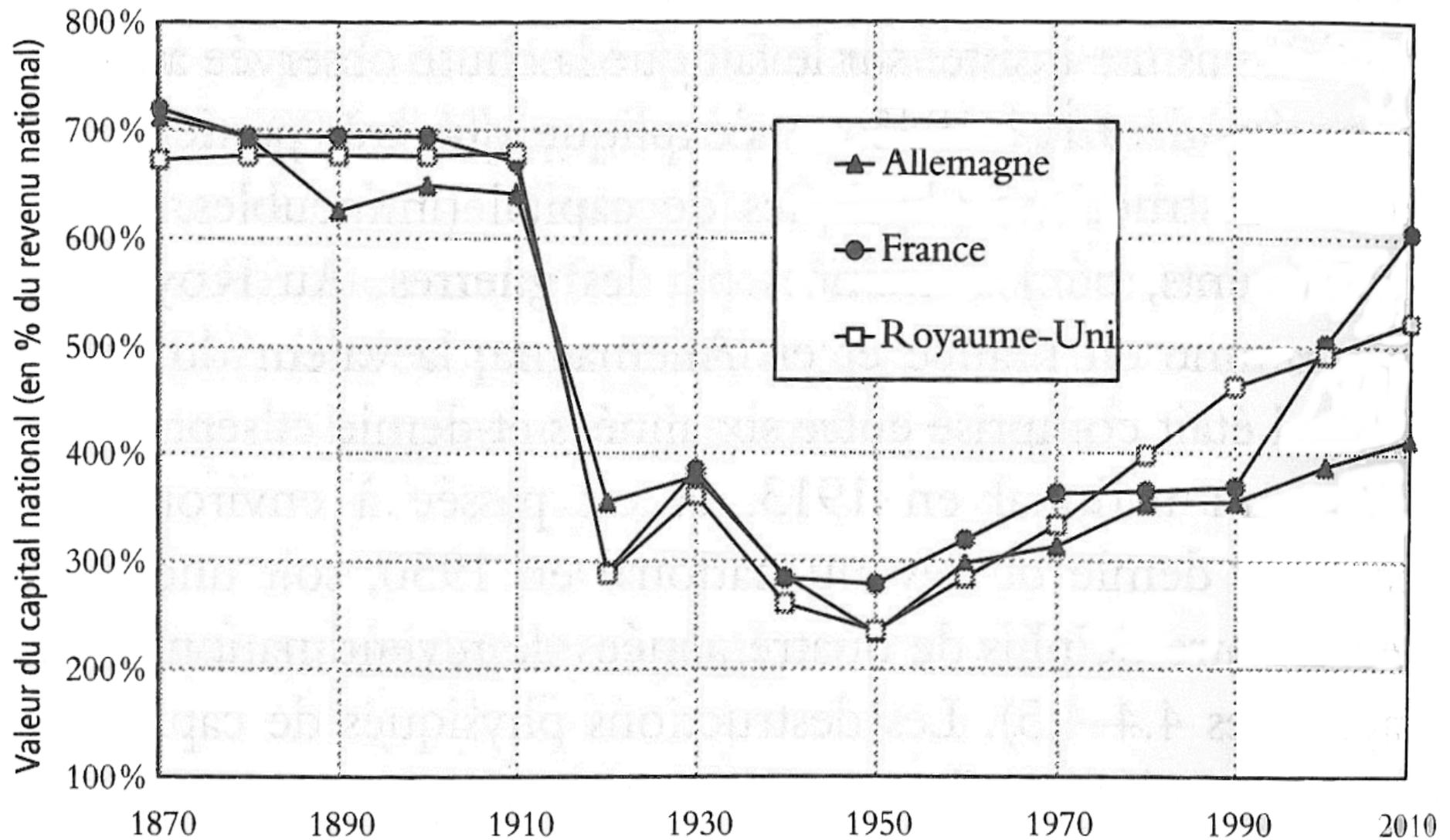
1. Why does inequality increase in so many countries since 1980?
2. Why the top 1 % performs so well

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 →  **$\beta$  = capital-income ratio**

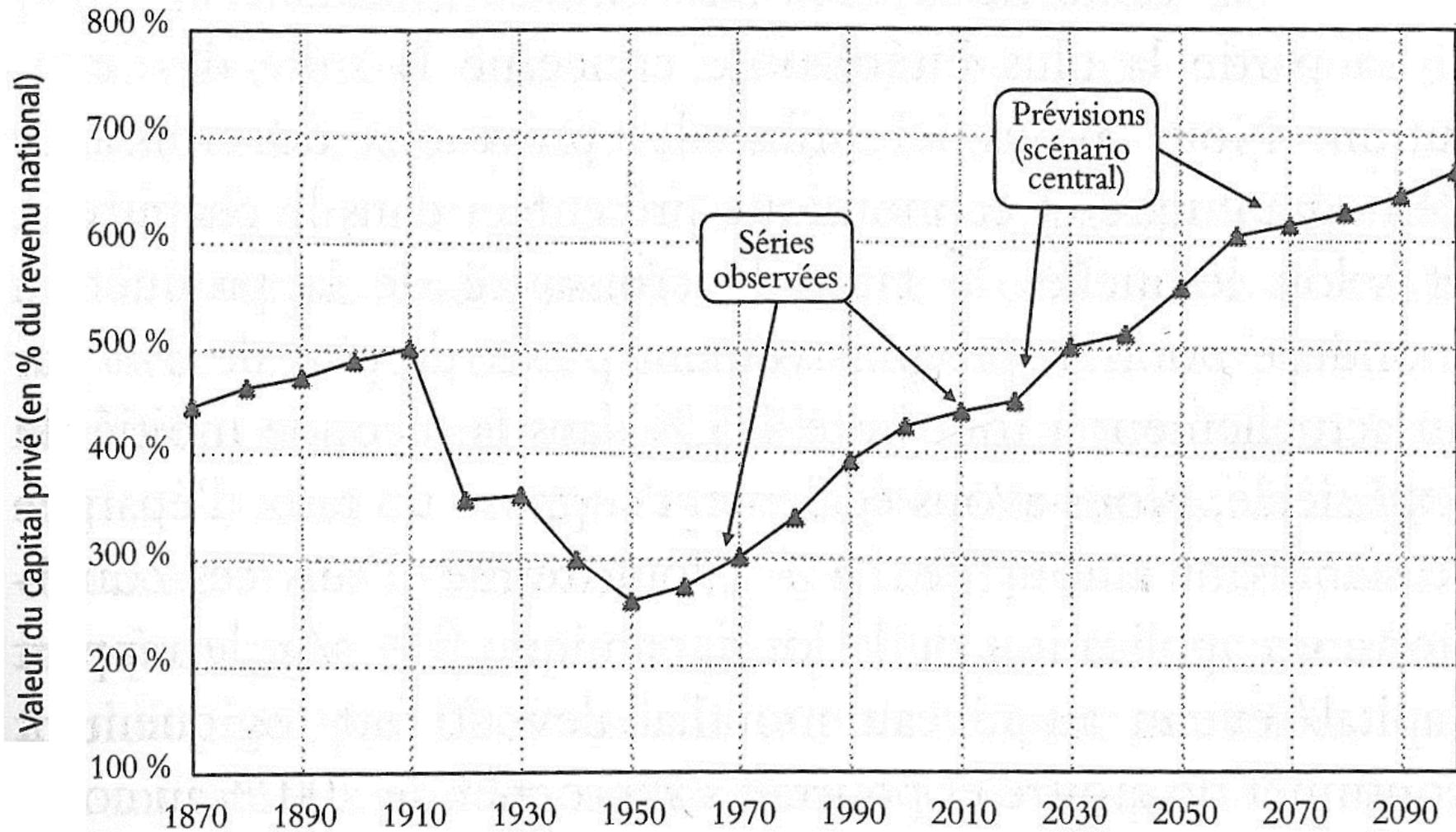
Graphique 4.5.  
Le capital national en Europe, 1870-2010



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](http://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 XXI<sup>e</sup> siècle.

Sources et séries : voir [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

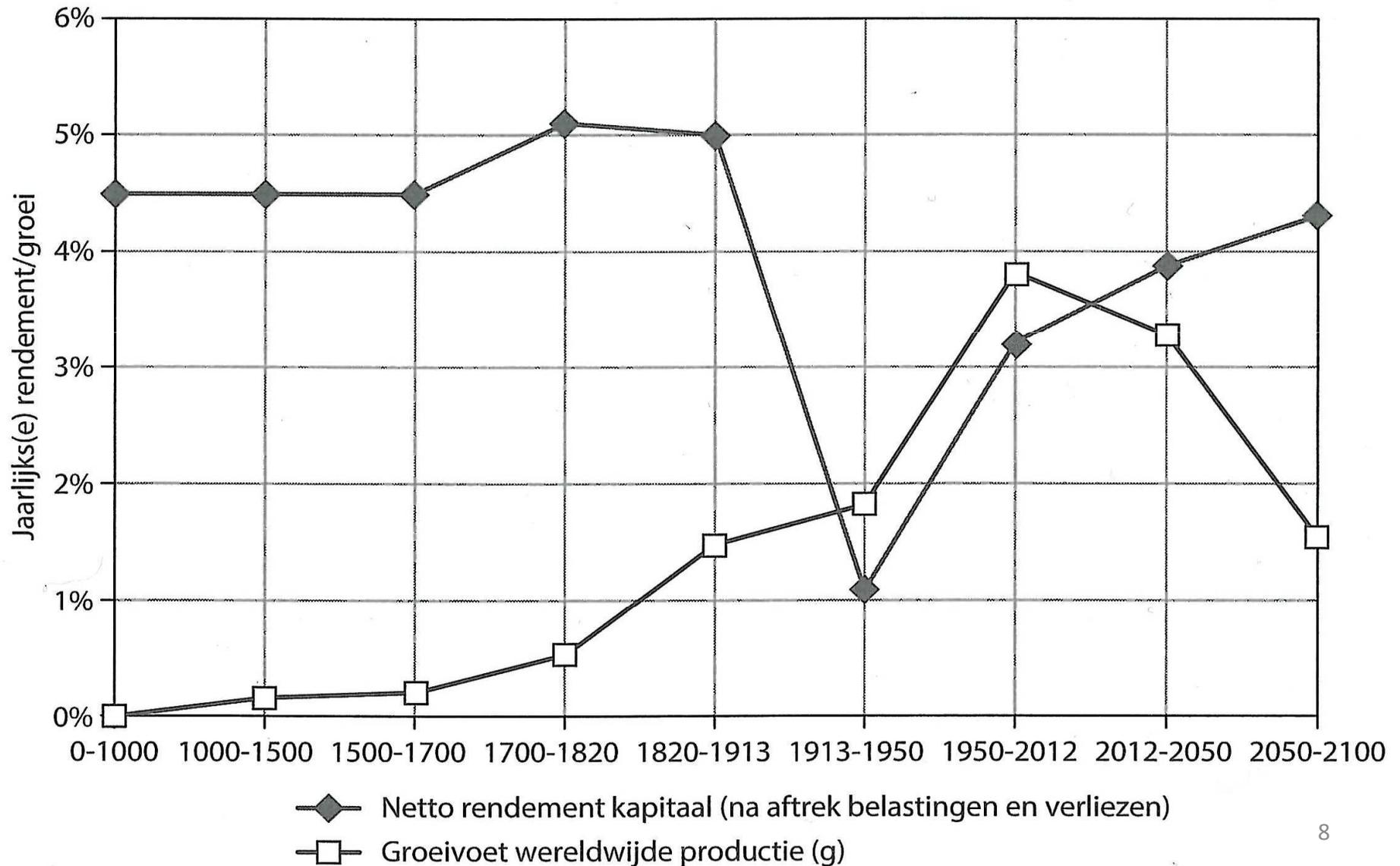
# How to explain The U-shape of $\beta$ ?

$$r > g$$

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.**



# 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;  $r \rightarrow 1$  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

$$\beta = s/g$$

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,

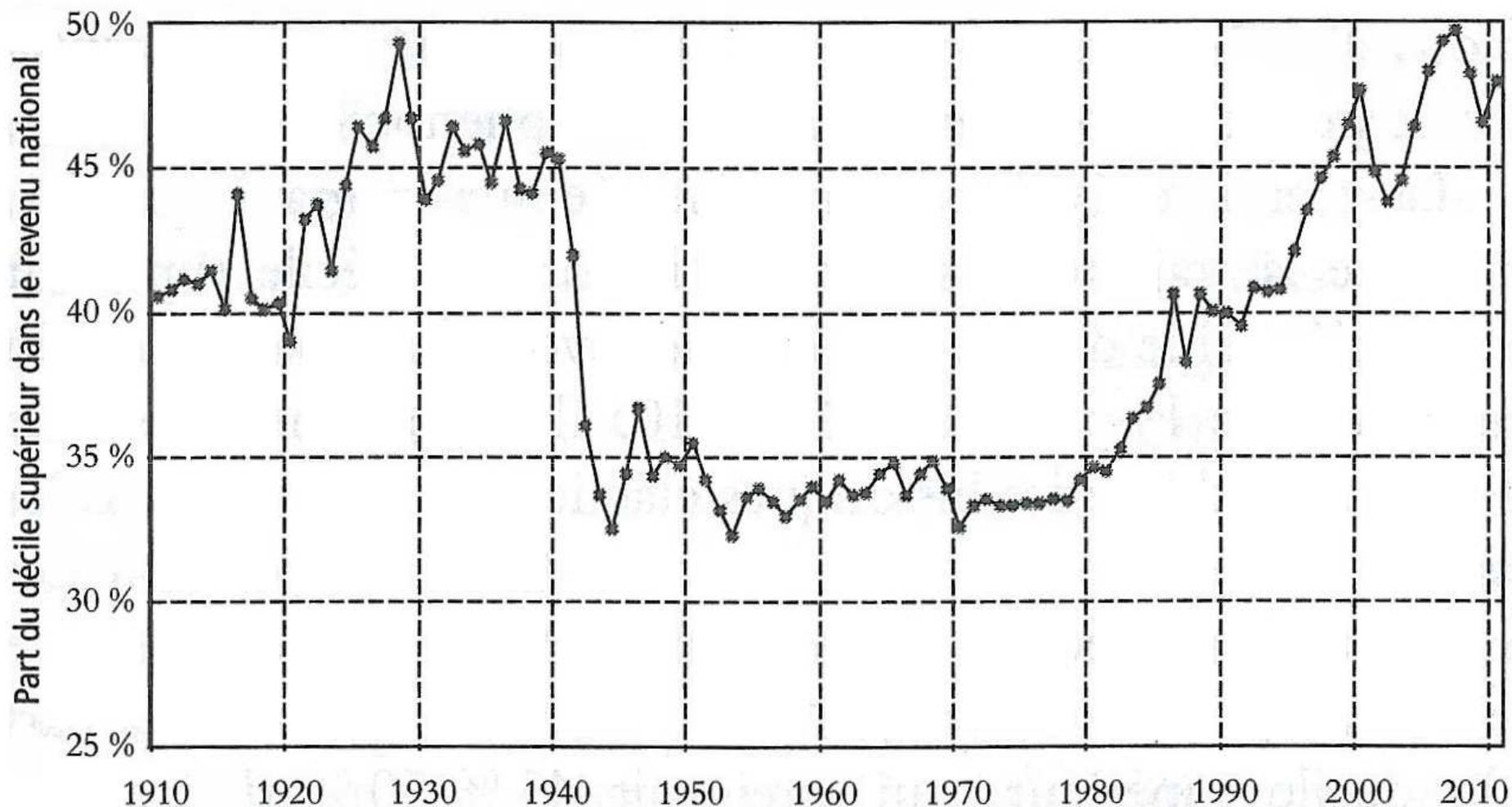
Then inequality between persons increases

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 décile 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](http://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 net accumulated wealth at the top is the result of bequest

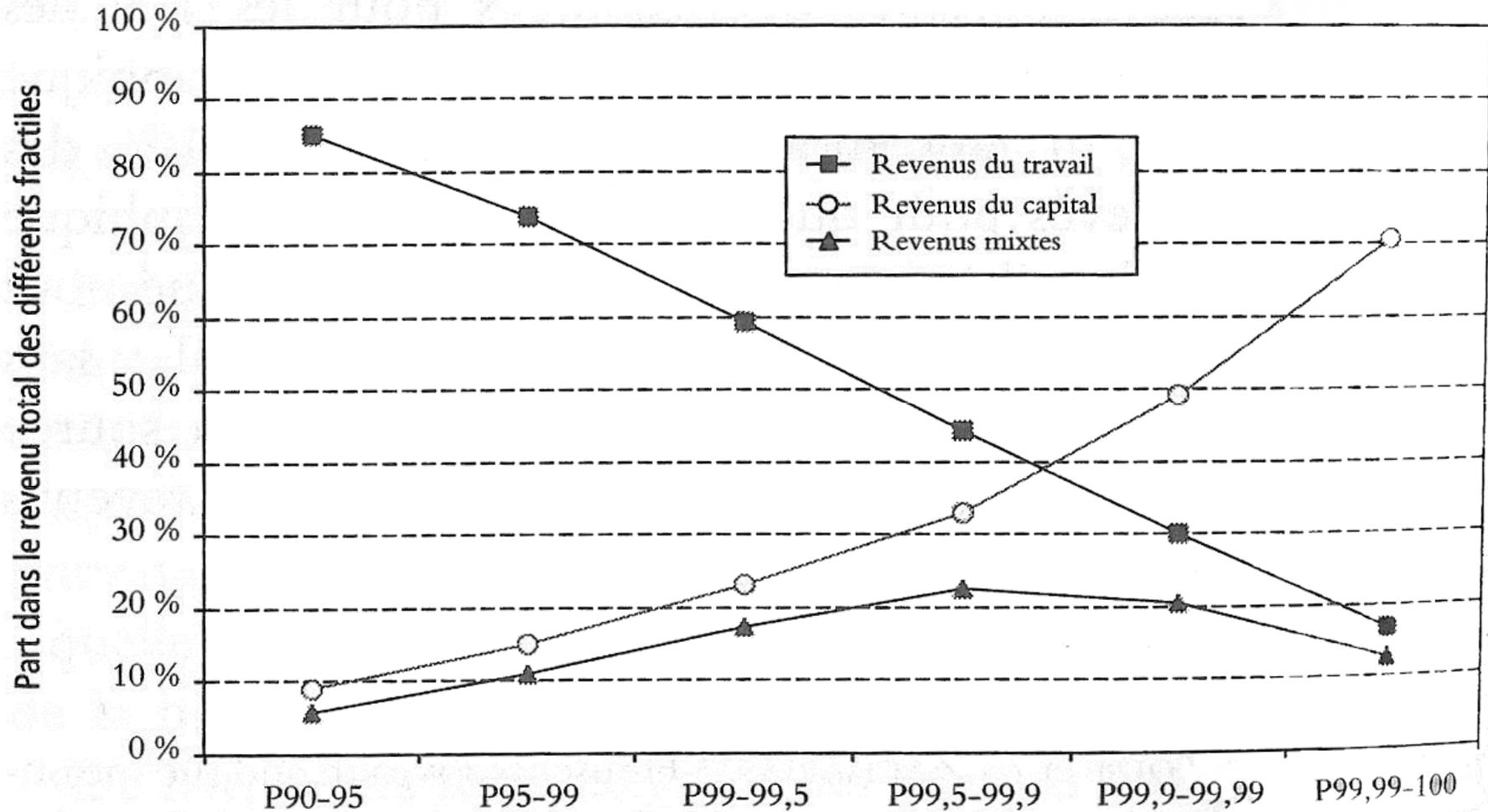
Growing importance of rent income

Back to patrimonial capitalism, mainly in the form of financial assets

USA: high income of CEO's as the result of 'collusion': self remuneration of a small elite

Graphique 8.10.

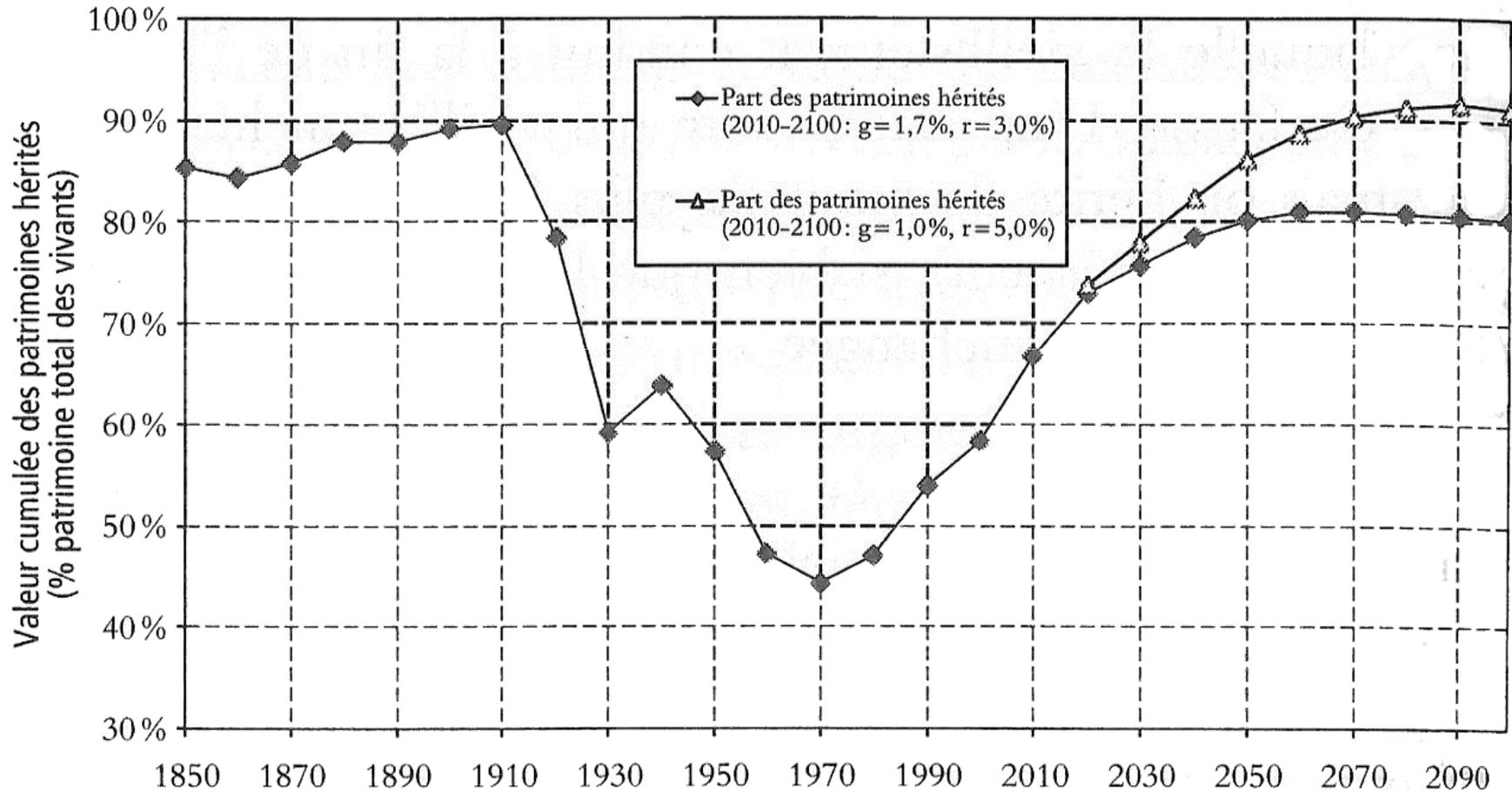
La composition des hauts revenus aux États-Unis en 2007



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](http://piketty.pse.ens.fr/capital21c).

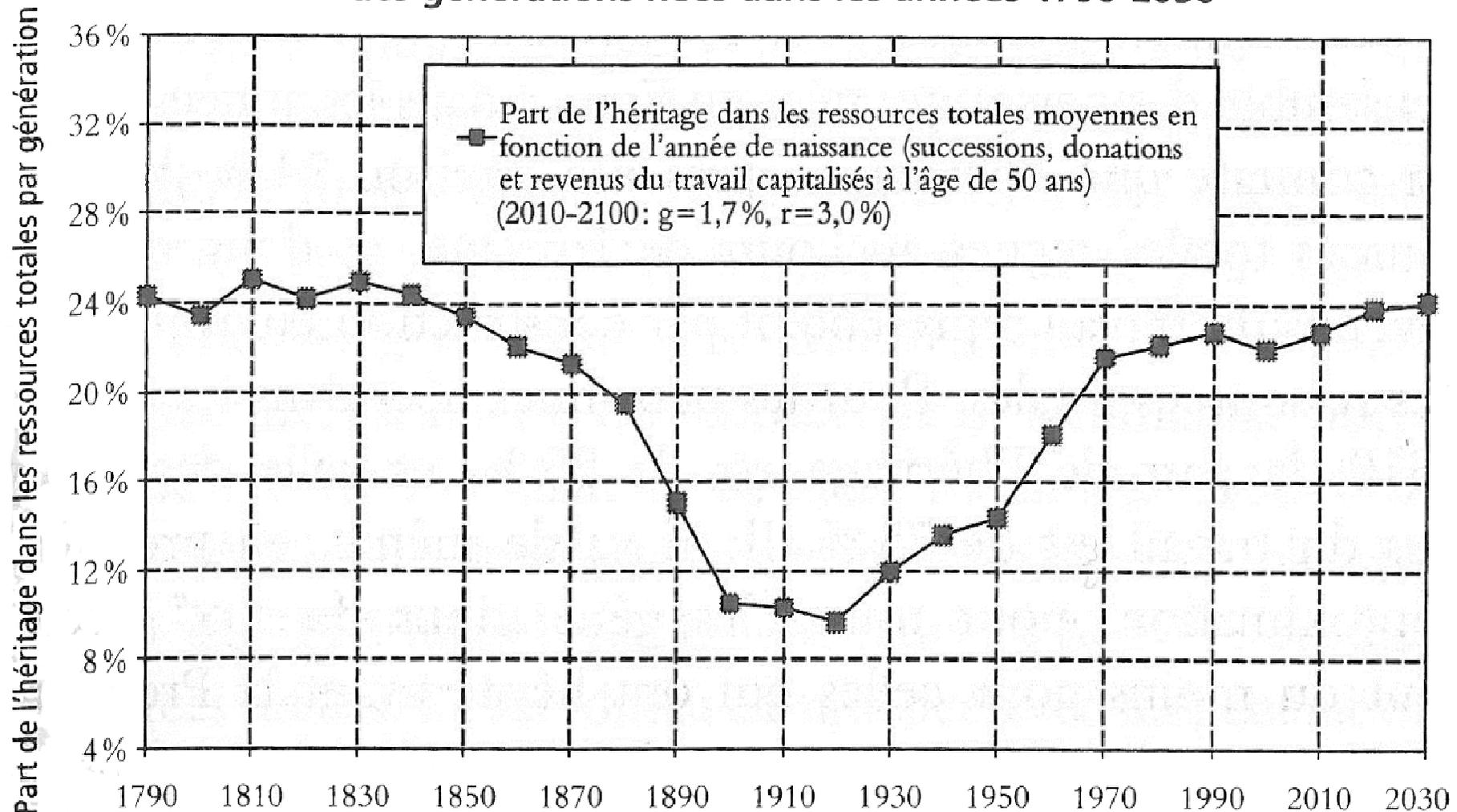
Graphique 11.7.  
La part des patrimoines hérités  
dans le patrimoine total, France 1850-2100



Lecture : les patrimoines hérités représentaient 80%-90% du patrimoine total en France au XIX<sup>e</sup> siècle ; cette part est tombée à 40%-50% au XX<sup>e</sup> siècle et pourrait remonter vers 80%-90% au XXI<sup>e</sup> siècle.  
Sources et séries : voir [piketty.pse.ens.fr/capital21c](http://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



Lecture: l'héritage représentait 25% des ressources des générations du XIX<sup>e</sup> siècle, et à peine 10% pour celles nées en 1910-1920 (qui auraient dû hériter vers 1950-1960).

Sources et séries: voir [piketty.pse.ens.fr/capital21c](http://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 taks, 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

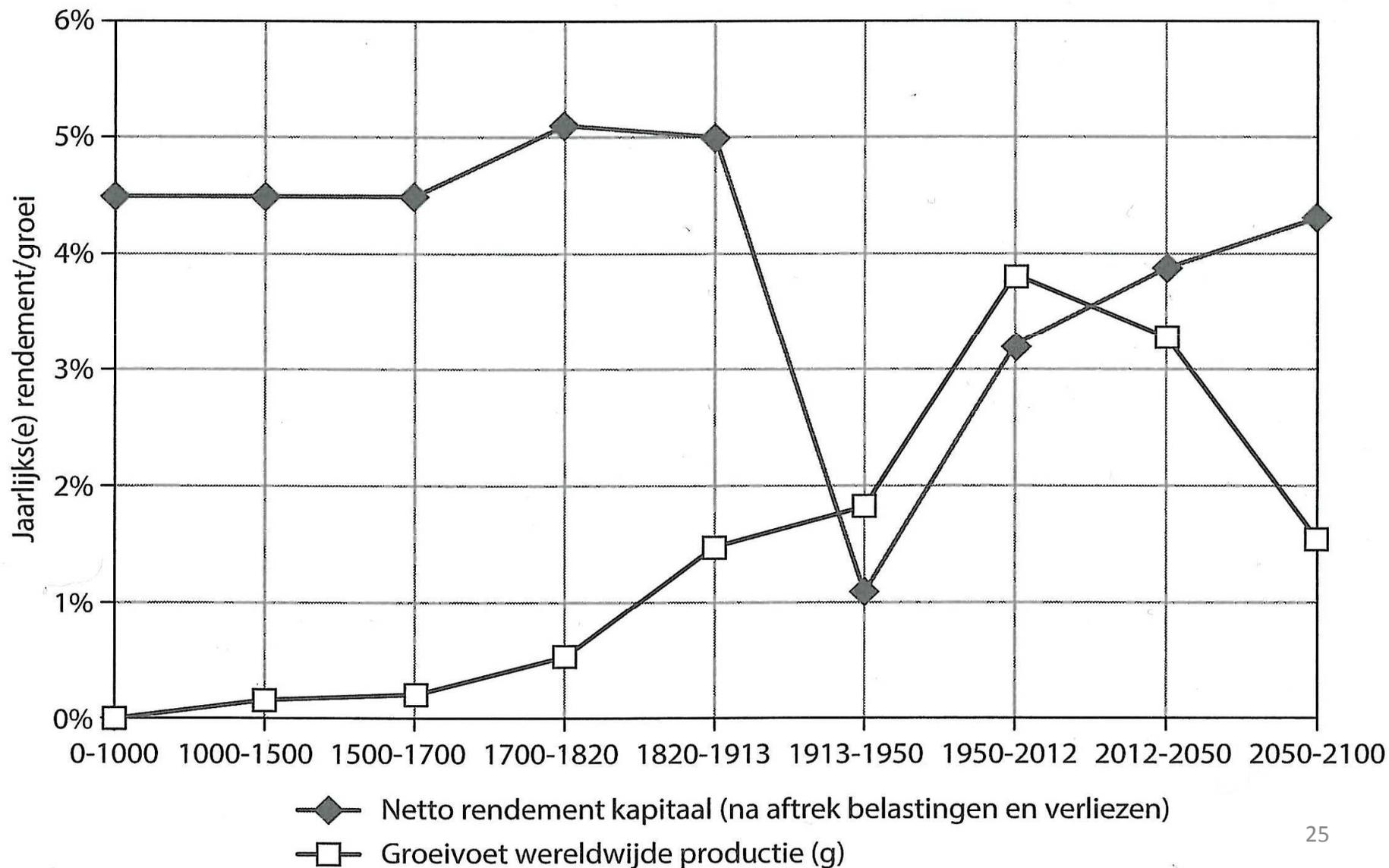
2. Growing capital/income ratio is mainly caused by sharply rising prices of houses, land and apartments, not by the value of machinery and firms (Matt Rognlie)

→ 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.**



# 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 Gini coefficients (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 sociale 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 → equal rights on natural resources and on inherited wealth
  - ↔ communitarian intuition: people want to be free to give to their near and dear
  - legitimacy problems for inheritance taxation + stimulates short termism