

## **Inequality, capitalism and the future**

EFG discussion on 14 July 2014 of Thomas Piketty's book *Capitalism in the 21<sup>st</sup> century*  
led by Andrew Hallan

Fifteen members of the EFG convened to consider the 21st century's answer to *Das Kapital*, and its implications for the environment. AH began by defining 'capital' as synonymous with wealth, and invited members to suggest reasons why accumulating wealth might be justified. The responses included: providing financial security (health or retirement); children's inheritance; children's education; mortgages; and start-up finance for new business ventures.

But wealth implies inequality, which creates three worries: people in absolute poverty (\$1.25 a day in 2005); in relative poverty (under 60% of median income); and high levels of inequality. Piketty's book, the outcome of 15 years' research, traces the evolution of wealth over the past 200 years, and concludes that, apart from a 30-year period after the Second World War ('les trente glorieuses'), the creation of wealth had led inexorably to rising inequality, a pattern that had revived around 1980 with Hayek's advocacy of market-led growth, put forward in his book *The Road to Serfdom* and promoted by the economic policies of Thatcher and Reagan.

Wealth is generated either by income from work (70%), or from property (accumulated wealth—30%). Piketty shows that, over the centuries, the rate of return from this accumulated wealth has maintained a stable 4 ½ to 5% per year; as a result, 'unearned income' has been rapidly multiplied over the generations by compound interest. Thus the top 10% of the population own two-thirds of the wealth; the bottom 50% own almost nothing; and the middle own one-third. Piketty argues that this wealth is a threat to democracy: the rich influence political choices, while the educated poor begin to reject 'the system'. He proposes a solution in the form of a low but graduated wealth tax, ranging from 0.5% to 5%.

Discussion ranged from pessimism ('It's human nature to be acquisitive; computers are now outdoing humans with wealth-creation; redistribution will increase consumption; consumerism is the new religion;') to optimism ('Scandinavia shows that attitudes are changing; a German lobby is arguing for higher taxes; a universal basic income would do the trick; happiness levels were higher under Communism; the long-term interests of the wealthy coincide with those of the environment; economics students reject Hayek and want to study economic history, political economy and the ecological implications').

Looking towards the future, AH pointed out that it was possible to have technical change without headline growth, as the Centre for the Advancement of the Steady-State Economy had shown. To prevent the political instability that derives from unemployment and redundancy, taxation could be redesigned to favour labour rather than capital investment; people could take equity stakes in new enterprises; and schools could focus on the respective benefits of work and leisure. As a country where 'gated communities' are unknown, and felons with guns are confined to the cinema, the Grand-Duchy has good reason to be thankful.

Further reading

*2052: A Global Forecast for the Next Forty Years*, Jorgen Randers

*The Spirit Level: Why Greater Equality Makes Societies Stronger*, Kate Pickett & Richard Wilkinson

*Falling Behind: How Rising Inequality Harms the Middle Class*, Robert Frank