THE COFFEES OF THE SECRETARY-GENERAL
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THE SECRETARY-GENERAL

Bringing New Perspectives to the OECD
Short Bio

Thomas Piketty

Thomas Piketty is Professor of Economics at the Paris School of Economics and at the École des hautes études en sciences sociales (EHESS). He has an M.Sc. in Mathematics from the Ecole normale supérieure (ENS, Paris) and a PhD in Economics from EHESS and LSE (European Doctoral Programme in Economics).

He is the author of a dozen books including the seminal ‘Capital in the Twenty-First Century’, as well as numerous articles published in journals such as the Quarterly Journal of Economics, the Journal of Political Economy, the American Economic Review and the Review of Economic Studies.

He has done major historical and theoretical work on the interplay between economic development and the distribution of income and wealth. In particular, he is the initiator of the recent literature on the long run evolution of top income shares in national income (now available in the World Top Incomes Database).

These works have led to radically question the optimistic relationship between development and inequality posited by Kuznets, and to emphasise the role of political and fiscal institutions in the historical evolution of income and wealth distribution.

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Thank you for this opportunity to talk about my book ‘Capital in the Twenty-First Century’. I was here a few months ago presenting the book when it was available in French. I do not remember whether I spoke English or French then, but as you can hear it does not make a big difference, I will be speaking in English today.

The book is quite long as it does put together extensive historical material from many countries across three centuries. What I try to do in this book is study the global dynamics of income and wealth distribution in several dozen countries since the 18th Century. Let me make it clear that this is a collective research programme. I am the only author of the book and the only one responsible any possible, however I am certainly not the only one involved in the collection of data.

1 The original transcript of Thomas Piketty’s presentation has undergone minor editing to ensure that the text published in this brochure is presented in a reader-friendly format.
There are two big parts in the data, one is about income and the other about wealth. I began collecting income and wealth data on France about 15 years ago; I was very fortunate to work with a number of people who helped on the collection of data for different countries: Anthony Atkinson for Britain, Emmanuel Saez for the US, Facundo Alvaredo for Argentina and Spain, Abhijit Banerjee for India; and several dozen other people participated in the world income database project which is the very first part of the dataset which I have been using in this book.

The second part of the data is about wealth. This was collected in particular with Gabriel Zucman. It is a historical national balance sheet to study the evolution of the wealth to income ratio over long periods of time. The book also uses data on the long-run evolution of wealth inequality and distribution. In this case, the data is unfortunately available for fewer countries as we do not have an annual wealth tax in the same manner that we have an annual income tax and the data sources on wealth are structurally more limited than they are for income. On the other hand however, in some countries including France, the data that we have for wealth goes back much further in time than the data on income because wealth registration started well before income registration. The modern income tax was initiated typically around 1910–1920, whereas tax on inheritance in France began much earlier dating back to the French revolution. These are the broad sources of information which I use in this book.

The book is divided into four parts. Part four focuses on some conclusions for the future, but let me stress that I do not claim that my conclusions are the only possible options, and if you disagree with all or some of my conclusions, that is perfectly fine with me, I believe you will still find some interest in the historical data presented in the first three parts of the book. We are involved with social sciences and I do not claim that there is only one mathematical conclusion from the historical data. We still have far too little data to be sure about anything, this book and the research being done today will not conclude the arguments on inequality, but they do contribute to the debate and to a more informed discussion. I will present certain results today, but all my findings are available online.

Let me start by saying a little bit more about the two big data sources which I use in the book. Firstly about income and secondly about wealth.

The data on income inequality mostly comes from the world top income database which has been available online for a number of years. We have been collecting the historical data on income that exist for given

“There is the rise of the patrimonial middle class is probably the most important change in the long-run if we look at the evolution of income and wealth distribution.”
countries, usually the longest historical data comes from income tax. The first economist to collect this data was the Ukrainian born American economist, Simon Kuznets in the 1950s. He was the first person to compute the GDP for the US and it is interesting to know that the next steps for him were to compute an income distribution and inequalities series. To do this, he used the US federal income tax data created in 1913.

In France, the Law which created income tax was passed on 15 July 1914; it was created to pay mainly for war reserves, for schools and to reduce certain inequalities. In the UK, income tax was made progressive in 1908-1909, in India in 1922, in some northern European countries and in Japan in 1880-1890. So almost everywhere, modern income tax was created between 1880 and 1920 and that is when the world top income database begins. In the case of the US, Kuznets found a sharp reduction in inequality in the data he used between 1913 and 1948. So what we did in this book was to extend Kuznets's method to many more countries and over longer time periods – the method however remains the same.

This had not been done before, probably because the historical tax data was viewed as too historical for economists and too economic for historians so no one was using it. In addition, starting in the 1970s and 1980s most people studying inequalities used the household surveys for their research as a primary source. I believe household surveys are very useful and can be used in conjunction with administrative data. The problem with household surveys is that they are very bad for the top of the distribution and they do not exist over very long time periods.

In Figure I.1 we see the top decile income share for the US. It depicts the share of total primary income, market income, labour and capital income going to the top 10% income earners. There is a big decline in income inequality, which is what Kuznets had discovered in the 1950s. The difference today is that we have an additional half-century of data and this changes the picture considerably. In the 1950s, 60s, and 70s it was very stable, the share going to the top 10% was between 30% and 35% of the total income. And because it was very stable it meant that everybody would benefit from growth at the same speed. So GDP growth rate was in fact the growth rate of the average income of the top 10% and the bottom 90%. Growth was actually lifting all boats at the same speed. In the past 30 years however, between 1980 and 2010 we
can see a big share going to the top 10%. Even in the latest data for 2012, which is not in the book but it is online, the figure going to the top 10% is slightly over 50%. So the trend does not seem to stop.

We see huge short-run cyclical fluctuations linked to the business and stock market cycles. The trend is extremely large, when we go from 35% to over 50% going to the top income earners we have to ask ourselves ‘where is this going to go?’ Some people seem to believe that wherever it goes it is ok, but I believe that at some point we need to look at the numbers, no one knows whether it will stop here or go to 60% or 70%. It is however sufficiently big right now that we need to start dealing with it.

The rise in top income shares has been much more modest in Europe, maybe a quarter as large or a third as large, depending on which country. This of course is not a reason to wait until it becomes as large as it is in the US before we begin being concerned about it. If we want to understand this evolution, it is important to recognise that so far it has been much bigger in the US than in Europe. In the book I talk about the rise in top income shares, but I try to shift the attention from income to wealth and from the dynamics of income distribution to the dynamics of wealth distribution.

So how can we explain this huge rise in top income shares in the US – much bigger than in Europe? The standard economic explanation would have to focus on the changing pattern of demand and supply of skills – while with globalisation we have a rise in the productivity of high skills relative to lower skills leading to a rise in inequality. To explain a much bigger rise in inequality in the US we would also need to look at the inequality in the access to top skills. This mainly concerns the fact that top universities exist in the US which the bottom half of the population do not have access to. So inequality in skills and education could be part of the explanation but it is not the full story. A big part of the evolution of the top 10% really comes from the top 1% and even the top 0.1%, and we know that the top 1% or 0.1% are not a lot more educated than the next 1% or 2%, so it is very difficult to explain everything we know through a skills based storyline. It remains a very complicated and controversial debate. With Emmanuel Saez and Stefanie Stantcheva we have a paper where we use company level data for North America, Europe, Japan and we try to compare the companies that pay their top managers 10 million dollars instead of 1 million and whether this is related to the higher performance of the manager.

It is not easy to find this in the data, when we look at the elasticity of managerial compensation with respect to various indicators of company performance, we do not find much. In fact we have a higher elasticity of managerial compensation when profits go up for reasons that have little to
do with managerial performance. So what we argue with Emmanuel and Stefanie is that in our standard economics textbook we assume that when someone is paid 10 million dollars instead of 1 million, it must mean that their marginal contribution to output has increased from 1 to 10. We argue that this may be a naïve view of how the labour market operates and that maybe this evolution has more to do with the increased ability of top managers to put the right people in the right compensation committees and therefore get these pay increases.

If we try to explain the cross country variation and the time series variation, this kind of behaviour has increased even more in countries that have reduced their top income tax rate even more. Why? Because when you have a top income tax rate of 70% or 80%, if you get an extra 10 million, most of it goes to the Treasury, so it becomes harder to convince yourself and your shareholders and subordinates that it is worth it. But when the tax rate is 30% it is a different game. There seems to be a lot of evidence that this has had an impact on the situation. Tax progressivity has had a strong impact on pre-tax income distribution.

Let me now move to the issue of wealth as the book tries to shift the attention from rising income inequality to rising wealth inequality. Of course the two issues are related because when we have higher top income shares it is easier to accumulate a lot of wealth, but it is more complicated than that. You have logic on wealth accumulation and wealth distribution which do not come simply from past income inequality. Let me show you a u-shaped curve with which I start the book – the evolution of the capital income ratio in a number of European countries over the past century (Figure I.2). This depicts the private wealth national income ratio. It measures the net wealth of the household sector, the market value of real estate assets, financial assets minus financial liabilities and divided by national income.

“In the long-run, the biggest danger is not public debt but the decline of our natural capital through global warming and pollution.”
What we see is a pretty spectacular u-shaped curve over time. We see a large reduction following World War I, the Great Depression and World War II; and then we see an increase in the wealth to income ratio since the 1950s and 60s. Regarding the more recent period starting around 1970, the data comes from the official balance sheets. For the earlier periods, the data comes from work we did with Gabriel Zucman, we collected a large number of historical national balance sheets.

For a long time in the 19th Century and up to World War I economists were much more excited in computing national wealth rather than national income, as they believed wealth was much more important at the time. Perhaps we are returning to this kind of view today. I believe both are important, as is the ratio between the two. So for a long time up to World War I, we had plenty of national wealth estimates. They were certainly not perfect, but what we see for different countries such as Germany, France and Britain is a very consistent and high wealth to income ratio which declines after the wars, followed by another increase in recent decades.

Let me clearly say that this evolution is not about inequality, we could have this evolution in a perfectly egalitarian society where everybody has the same share in national wealth, through pension funds or through equal property in the stock of real estate. There is nothing bad, per se, in the fact that we have more wealth relative to income. It could have implications only because the inequality of wealth is typically much larger than the inequality in labour income.

A first point I want to raise is about the return of patrimonial or wealth-based societies, particularly in Europe and in Japan. What we notice is that wealth to income ratios seem to be returning to very high levels, particularly in low population growth countries. The intuition is that in a slow growth country, wealth accumulation in the past can become very important, and in the long-run this can become relevant for the entire world.
My second point will be about the future of wealth inequality. There are many different determinants of long-run inequality, in particular saving behaviour across income deciles and wealth deciles. Regarding saving behaviour and taking as given all other parameters, an important determinant in the long-run evolution of wealth inequality is the gap between r and g. Where r is the net of tax rate of return – particularly for large wealth portfolios – and g is the growth rate of the economy. To the extent that r minus g will tend to be higher in the future than what it has been in the 20th Century, this gap may tend to increase in the future. It has already been higher in the past few decades in rich countries. This is one of the mechanisms that can explain that wealth inequality will rise.

So let me focus on my first point, the return of wealth based societies. In the book I try to tell a multidimensional story of capital. I try to show that the story of real estate, financial assets, business assets, public debt, land, slave capital are all different stories; they all have different price movements. When we compute the aggregate stock of wealth or capital, which I use as synonymous in the book when I look at the aggregate, it is important to realise that we are doing something abstract, as we are summing up assets which are very different. I do not believe that this is a correct summary of the state of capital.

In textbook, wealth income or capital output ratios are supposed to be a constant, such as the ratio β, between k and y, (where k is everything we own and can be sold on the market (net of all debts), and y is output (which is also equal to income at least at a world level). However, we should be very careful with this view because in economics when we do not know much about something we tend to assume it is a constant. Of course if we only have one data point, everything is a constant. But as we have seen, there is no reason to believe this ratio is a constant, particularly if we believe in capital labour substitution. In fact, when we have a multidimensional model with different sectors we also have capital labour substitution. There is no reason why this ratio has to be a constant and we see that it is not a constant once we collect historical data. We observe in Europe and Japan a large recovery of β in the recent decades from roughly 200% - 300% in the 1950s and 60s to 500% - 600% today. So are we going back to the β of 6 or 7 observed in wealth based societies of the 18th and 19th Centuries or even more? This is one of the first questions I ask in the book.

Figure 5.3 depicts the evolution of β, the private capital national income ratio, for the recent period 1970 – 2010. The data comes from official national accounts of the top eight developed economies in the world in terms of
GDP. We can clearly see that we have a rise, in 1970 every country was between 2 and 3.5 years of national income in private wealth and in 2010 we were between 4 and 7 years. So if we take the textbook view that it is a constant, then we obviously have a problem explaining this. We can also see a significant amount of short-run and medium-run movement linked to asset price movement. If we look at Japan, for example, between 1985 and 1990 we see a climb in the ratio from 5 years to 7 years; but even with the excellent Japanese saving rate, you cannot get rich so fast.

Many of the short and medium-run evolutions on this graph have a lot to do with real estate prices, but it does seem to be more than that. The trend is going up everywhere, there could be a general rise in the relative prices of real estate, but there is really more to it than this. In Figure 5.5 I compare the evolution of private wealth with public wealth. Public wealth is defined in the same way as private wealth, publically owned real estate assets plus financial assets, minus financial liability. As you can see public wealth is always a lot smaller than private wealth.

In addition, public wealth can be negative if you have more public debt than public assets. In pretty much every country, there is a decline in public wealth over the past decade as public debt has increased almost everywhere and public assets have declined through privatisation. So part of the increase in private wealth can be viewed as a transfer from public to private ends. Although this is important, it is not the main point in the sense that the rise in private wealth has been a lot larger than the decline in public wealth. In the case of Italy, for instance, the rise in private capital to national income ratio is 4 years of national income; while the decline of public wealth is 1 year of national income.

Let me make very clear that this rise of private wealth is not bad per se. In a way it is good news, whereas we focus a lot on debt, we should also be looking at assets and we are a lot richer than we sometimes imagine. We sometimes feel ashamed of the debt that we will leave behind to our children, but at the same time we will leave a great amount of private wealth. We can see that private wealth as a fraction of GDP has increased a lot more than the public debt. The sum of these two figures, which is national wealth, has never been higher for an entire century.

One way to think about this, when we have a lower growth rate, is through a one sector capital accumulation model. To provide a simple textbook model example, if we are producing apples, capital will be one big pile of apples; the saving rate s is the fraction of the output of apples that we accumulate each year; g is the growth rate, which as we know in the long-run is determined
by population growth plus productivity growth; then we know that the ratio \( \beta \) in the long-run tends to converge towards the ratio between saving and growth rate.

This tells us that if we save twice as much we will accumulate twice as much capital and even if the growth rate is very small we still accumulate a huge quantity of wealth. If we take the extreme rate of zero growth rate, if we keep saving, then our pile of capital will go to the sky and at some point it will stop. But as long as we have positive growth, then it will balance the process of accumulation, savings will not go to the sky and \( \beta \) will converge somewhere; but the point is that this somewhere will be pretty large.

As you can see, if we use simple numbers, we can see how a decline in the growth rate from 3\% to 1.5\% – which is typically the difference between a country where there is a 1.5\% population growth and a country where there is 0\% population growth – could easily explain a big part of the increase in the \( \beta \) that we have witnessed. So low growth in itself makes wealth accumulation in the past more important. This increase could easily apply to the entire world if we were to assume that saving rates will continue as they have been in recent decades and that population growth will continue to slow.

“\( \text{The top wealth holders are rising three times faster than the global economy. If this goes on for three of four decades then mechanically the share of total wealth going to the top will reach 100\% very fast.} \)"

I am not saying this will happen, I believe it will stop somewhere, but there is no natural mechanism to prevent this from happening. ”

My second point focuses on the future of wealth inequality, the first important fact is that wealth inequality is always a lot larger than income inequality. In the case of the US for example, we have seen the top 10\% income share has gone from 30\% to 50\%. For wealth inequality the top 10\% is typically always much larger than 50\%. Up to World War I it used to be around 90\% and now it is closer to 50\% - 60\% in Europe and closer to 70\% in the US.

An additional important fact is that although wealth inequality today is still very high and much higher than income inequality, it is a lot smaller than what it used to be. One century ago, in every European country for which we have data, there was basically no middle class. We had 90\% aggregate wealth for the top 10\%. The middle 40\%, which is defined as the patrimonial middle class in the book, i.e. the people who were not in the top 10\% nor in the bottom 50\%, were almost as poor as the bottom 50\%. Today, the top 10\% share is down to 60\% - 70\%, this means we have a middle class with 20\% - 30\% of national wealth, which makes a big difference.
This rise of the patrimonial middle class is probably the most important change in the long-run if we look at the evolution of income and wealth distribution. A number of questions arise regarding this fact and how it happened? Will the patrimonial middle class continue to expand or will it shrink? This depends on many different parameters and in particular saving behaviour by income and wealth groups. One important determinant of the long-run inequality of wealth is the difference between $r$ and $g$, taken all other parameters as given. To me this is probably the main explanation as to why wealth inequality was so high up until World War I.

For France for example, until World War I, the concentration of wealth was rising, after which we see a decline and then in the 1970s and 1980s we see a slight increase once again. The data we have from inheritance tax records, suggests a moderate increase in wealth inequality in the recent period and certainly an end to the decline that began in World War I. Nobody knows of course what would have happened if the two World Wars and the Great Depression had not taken place. But it certainly seems that up to World War I there was no natural tendency for inequality to decline.

To focus on France, there was an extreme rise in inequality in France until World War I. At the time, the French republican, financial and political elites were trying to deny this fact. The mentality was that France had gone through the revolution and there was no longer a need to worry about inequalities in a country of small property owners. This is partly why France was the last country to introduce progressive income taxation in 1914 to pay for the war. Looking at the data in 1913 however, no one really cared about the accumulation of national wealth at the time which was less than 5% of the total in France and in Britain. What mattered most was the accumulation of financial assets, real estate, business assets and international investment.

This is a very interesting period to study. If we try to use the micro level data to explain why wealth inequality was so high, an important part of this fact was the difference between the rate of return and the growth rate. Regarding the model we need to explain this, if we use a pure life cycle model it will be difficult to explain what occurred at the time. In a life cycle model, wealth inequality is the translation of income inequality later in life, making it more or less the same magnitude to income inequality and would not adequately explain the extreme concentration of wealth inequality that we see here.
We need to use models where people accumulate wealth for reasons that are not only for consumption at old age but also for additional reasons such as dynastic wealth, power and prestige and in general for longer-term reasons. In any dynamic dynamic wealth accumulation model a general result that we will have is that the steady state level of wealth inequality will be a steeply rising function of \( r - g \). Therefore if the growth rate is 1% and the rate of return is 5%, then this means we only need to invest one fifth of our capital income for our wealth to grow as fast as the size of the economy – making it therefore a very good condition to accumulate and perpetuate a very high level of wealth.

Of course there are some families which will consume more and others less, but on average with \( r = 5\% \) and \( g = 1\% \), in order to save up it would suffice to reinvest one fifth of the capital income and consume \( 4/5 \). This is an ideal world scenario, in the real world of course we have dynamic shocks some families go bankrupt, others make good investments, some have too many children and others too few. There will always be a degree of mobility, but for a given variant of shocks to family demographic history and economic history, the long-run inequality of wealth intuitively will be higher, because of the higher gap between \( r \) and \( g \), as this will amplify further the initial inequalities of wealth. What is important is that a small difference between \( r \) and \( g \) can make a big difference in the long-run concentration of wealth.

Regarding \( r \) and \( g \) in history, people are sometimes surprised that \( r \) can be bigger than \( g \) for ever, in fact this is what we have witnessed for most of human history. This is for the simple reason that the growth rate has been close to 0% for most of human history. Growth up to the industrial revolution was around 0.2% while the rate of return was typically around 5%. In a way \( r \) bigger than \( g \) was the very foundation of society and it allowed a group of owners to live off their capital income.
One important conclusion of the book is that the modern industrial revolution did not change this basic principle as much as one may have expected. The growth rate increased, but between 1820 and 1913, according to Maddison, it was about 1.5% and it is only in the 20th Century with very large post-War growth, due to reconstruction and large population growth that we see growth rates above 3%. By using the UN’s population projection data we can assume that productivity growth will stabilise at 1.5% in the very long-run, after emerging economies complete their catch-up process vis-à-vis the rich countries.

The other unusual fact of the 20th Century was the very large capital destruction both through direct destruction and through inflation for private assets in the form of public debt. If we look at the after tax, after capital loss, after destruction rate of return what we get is depicted in Figure 10.10. We can see that this has led to an after tax rate of return lower – or of the same order of magnitude – of the growth rate during a big part of the 20th Century. This has happened for so long that it has made us believe it was a new norm; however it was the outcome of very unusual circumstances.

The final point I would like to make is about the very top wealth holders. The data source is not very reliable, it is from the Forbes magazine wealth ranking, but let’s do with what we have. I begin with 1987, when Forbes began publishing their global billionaire rankings. What I do is I take a fixed fraction of the world population and look at how the average wealth in this group has been rising and then compare it to the average growth rate for the entire world’s average income and wealth. The list of billionaires tends to change over time; but even if we have mobility, the top
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should be rising at the same speed as the average. Clearly that is not what is happening, the top
is rising at 6% - 7% per year in real terms, above inflation, while the average is rising at 1% - 2%
annually. The world GDP growth rate over this period has been the standard 3.3% and more
than half of it comes from population growth. The per capita GDP and per capita income has
increased at only 1.4%; and even today about half of the world’s growth is attributed to
population growth. Per capita wealth has increased a little faster at 2.1%, this is because of the
rise in the β (the wealth to income ratio which I referred to earlier), and the top is rising at 6% -
7% per year. So of course if this was to continue for a very long time, the share of world wealth
going to the top billionaires would eventually reach 100%. Of course I am not saying this will
happen, I believe this will stop somewhere, but the fact that we do not know where it will stop is a
problem per se – there is no natural mechanism to prevent this from happening.

Why is it that the rate of growth of high wealth is so large? We do not know a lot about this, some
of it comes from entrepreneurial wealth, some of it comes from the fact that financial de-
regulation has exacerbated the inequality in asset return between the different wealth groups. It
looks like some very large wealth portfolios are at times able to access rates of return and very
sophisticated financial products that are not available to smaller daily portfolios. One way to look
at it is to look at the rate of return of large capital endowments of US universities. There are 800
universities in the US, some richer than others, they all get good returns. If we look at the three
richest, Harvard, Princeton, Yale, they all have a 10% real return – net of inflation and
administrative fees. Harvard’s current endowment is 30 billion USD and they spend only 0.3%
(100 million USD) annually on management fees. This 0.3% however gives them access to a
good team of wealth managers, private equity, derivatives, commodities and sophisticated
financial products not accessible by small portfolios. So if paying 0.3% gives them a return of 10
rather than 6, it is very substantial. Part of what we have is scale effect in portfolio management, but it is still only one part of the explanation.

We could of course also touch on policy conclusions. When we have this very big gap between rate of return for the very top wealth holders and for the average wealth in the world, then the very natural solution would be a progressive tax on wealth. This of course would be very difficult to coordinate for a large number of countries. But I remain optimistic, we are moving in the right direction with the automatic transmission of information about cross-border assets.

Let me conclude by saying that the history of taxation is full of surprises. Figure 14.1 shows the evolution of top income tax rates over the past century in the US, UK, Germany and France. We can see a lot of variations. One century ago in 1914 we would not think that progressive income tax would exist, but it came into being. The US and the UK have invented extremely high levels of progressive taxation between 1920 and 1980. Irving Fisher, the President of the American Economic Association in 1919 told his fellow colleagues that “the biggest threat to the American economy is inequality – we will soon become as unequal as Europe and this is very dangerous for the American democratic spirit. What I propose is to tax inherited wealth at one-third after the first generation, two-thirds after the second generation and three-thirds after the third generation.”

This is almost what happened, we see today the top inheritance tax rates in the US and in the UK at 70% - 80% - 90% for very large inheritances over long time periods. In Germany, the only time where we see a 90% top tax rate was between 1946 and 1948 when the German tax policy was set by the US; as soon as the Federal Republic of Germany took back its fiscal sovereignty in 1950, the top marginal tax rate was reduced significantly. The US did that, not to punish Germany, as they had the same policy at home at that time; to them it was really part of the civilisation package, you bring democratic institutions and you also bring the fiscal institutions which prevent democracy from becoming a plutocracy.

All this seems quite exotic to us now, but we must realise that inequality is not a new issue, it has been with us forever. Progressive taxation is also not a new issue. There is a lot to learn by trying to put all these issues into a broader historical and comparative perspective and this is what I am trying to do in this book.

Thank you.
QUESTION AND ANSWER SESSION:

Question 1
Vous avez dit au début, avec beaucoup de modestie, ‘je suis meilleur pour analyser le passé que le futur’. Mais vous savez qu’ici à l’OCDE ce qui nous intéresse sont les conséquences sur les politiques économiques. Je voulais vous poser la question suivante, vous avez parlé de la politique américaine. Aujourd’hui dans le monde par rapport à ce que vous préconisais dans un certain sens, quels sont les pays qui pour vous semblent se rapprochaient le plus de la voie que vous ouvrait ?

Thomas Piketty
Let me clearly say that rising inequality is certainly not the only problem in the world – perhaps not even the main problem in Europe. In the US it has become a real issue, between 2/3 and ¾ of primary income growth between 1980 and 2010 went to the top 10% and most of it to the top 1%. If the growth performance had been very good, this would have been more acceptable but with 1.5% per capita GDP growth, this becomes a problem for the middle class and many people believe that this has contributed to the stagnation of median income, the rise of household debt etc.

In Europe this has been less dramatic and the problems we are confronted with are public debt, making the monetary union work etc. So there are different issues in different parts of the world; that is why progressive tax on income and wealth is certainly not the solution to every problem. In the long-run, investment in education is the primary policy to reduce inequality, both between and within countries. Even if we make the right investments in education, progressive taxation of income and wealth are important. This is because, as we have seen, the huge rise of top
managerial compensation is not only an issue of education, it also has to do with pay determination processes.

Every country has a form of wealth taxation. At the very least, there is a property tax. What I would recommend is not an increase in the tax revenue from that particular taxation, but a transformation into a progressive tax on net wealth – so that people with large mortgages and low net wealth trying to access property end up paying less tax than what they do now; while people with large properties pay more tax. In Britain, the previous Labour government introduced a higher tax rate of 5% on transactions for properties above 1 million GBP, while the current Conservative government introduced a 7% tax rate for properties above 2 million GBP. There are similar evolutions in other countries that are going in this direction.

Sometimes of course there are unexpected developments. In Spain for example progressive wealth tax was suspended under Zapatero and was re-introduced under Rajoy. At some point we see that common sense is more important than left or right; if we have very large real-estate prices, very large wealth levels and stagnant income it would not make sense to tax income more and wealth less.

Question 2:
You spoke about the development of the middle class in the last century. Where do you see this middle class going? What do believe would be necessary, besides the question of taxation, to strengthen the middle class? You also briefly spoke about public and private wealth – would you recommend the OECD to look at best practices for keeping public and private wealth in a 'good relationship'?

Thomas Piketty
To begin with your second point, the monitoring of public and private wealth at the OECD and in other institutions should be a high priority for the future. The good news is that this is an area where we have already made some progress, our ability to measure these things is better today than it was 5 or 10 years ago. In Germany, for example, the first complete balance sheets were released by the statistics office in 2010. Until very recently we did not have a long sequence of balance sheets for the public and the private sector even for the largest countries.

Looking at this data on public and private wealth, I think it is very important, not only for inequality but also for the understanding of the dynamics of public and private debt, private wealth etc. and also for understanding the balance sheet structures of our economies and what our central banks are doing with these balance sheets.
The rise of the middle class in relative terms came to an end sometime around 1980. What we observed in every European country at the time was that the share of national wealth going to the top 10% began to increase once again – meaning that the share of the middle 40% began to decline. The middle class today still has a much larger proportion of national wealth than in 1913, but it is moving in the wrong direction, it is declining.

The question now is whether this decline will continue and what are the policies to be taken to reverse this. I think lower tax – both property and income tax – to the middle and lower classes is the right way. Investment in education and a better functioning labour market are also part of the solution. Of course there are also short-run policy issues, clearly the way the Eurozone has been dealing with the crisis over the past 5 years does not seem to work very well – particularly when looking at the current growth and inflation rates.

Question 3:
The point you made about the importance of the measurement of income and the creation of GDP by Kuznets was very interesting. We now know the limitations about relying too heavily on GDP and the need to look at sustainable measurements in the face of planetary boundaries. One way the OECD is looking at this is through measuring more wealth, particularly natural, economic, human and social capital. From your position, if you could get the OECD to measure something new and to get the data and analyse it, what would it be?

Thomas Piketty
I participate in an OECD group which focuses on improving our GDP estimates and tries to look beyond GDP. There are several directions but certainly the better measurement of natural capital
and natural assets is very important. These natural assets are not in the public and private wealth balance sheets which I have presented today, as they were not measured in the past. This is certainly an area where progress must be made; in the long-run, the biggest danger is not public debt but the decline of our natural capital through global warming and pollution.

We should also try to make greater use of the administrative fiscal data derived from income tax and from the existing wealth, inheritance and property taxation. This is because our self-reported data in surveys raises all sorts of problems for income, and even more so for wealth. I have seen a recent working paper by the ECB which attempts to upgrade the top part of the ECB multi-country wealth survey by using the Forbes data at the very top. I also use the Forbes data, but it would be a lot better if we could have more intensive use of the existing administrative data coming from the taxation of inheritance and wealth. Ultimately, if we want automatic transmission of information about cross border assets to work, my personal opinion is that we would need a minimal registration tax on these assets so that we can produce information and statistics, and also establish property rights.

Question 4:
You focus a lot on taxation, but that will reduce inequalities for ex-post and not primary income. Do you see any self-equilibrating mechanism that would affect inequality trends for primary income? You already mentioned education, but are there any mechanisms currently in place, or that should be put in place, in order to reduce primary income inequalities? If such a mechanism does not exist, will we see increasing levels of inequality leading to greater instability shocks and social unrest in the future? Would there be a risk of a war to reduce inequalities as in the past?

Thomas Piketty
As I mentioned earlier, investment in education and boosting the performance of education systems is absolutely essential – the OECD has been working on this for a number of years. We also need to know more about the consequences of different ways to organise and finance our higher education system. The book does look at the average income of the parents of Harvard students, which corresponds to the top 2% in the US. This of course reflects the ease of paying tuition fees, but we also know that significant ‘gifts’ are made to Universities at the time when their children are ready to apply – there is very little transparency about this. I am not saying that in France it is much better, we may not have tuition fees but there are ways to make the system more equal and to invest more public funds in disadvantaged children.

Regarding the war, I believe the biggest risk is that a growing fraction of our public opinion feels that globalisation is not working for them, while it is working for large financial institutions and top wealth and income groups; they are therefore turning to nationalist parties for answers. It is important to show to public opinion that globalisation and trade liberalisation can go hand in hand with fiscal justice.

Question 5:
Your book reminds me of the book “This time it’s different” by Kenneth Rogoff. Was there any work done combining your historical approach in terms of equality, inequality and wealth accumulation to his historical approach to bubbles?

“In the long-run, investment in education is the primary policy to reduce inequality, both between and within countries.”
Thomas Piketty
I do not believe the two are explicitly related but clearly some of the data is the same. What I try to do is put the study of public debt and financial bubbles into the context of the study of national wealth. I try to look at all the financial, non-financial assets together with liabilities separately for the public and the private sector. I believe the greatest difference between the two is that I study these issues on the side of national wealth. Both works are complementary and should be definitely looked at together.

Question 6:
You make a very convincing moral argument. But I am not sure whether you make an economic argument in terms of impact on growth. Do your numbers show if inequality also impacts growth, productivity and innovation?

Thomas Piketty
I believe inequality up to a point is not a problem per se; it can actually be useful for growth and innovation. The problem is when inequality gets too large and becomes useless for growth and can even become a negative growth factor. There is no mathematical formula to calculate the tipping point; we have historical experience, we have series and work is being done on this issue at the OECD and the IMF.

Two simple lessons from the data in my book are: Firstly, we do not need the kind of extreme inequality of wealth that we had up to World War I in order to grow. That is one lesson we learnt from the 19th Century. If we also look at the rise of inequality in the US in the past 30 years, for the biggest part it has not been very useful. I do not believe there is much evidence that paying
managers 10 million USD rather than 1 million USD has been useful at all – I do not see the extra performance or the job creation.

Secondly, there is a simple logic, if the top wealth holders are rising three times faster than the global economy, then we can see that it is too much. If this goes on for three of four decades then mechanically the share of total wealth going to the top will reach 100% very fast.

Question 7:
Why do you believe your book became such a huge success?

Thomas Piketty
What is new about this book is that it compiles all the data we had into one volume, something that had not been done before. Our team collected the data and put it in a format that could be understood by everyone. Also, the Kuznets series had not been updated in almost 50 years.

All this shows that the economics profession often does a lot of work on theory and too little on historical research. We are now making some progress on emerging countries and we are making progress in terms of accessing income tax data.

For the largest part what explains the book’s success is that it includes more data. I have tried to make it more reader-friendly and to show that the story of money and income is not only an economics story but also involves political forces as well as social and literary representations of inequality. Ultimately, I try to make people feel that statistics are not only for economists but can be of interest to everyone.
Thomas Piketty

CAPITAL
in the Twenty-First Century

3rd July 2014
16h00
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