Interview with Thomas Piketty, Author of *Capital in the Twenty-First Century*

Jean Merckaert and Jean Vettraino

Introduction

Thomas Piketty is an economist. He is director of studies at the School for Advanced Studies in the Social Sciences in Paris and a professor at the Paris School of Economics. His research focuses on economic inequalities. His most recent book, *Capital in the Twenty-First Century*,[1] has generated lively debate in the United States and Europe.

In *Capital in the Twenty-First Century*, Thomas Piketty shows that the rich get richer more quickly than the rest of society, in an almost mechanical fashion. In his view, the main driver of inequality is the tendency of returns on capital to exceed the rate of economic growth. He makes the case for a progressive taxation – including income tax, inheritance taxation and a yearly tax on capital. Is this possible at a national level? Is it realistic in an era of tax havens? Would it be enough to reduce inequalities?

Thomas Piketty responds to these questions in an interview conducted by Jean Merckaert and Jean Vettraino on behalf of CERAS (Centre for Research and Social Action), a Paris-based Jesuit Centre. The interview was originally published in the CERAS journal, *Revue Projet*.

Jean Merckaert and Jean Vettraino: *You have shown that, apart from the time of the 30-year post-war boom ('les Trente Glorieuses') the rich have grown richer more quickly than the rest of society. Is this an inevitable trend? Is the rate of return on capital (around 4 or 5 per cent per annum during the last two decades) immutable at this point?*

Thomas Piketty: My work consists above all in putting these multi-faceted and contradictory tendencies and forces in a historical and comparative perspective. In observing the years 1913–1948 in the United States, the economist Simon Kuznets noted a significant compression of income inequality. Many concluded from this that the rate of growth and the reduction in inequality go hand in hand and in fact economists have disengaged from this field of research. Emmanuel Saez and I have extended the U-curve of Kuznets and have shown that in the 1990s, inequality in the USA had returned to the level pertaining at the start of the twentieth century. Marx, for his part, predicted a downward trend in the return on capital. This rate is a measure of the return on capital in one year (a return of €4,000 per annum on a €100,000 apartment equals a rate of 4 per cent). As I show in my book, Marx's prediction is false. The absolute return on capital, apart from wartime, is still 3 or 4 per cent per annum today, the same as in the eighteenth and nineteenth centuries. And there is no reason for it to collapse as a result of accumulation. Even if we managed to put the genie of financial deregulation back in its bottle, this would not affect fundamentally the excess of the return on capital (R) over the rate of growth (G).

In pre-industrial societies, economic growth was 0 per cent per annum, or at most less than 0.1 per cent per annum. Even in the nineteenth century, in spite of all the technical innovations, it was between 1 per cent and 1.5 per cent. Ground rent, on the other hand, was about 4 or 5 per cent per annum. This is what allowed the well-to-do to live from their possessions and to devote themselves to things other than their own subsistence: to the arts, to science, to war, to government, to religion.

In a certain way, this fact (R>G) traumatised society – by way of the problem of usury: can money make money? – but it also formed one of its foundations. In Christian philosophy of the time, usury was eliminated, but ground rent was maintained. There was distrust of certain types of capital, notably financial – there was a fear of not being able to control it – but not of return from land (which 'does not lie'). It seemed reasonable that land would produce a rent, allowing those who owned it to live without working.

With the coming of the Industrial Revolution, it was assumed that this outdated thinking was no more. No doubt, things had changed, with growth now at 1 or 2 per cent per annum. But the gap between the two had not moved as much as imagined. In the novels of Jane Austen or Balzac, the return of capital is of the order of 3 or 4 per cent per annum, and as much as 6 or 7 per cent for the riskiest assets. In the twentieth century, if the order between R and G became inverted, this was due to circumstances that were altogether exceptional and tragic [the two World Wars].

There was also the fact of demographic growth. A great part of the growth in the twentieth century and right up to today arose from that. The growth of population and of productivity tended to diminish the influence of patrimony, in the sense of inherited assets. In a society where people no longer have children, where the population shrinks, inherited wealth takes on considerable importance. Of course, there is nothing inevitable about this. Perhaps there will be so many children and technological innovations – clean and non-polluting – in 2050 that there will be growth of 4 or 5 per cent per annum … But it would be a good idea to lay out other solutions!

The level of growth of the thirty post-war years, even if it has strongly pervaded our psyche, seems well and truly behind us. And when the gap between R and G grows wider, the initial inequality arising from inherited wealth is amplified. Young people with no capital had better have big salaries to become a homeowner in Paris today! To deny this dynamic of inequality, and gamble instead on a convergence between the rate of growth and the return on capital, this would be to bet on an extraordinary coincidence.

***Jean Merckaert and Jean Vettraino:** Does the financialisation of great fortunes not weaken the very foundations of this enrichment?*

Thomas Piketty: The excessive financialisation of capital makes matters worse. The explosion in the number of highly-paid jobs is mainly connected with the financial sector. Financial deregulation has also made access to return on capital more unequal. The formula R>G is very abstract, for return on capital covers very different kinds of assets and portfolios.

The data at our disposal are incomplete, but in the case of the largest portfolios, whether they be individual fortunes, large endowment funds of universities, or sovereign funds, very high returns can be observed, from 6 to 8 per cent. By contrast, in the case of the ordinary depositor, who arrives at his bank with 10,000 or 100,000 euro, the return hardly covers inflation. In the capital market model beloved of economists, financial intermediation exists to give everyone the same maximum return. But some people have access to sophisticated financial products giving very high returns, while others are given products where they gain nothing.

***Jean Merckaert and Jean Vettraino:** Is the assessment different for the countries of the 'South'?*

Thomas Piketty: This disconnection between the return on large accumulated assets, and the rate of growth, can already be observed at global level.[2] Even when China is included, global Gross Domestic Product has grown on average by only 3.3 per cent per annum over the last thirty years (half of this being due to demographic increase). Average income is increasing worldwide by 1.5 per cent or 2 per cent per annum. China already has to tackle very large concentrations of inherited assets. For the moment, as in Russia, it is ruling on this issue case by case, sometimes removing this or that oligarch. But is this tenable in the long run? It is possible that China will manage more rapidly than Europe or the United States to develop a type of regulation adapted to patrimonial capitalism of the twenty-first century, for there is serious debate there about the introduction of taxes on property and inheritance. Even in the case of single party system, tax may be preferable to imprisonment as a means of regulating the inequalities caused by inheritance!

That said, when one looks at capital on a global scale the rich countries have never been so rich. The capital held by all the citizens of such countries represents six years of income (this is only an average); namely, more than all the debts! It is States which are poor, as a result of public debt.

The absence of limits on accumulation led to radical solutions at the end of the nineteenth century. The challenge, today, is to respond by more peaceful ways than war, and more effective ways than communism. Is private benefaction the answer? Often, the people who donate to foundations keep control of them. It is not sufficient for someone to call their private interest 'general interest' for it to be such.

***Jean Merckaert and Jean Vettraino:** Has taxation, which differs greatly in different countries and different periods, had a significant impact on the distribution of incomes and inherited capital?*

Thomas Piketty: Taxation is a tool which permits the financing and development of public projects, public goods, social protection, education, and so on. In the course of history, the question of fair taxation – successfully getting agreement on who pays for what, and according to what criteria – has always been at the heart of political conflict. My book falls within the ambit of this vast enquiry on the nature of fair taxation and its effect on the nature of society. What I am attempting to do is to encourage fresh thinking on the linkage between tax on income (flows) and tax on capital (stock). A third significant category, tax on expenditure (consumption) is linked to the other two, for, in principle, consumption equals income less savings. In every era, these three broad categories, in differing proportions, can be observed.

Tax on consumption is often that which weighs most heavily on the working classes, who save little and consume almost all their income. During the *Ancien Régime* the tax on salt was the most unpopular tax. In fact, it is possible to imagine a consumption tax which would be progressive. In some ways, an attempt is made to create this by having different VAT rates, but in practice it is difficult to make a distinction between basic commodities and luxuries. The enthusiasm for VAT in Europe is in fact a symptom of the weakness of collaboration within the European Union. VAT is seen as a means for taxing imports from neighbouring countries. But when every country will have raised its VAT rate to 25 per cent, will this represent an advance? It will not restore our competitiveness *vis-a-vis* China, and the intra-European competitiveness effect is completely wiped out when everyone has recourse to it.

Jean Merckaert and Jean Vettraino: *Is it not the case that a tax on capital must logically become more important in a world where the overall weight of capital is growing in comparison with income?*

Thomas Piketty: Yes, but in my reflections I focus both on income tax *and* tax on capital. The novelty of the book is perhaps to show that there is a place for both. Tax on capital can be expected to grow in importance in a society where the overall weight of capital is growing in comparison with incomes. This is not to say that it should completely replace income tax. Income and capital are two separate dimensions of inequality among individuals. Some people have very high incomes and little capital; others have very high capital and low incomes. There is obviously a correlation – on average, people who have a substantial capital have higher incomes – but it is far from being a perfect one. There is a need for two taxes to tap into the different dimensions of people's capacity to contribute: the main object of a tax system is to rope in everyone, according to their abilities and means.

Maurice Allais [1911–2010], an economist who was anything but left-wing, was a long-time supporter of the idea of a tax on capital as the only tax – the advantage being that once it was paid, you would have the maximum incentive to invest your capital in the best way possible, to make it productive, without being taxed further on the yield obtained. The limitation of this argument is that the return achieved is not solely the result of your management and your efforts. Take the case of a company which has had one very bad year, with heavy losses: if you base tax solely on the stock of capital used, you will end up making the company pay the same tax as one that has made enormous profits, and you will risk bankrupting it even though its difficulties are temporary.

There needs to be a balance between taxation of the stock of capital used, and taxation of the flow of income and of the profit made each year. There is an 'insurance' function built into tax, in the sense that the contribution of people depends on their prosperity at that moment.

Nevertheless, we must not go to the other extreme and take the view that capital that does not produce any income should pay nothing. If this were the case someone who owned a building or a château and who refused to rent it out, merely sleeping in it one night a month, would be exempt from property tax on the grounds that he has no income … In practice, quite rightly, he has to pay property tax. If he refuses to earn an income from his properties, he will need to sell one from time to time to pay his tax. This is indeed the objective of a tax on capital: to ensure that if someone does not obtain any return on their capital they should divest themselves of it in favour of someone who will use it in a more productive manner.

Jean Merckaert and Jean Vettraino: *Does the combination of the two kinds of tax actually result in reduced inequality?*

Thomas Piketty: The two forms of tax played a role in the reduction in inequality in the nineteenth century. For the future, I am proposing a combination of, firstly, income tax; secondly, a progressive tax on inherited capital; and then a third tax: a progressive tax on capital on a yearly basis, a little like property tax or wealth tax in France. But this must be implemented in a more harmonised manner.

The property tax dates from the start of the nineteenth century, a world where capital was principally in the form of property, and it was based solely on inherited property, without taking into account either debts or financial assets. This situation in no way matches the reality of capital in the twenty-first century, where it is very much linked to finance. The wealth tax created in the years 1980–1990 is more modern because it takes into account the different forms of financial assets. But it is full of tax loopholes, and it is very difficult to make it work in the absence of a global view regarding capital and of prior declarations of assets.

There is a need today for a form of annual taxation of capital, because it is not enough to wait for intergenerational transfer alone. If you make your fortune by the time you are 40, by the time you are 90 your wealth will have continued to grow strongly: it will be difficult for society to take advantage of your fiscal capacity when it is at its maximum. Is it right, as at present, that we wait until Bill Gates or Warren Buffet pass on their wealth before the fiscal system can draw down a contribution from it?

Conversely, when an estate is inherited, it is not necessarily right to concentrate all the tax assessment at that point, not only for psychological reasons, but also for economic reasons: it is not possible to predict how the return on the assets will evolve. Who could have imagined that a Parisian apartment inherited in 1972, and valued at 100,000 euro, would be worth millions of euro today and would produce a rent equal to five months' minimum wage payments? Instead of taxing this inheritance heavily in 1972, and then not taxing it for the next forty years, it would be more logical to try to tax part of it at the time of the transmission of the estate, and another part throughout the inheritor's life.

Jean Merckaert and Jean Vettraino: *Against a backdrop of bank failures, if it is not known who owns what, is it not difficult to make everyone contribute in an acceptable manner?*

Thomas Piketty: Yes, and this is perhaps the most important argument; it is a question of finding a way to obtain more transparency, democratic and financial, in regard to capital. One corollary of levying taxes is that it involves the production of legal categories and statistical categories. It is a way for society to produce information about itself. Since the French Revolution, we have had the wealth tax system, the right of succession, the creation of a land register – these have been a way of registering properties, of instituting the right to property, of engendering public respect for it.

If you pay tax on your property, this means that your right to the property is publicly guaranteed. A certain degree of transparency is established: who owns what becomes better known. Within global financial capitalism today, a global financial register does not exist, not even in the European Union. The President of the French Republic does not know that his Budget Minister has a Swiss bank account… This extremely opaque system is not healthy either for democracy or for financial regulation. Against a background of bank failures or the restructuring of financial systems, if we do not know who owns what, and in which bank, it is very difficult to engage people in a manner that is acceptable to everyone.

Jean Merckaert and Jean Vettraino: *Inequalities have more to do today with capital (therefore with inheritance) than with incomes. But does society really support the taxing of assets, and particularly of inheritances?*

Thomas Piketty: It is perfectly legitimate to be afraid of being taxed on what has been successfully accumulated. We need to take such fears seriously and respond to them in a focused discussion, in the most democratic and transparent way possible. In 2007, Nicholas Sarkozy took advantage of the positive public attitude of many French people in relation to a reduction in death duties to exempt estates of 1.5 or 2.0 million euro … Each parent could use this allowance for each child every six years, up to five times in their lives. This measure was modified in 2012 because it really cost the State too much. Too often, there is a reluctance to go into figures in detail. In fact, the last sentence of my book reads: 'Refusing to deal with numbers rarely serves the interests of the least well-off'.

Jean Merckaert and Jean Vettraino: *If you have an apartment which is worth 300,000 euro and a loan of 290,000 euro, should you pay as much property tax as someone who has no loan?*

Thomas Piketty: For my part, I am not proposing to increase tax on inherited wealth in general, but to make the tax more progressive. This would entail reducing property tax for the majority of the population and increasing it for the highest inheritances. This would facilitate access to inherited wealth for those who do not have it. At present, if you have an apartment worth 300,000 euro and a mortgage of 290,000 euro, you pay as much property tax as someone who does not have a mortgage. That is the case even though, in this situation, your net capital is only 10,000 euro.

I am proposing to replace the current taxes on inherited wealth, one of which is property tax, by a progressive tax: the current level of inheritance tax would be reduced for 90 per cent of the population, i.e., those whose capital is lowest, when netted against a mortgage, and who wish to build it up. On the other hand, the tax would be increased for wealthy individuals. The scale could be as follows: 1 per cent of 1 to 5 millions, 2 per cent over 5 millions.

Such a tax, at European level, would yield more than 2 per cent of GNP. It would increase the mobility of capital. Of course, there is no mathematical formula which allows us to fix the ideal tax. The problem is that these questions are often left to technicians. As for the elites, their capacity to deny reality is well known: at the end of the nineteenth century, the economist Paul Leroy-Beaulieu was explaining that France had no need of a progressive tax because, thanks to the Revolution, our country was quite egalitarian …!

Jean Merckaert and Jean Vettraino: *Over the past thirty years, personal fortunes have become very mobile. Is the tax system, which is based for the most part on cash flows, capable of correcting inequalities, considering that it is designed at the national level?*

Thomas Piketty: Some things are possible at national level, such as making the taxation of inherited capital (net of mortgages) more progressive, without all the owners of second homes taking the Eurostar tomorrow! But to develop much further a progressive system of taxing the largest accumulations of capital, this would require cooperation at a European level. Failing that, the capacity to increase tax in European countries will become more and more constrained. That is even truer in the case of corporation tax, which is circumvented to a massive extent by the multinationals.

At present, there are eighteen different rates of corporation tax in the eurozone, though this zone is completely integrated from an economic point of view and though all the large companies can transfer their profits very easily from one country to another according to their tax interests. It is as if the income tax scale were different in each of the twenty Parisian *arrondissements*. And so, to pay at a lower rate all that would be needed would be to take the Métro. Naturally, each *arrondissement* would lower its rate …

If it is desired to maintain, within the EU, economic integration and the free circulation of capital, goods, services and persons, there has to be greater tax coordination. If not, public opinion in some countries will end up urging an exit from the system, in the belief that a return to national frontiers will allow for greater protection. If it cannot be shown that there are ways of reconciling globalisation with some sort of fiscal and social justice, there is a temptation to become inward-looking. Fiscal cooperation is fundamental if we want to maintain our commitment to the European project and to globalisation.

Jean Merckaert and Jean Vettraino: *What is the place of corporations in your triptych of the main forms of taxation?*

Thomas Piketty: There are ramifications in regard to taxation of corporations. For example, tax on company profits is a form of tax on income flow. This way of taxing at source, imposing a corporation tax at the point where a company makes its profits, remains an important element of the ideal system that I have described. But, ultimately, a fair system of taxation must first rely on the level of income and of capital.

When we think of tax as progressive, it must also apply at an individual level. Corporations are collective institutions through which are channelled salaries, shares and dividends. We rely on them to ensure that tax is declared and levied, and to shed light on the structure of their shareholdings. The corporation is also a place where staff should participate in decision-making, which is not possible without a precise knowledge of the accounts – of who owns the company, for example. Fiscal and financial transparency must first take place at the level of the enterprise.

Jean Merckaert and Jean Vettraino: *Even at its best, taxation will never correct all inequality. Would it not be best first to look into the origins* *of the primary distribution of incomes, and particularly the control of money creation*?

Thomas Piketty: Taxation is only one tool among others, but it would be a mistake not to think of it as playing a part in secondary distribution. Through the way it modifies incomes, it has an effect on the capacity of people to accumulate capital, to finance investments, training, and therefore, finally, it has an effect on primary inequality. This is clear in the case of inheritance tax. It is true also in the case of income tax: the most important effect of very high tax rates in the United States between 1930 and 1980[3] was without doubt to put an end to remuneration above a certain threshold, and to leave a larger payroll for workers. Conversely, the suppression of these rates (under President Reagan) contributed to the take-off of very high remuneration, thus limiting the amount of payroll available for the rest of the staff.

There are other tools besides tax. The first of these is education. The dissemination of knowledge is the No. 1 force which makes reductions in long-term inequality possible. But education cannot achieve everything either. Even with an excellent system of education, the mechanisms that give rise to inequality endure, both within and outside the education system itself. Progressive tax complements education.

Financial regulation also plays a central role. The growth in gross financial positions is what most characterises the evolution of financial capital during the last few decades. To put it another way, what France owns in the rest of the world is now quite close to what the rest of the world owns in France: its net capital situation *vis-à-vis* other countries is relatively weak. Half of French financial shares are owned by the rest of the world: the gross fund position is enormous. This has given rise to a situation which is potentially very fragile, as in Spain. The kind of financial folly which results from this adds enormously to the instability in the distribution of assets between countries and within countries, and to the extreme inequality of returns on capital according to the different sizes of portfolios.

But not everything can be left to the regulation of the banking system. No more, incidentally, than to the central banks. In the last few years, too much has been devoted to monetary policy and too little to fiscal policy. The great advantage of the central banks is that they can create billions of euro or dollars by the day, establish rules for banks, and so on. The financial regulator has a kind of infinite power. But the central banks do not always know what to do with this money. They will lend it here or there, but with what ultimate impact? Sometimes, the redistribution is the wrong way round: some people make immense profits because they borrow at ridiculous rates and feed financial bubbles in the process.

Jean Merckaert and Jean Vettraino: *What resistances have been encountered to the 'fiscal revolution' which you had encouraged in France and which the Socialist Party had largely taken on board?*

Thomas Piketty: The question of the merging of the General Social Contribution (CSG) with income tax broached in *Capital in the Twenty-First Century* is of quite limited importance – despite the title of the book – compared with the global question of tax. I proposed that the CSG system be used – its system of deduction of tax at source has a relatively large tax base – and to extend that to income tax. But the proposal was not really the subject of much debate before the elections, and a reform like that, minimal as it may be, needs to be prepared in advance. Now, presidential candidate Hollande judged that he could win without taking too many risks. In the absence of specific commitments or of an overall perspective, he was obliged to invent reforms which for the most part smacked of DIY. Thus he began by removing the reduction in the employer's contribution put in place by Sarkozy, before inventing, six months later, a tax credit to stimulate competitiveness and employment, which had the effect of repaying, after a one-year delay, part of the previous contributions. He then considered its replacement by a reduction in social security contributions.

Jean Merckaert and Jean Vettraino: *In the face of a colossal public debt, it would seem ideological not to take advantage of large inheritances. What are the conditions in which the idea of a global tax on inherited capital could take hold?*

Thomas Piketty: There is no need for this tax to be global. At the same time, reforms are required at the national level, as well as more international cooperation when that is needed. I remain optimistic, because the economic and democratic fundamentals are driving us in the direction of a progressive tax on capital. If it is thought desirable to continue to have a capital-rich middle class as well as an access to capital for people starting from zero, there is need for a system of taxation which leaves them this chance.

Reducing the property tax for indebted households who seek to accumulate capital could bring together the Right and Left and could be decided at the national level. When a country finds itself in a difficult economic situation, it has to find revenues, and the taxation of large inheritances is quite natural. In Spain, the tax on wealth holders removed in 2008 was reintroduced in 2011. When you have, on the one hand, a colossal public debt, and on the other, thriving accumulations of capital, a failure to harness these could only stem from some ideology.

Furthermore, without going as far as a global tax, public opinion is pushing for a more credible campaign against tax havens. Five years ago, everyone thought that the secret Swiss bank account would always exist. It only needed the United States to threaten to withdraw the licences of Swiss banks for the secret to begin to crack. If we are content just to request politely that the tax havens become more transparent, that will not work. But the pressure will have to come from the United States … And what is keeping the big countries of Europe from speaking with a single voice?

Notes

1. Thomas Piketty, *Capital in the Twenty-First Century,* translated by Arthur Goldhammer, Cambridge MA & London: The Belknap Press of Harvard University Press, 2014.
2. *Capital in the Twenty-First Century*, Table 12.1, p. 435.
3. In 1932, when Franklin D. Roosevelt was elected President, the rate of federal income tax applying to the richest people in the United States was 25 per cent. On assuming office, Roosevelt decided to raise the tax immediately to 63 per cent, then to 79 per cent in 1936, and to 91 per cent in 1941, a level which applied until 1964, before it was reduced to 77 per cent, and then 70 per cent in 1970.

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