Michael W. Howard*

Symposium on Piketty's *Capital in the Twenty-First Century*: Editor's Introduction

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The publication of Thomas Piketty's *Capital in the Twenty-First Century* (2014, hereafter "*Capital*"), and its enthusiastic reception not only among scholars but also the general public (it was a *New York Times* best-seller), have been important events for those interested in basic income. In the words of George Grantham (in this issue), the book is "arguably the most significant book in empirical economics since Simon Kuznetz's *Modern Economic Growth* (1966) and, on a theoretical plane, since Keynes's *General Theory* (1936)." The book pulls together years of detailed scholarship by Piketty and colleagues on the long-term trends in wealth and income inequality, across the major capitalist countries, and shows how inequality tends to increase when the rate of return on capital is greater than the growth rate of the economy ("r > g"). This tendency is not inevitable; it is sensitive to politics and public policy. Piketty's work calls to our attention the extent to which the growing gap between rich and poor is being driven by, as Grantham puts it, "differences in income resulting from unequal possession of inherited wealth, to which may be added the rise of 'norm-based' compensation of 'super-managers.'"

To address the inequality, Piketty recommends more progressive taxation of inheritance, wealth, and income, including a global wealth tax. Such tax reforms open space for questions about what best to do with the revenue generated, and in particular whether some form of basic income would be a reasonable complement. The essays in this issue of BIS explore the significance of Piketty's findings for basic income research and policy. In this introduction, I will survey Piketty's earlier statements on basic income and related policies, give an overview of the other contributions, and summarize Piketty's response to critics and his current position on basic income.

1 Piketty and basic income

Prior to the publication of *Capital*, Thomas Piketty has expressed support for basic income schemes of various sorts. In the last chapter of his 1997 book, Piketty

***Corresponding author: Michael W. Howard,** Department of Philosophy, University of Maine, Maine, USA, E-mail: mhoward@maine.edu

argues that, as reported by the Basic Income Earth Network (BIEN 1997), "if one is serious about tackling unjust inequalities, … fiscal redistribution must be the central tool, whether it operates through the free provision of certain goods (health care insurance, education) or through cash transfers. But the way in which fiscal redistribution is currently organized in Europe implies that the highest effective rates of taxation (taking all direct taxes, social security contributions and benefit withdrawals into account) apply to the worst-paid workers … It is crucial to reduce this trap by extending transfers or tax credits to low-paid workers. There are various ways in which this could be [done] … most radically, [by] the introduction of a universal transfer or citizen's income." While not the only policy available for reducing poverty, a basic income "may improve work incentives by giving claimants greater economic security when accepting a job."

In a collection on reforming the revenue minimum d'insertion (RMI), Piketty (1999, in Castel, Godino, Jalmain, & Piketty 1999) supports a negative income tax, and also points out a basic income could achieve the same effects, with some additional advantages. As reported by BIEN (1999)

> "From a strictly economic standpoint, these two proposals are totally equivalent … The important question is which of these proposals is likely to be best perceived politically and socially." In his view, a basic income has two advantages over Godino's proposal. First, it is likely to involve less stigmatization for households receiving a "partial RMI" (even though, with a basic income, the stigma may shift e.g. to the non-payment of income tax). More important, a basic income would give absolute security to the people receiving it, whereas the entitlement to the RMI (or part of it) under Godino's scheme would be subject to a means test that may be constantly lagging behind the potential beneficiaries' current situation: "As working for a couple of months may make me lose access to the RMI for several terms at the end of this period, why should I bother to take the risk?"

In an op-ed in 2001 he remarks on the importance of the introduction of a refundable tax credit in France. As reported by BIEN (2001),

> Piketty … stresses the historical importance of Lionel Jospin's government's January 2001 decision to introduce a refundable tax credit. It "can be viewed as the definitive shedding of Marxism and its simplistic conception of inequality". To the traditional method of fighting inequality through increasing wages (for the benefit of workers, assumed to be badly off and at the expense of capitalists, assumed to be well off), it substitutes a redistribution across income categories, on the assumption that fighting inequalities requires redistributing from high-wage-earners as well as from capitalists to the self-employed as well as to low-wage-earners.

In 2009 he criticized a basic income proposal from the right:

> Technically, Marseille's budget analysis does not hold up. He attempts to convince us that it is possible to increase the benefits overall (thanks to the universal grant) while

> decreasing taxes overall (with the flat tax). More concretely, corresponding to the universal grant of 750 euros per month per adult, Marseille suppresses all the social benefits, notably retirement pensions. In other words, future retirees would need to be content with a retirement pension of 750 euros per month, and to complete this level, they would need to place their savings in the financial markets, at the same time as the pension funds have collapsed. The financial crisis demonstrates that the markets are incapable of offering sufficient long-term guarantees, such as can only come from the public system of distribution. For sure, the retirement pensions need to be capped (at 3,000, 4,000, or 5,000 euros per month), but a general cap at 750 euros per month makes no sense! [editor's translation]

Finally, Landais, Piketty and Saez (2011, pp. 105, 109) proposed a basic income for children and youth up to age 25: For minors they proposed, "the simplest reform scenario, which consists of utilizing a tax credit that will replace in one stroke the dependent's allowance, the child benefit, maintenance support, the back to school allowance, the family support allowance, and the early childhood benefit." They propose 190 euros monthly per child, … The benefit "will have the advantage of being incredibly simple and readable and its administration will be less costly than that of the current system." For youth 18–25 their proposal "consists in giving the 'youth income' to all youth, regardless of the resources of their parents … financed by the elimination of all the current transfers." [editor's translation]

Thus, for those familiar with Piketty's prior work, it has been an intriguing question where he now stands in the basic income debate, after the publication of *Capital*. Consistent with his earlier statements, in his paper in this issue, Piketty is sensitive to the arguments for a universal basic income, but is not completely convinced. He is wary (as he was of the right-wing Marseilles basic income proposal) of treating a cash transfer as a "magic bullet." Although he prefers state expenditures that enhance capabilities in areas such as health, education, and culture, he supports "universal cash transfers for dependent children," speaks approvingly of Atkinson's proposal for a capital grant for all 18 year-old children, and favors a "basic income for all adults with insufficient market income." In other words, he appears to favor, as he did in 1999, that version of a minimum income guarantee known as a negative income tax. For those with adequate labor incomes, he inclines toward tax relief rather than a universal cash grant funded by taxation, but concludes that the issue is "a legitimate matter for debate and disagreement."

2 Also in this issue

Of the other papers in this issue, some (by Crocker, Dahms, Grantham, and Lo Vuolo), were first presented at a symposium on *Capital in the Twenty-First*

Century at the 15th Congress of the Basic Income Earth Network in Montreal, in June, 2014. The others (by Haagh and Widerquist) were written specifically for this issue.

George Grantham contextualizes the book in the context of methodological and empirical debates in economics. He summarizes the methods, main findings, and theoretical implications, and discusses some of the main criticisms that economists have made, and explores whether Piketty's work can be reconciled with neoclassical economics. He concludes that, given the shocks that capital has sustained over the last century, "it can surely survive the modest redistribution supplied by a basic income."

Ruben Lo Vuolo credits Piketty with demonstrating that inequality of wealth is likely to rise unless there are specific policy changes designed to reduce inequality. Piketty's proposed changes in tax policy could be complemented by a basic income. His findings on income inequality support analyses by BI advocates, who note the arbitrary, and socially useless, inequality of wealth and income resulting from inheritance, share Piketty's scepticism about the possibility of reversing inequality through economic growth, and seek "non-productivist" reforms of welfare states. Lo Vuolo also addresses some of the criticisms that have been made of Piketty's book, concerning his definition of "capital" (see Crocker in this issue), and whether he focuses on wealth inequality too much, neglecting the importance of income inequality.

Louise Haagh, after acknowledging the importance of Piketty's work in bringing income distribution back into public debate, develops his observation on the importance of public finance and institutions in shaping income distributions and freedoms that basic income advocates care about. She distinguishes between two kinds of basic income supporters, those who see BI as a way of securing for individuals independence from systems, and those who see BI as part of a set of policies that enable developmental freedom. Haagh defends the latter position, citing the Nordic countries, not as unique, but as illustrating the importance for developmental freedom of politics and linked systemic development of tax reform, educational equality, and a diversity of unconditional social and economic rights. Basic income, she agrees with Piketty, is not a magic bullet. Rather it should be supported as part of progressive reform movements to promote equal standing across institutions.

Karl Widerquist makes two points in his contribution: 1. The tendency for entrepreneurs to become rentiers, and for inequality to rise over time depends not only on the gap between r and g, but also on the relative size of capitalists' consumption (a point that Piketty agrees with in his comment). 2. Whether r must always be greater than g is dependent upon institutions and policy choices (another point which Piketty stresses). And he adds as a policy recommendation resource taxation, paired with a resource dividend, which has the advantage, compared with other forms of taxation, that resources cannot be easily moved across national boundaries. The policy would reduce inequality and enhance the bargaining power of workers, perhaps facilitating the reversal of the decline in unionization. A major obstacle to such a policy is the control that the wealthy have over the political process.

Geoff Crocker offers a critique of Piketty's analysis of inequality, and of his policy solutions, in comparison with those of Keynes. He then proposes basic income as part of a Keynesian policy of demand management, "necessary in advanced technology high productivity economies in which the wage component of output declines." He supplements this with a virtual theory of money "which renders deficit both inevitable and manageable."

Harry Dahms claims that "Piketty's proposal of four possible trajectories for regulating capital in the medium term – a social-state of the twenty-first century; rethinking the progressive income tax; a global tax on capital; and a novel conception of public debt …– at the very least to slow the increase in economic inequality, are consistent with the spirit of basic income." However, comparing Piketty's approach to that of the Marxian tradition of critical theory, Dahms finds the former unable to account for capital as "an economic force that is uniquely socially transformative," or the way in which "the social, economic, and political reconfigurations that began in the 1980s, are likely to have gone much deeper than the increase in inequality would suggest." Like Widerquist, he is pessimistic about the prospects for politics, which "more and more seem like a further hurdle that must be overcome, in order to tackle rising economic inequality."

In response to critics of *Capital*, Piketty clarifies that "$r > g$" is not the only or even primary tool for considering changes or predictions of inequality of wealth and income. Institutional changes and political shocks are very important, and preclude economic determinism. Moreover, $r > g$ is not particularly helpful for understanding inequality of labor incomes. And while there are some useful insights concerning aggregate estimates of capital and income in production functions, he prefers to concentrate on the diversity of forms that wealth has assumed over time and in different places. The important point is that in these different contexts, r-g (the gap between r and g) serves as an "amplifying mechanism" for inequality.

He summarizes his case for optimal taxation, involving a combination of income, inheritance, and wealth taxes. While he stresses that we have too little data still to make precise calibrations, he suggests as a rule of thumb that tax rates should be adapted to the speed of rising incomes, with a view to preventing widening wealth inequality, out of regard for welfare, but also to reduce the inequality of power that comes with wealth inequality. His research suggests that inheritance tax rates should optimally be set "as high as 50–60%, or even higher for top bequests."

By forcefully making the case for inequality as a growing problem, and more progressive taxation as a desirable part of a solution, Piketty has given new impetus to alternatives to the politics of austerity, including among other things, the possibility of a basic income.

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