



Piketty's Capital in the 21st Century and Australia

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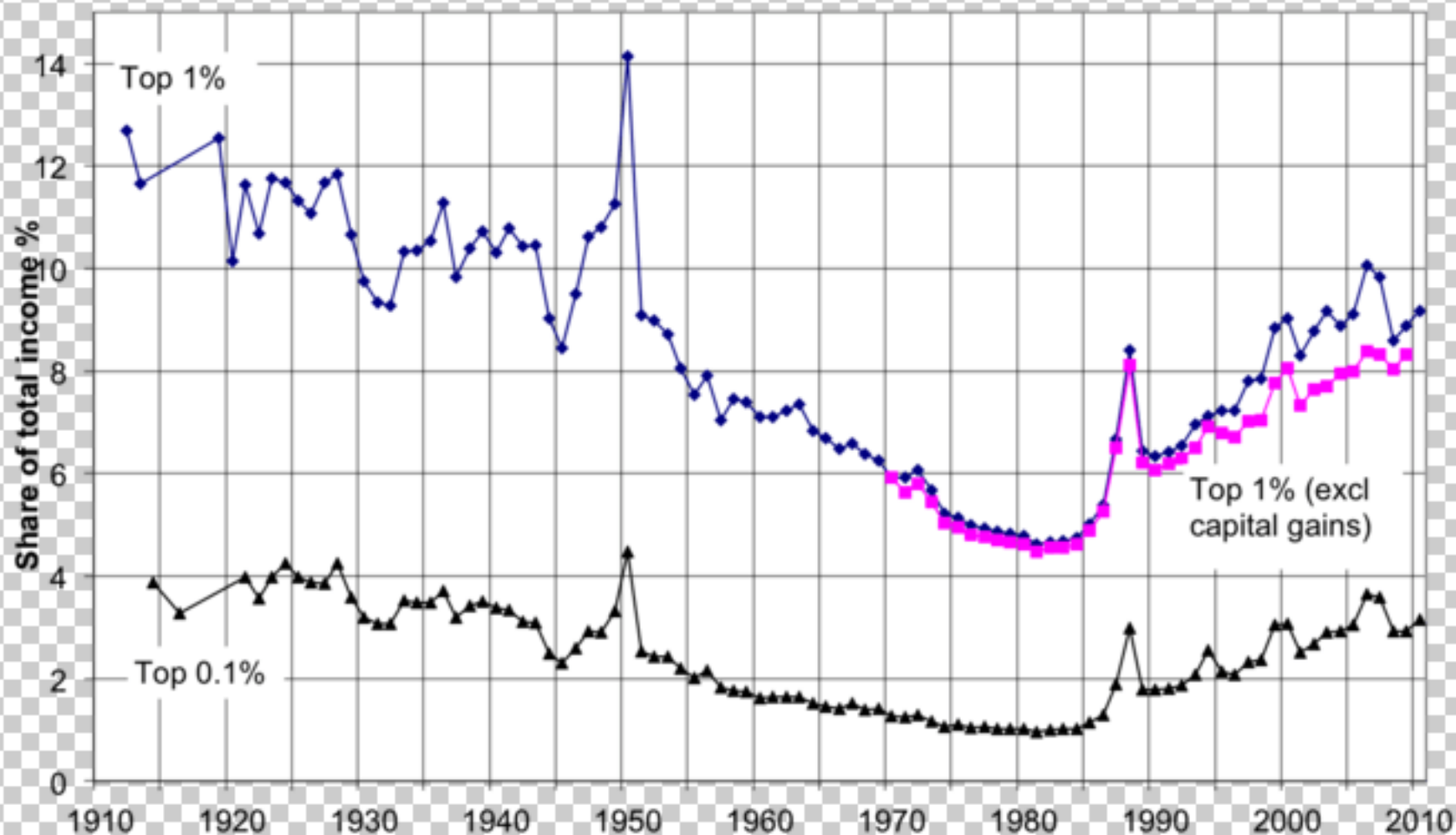
Brotherhood of St Laurence
discussion 8 October 2015



This presentation

- *Background: Concerns about inequality growing since the 1980s*
- Piketty's data and insights
- Implications for Australia

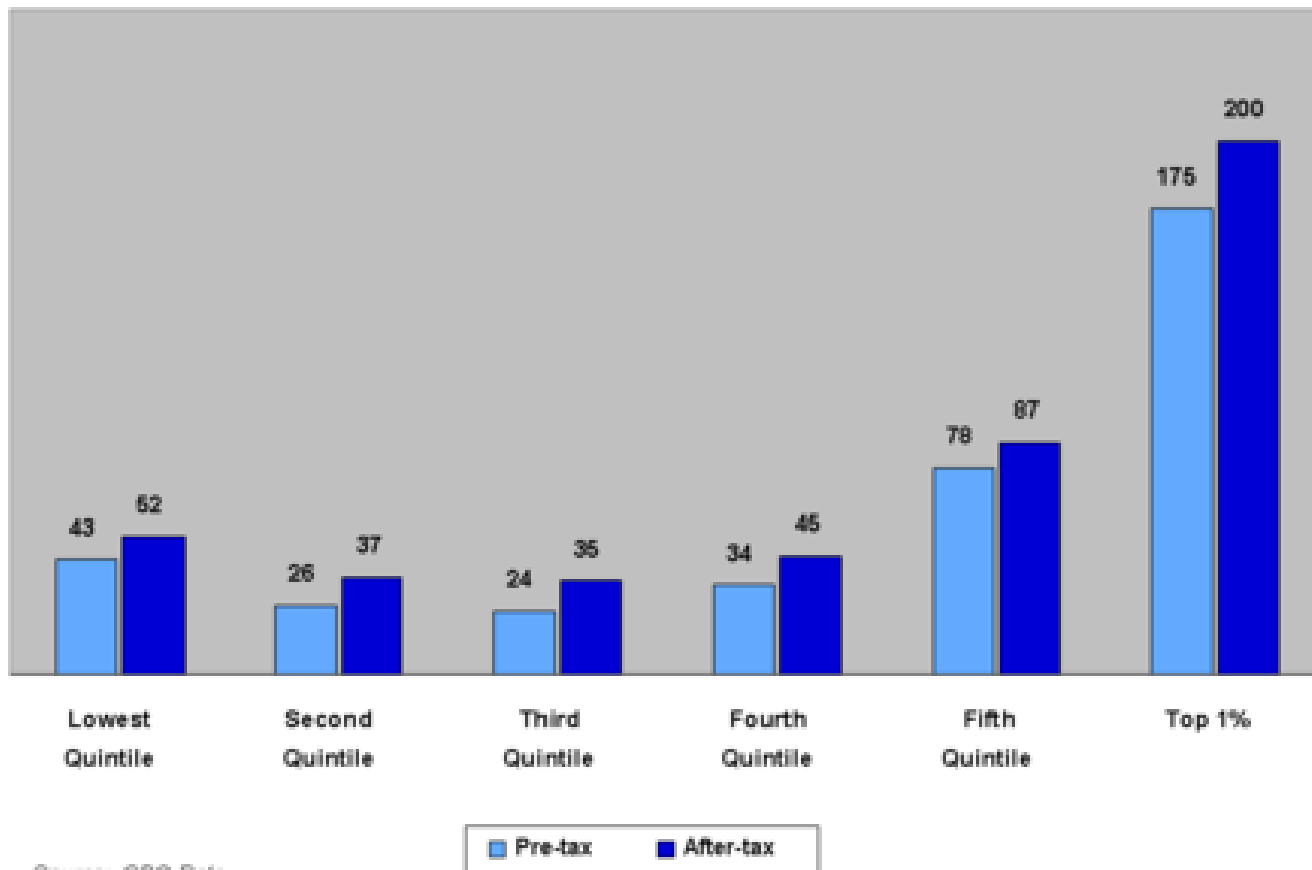
A Century of Top Incomes



Source: Andrew Leigh *Battlers and Billionaires: the story of Inequality in Australia* (2013)

US Income growth 1979-2011

U.S. Income: Percent Change from 1979 to 2011 by Income Group





Patterns of inequality

- Similar in other western countries – most of recent growth in incomes and wealth has gone to top 10%
- Variations between countries – eg inequality has increased in Australia, but not as much as US
- Pattern also modified by changes in social wage



Immediate Causes

- Technological and financial innovation – increasing 'skill premium'
- Globalisation – pressure on wages of less skilled western workers facing competition from developing countries
- Political changes eg drops in top tax rates under Reagan, Thatcher

But are there also long term trends?



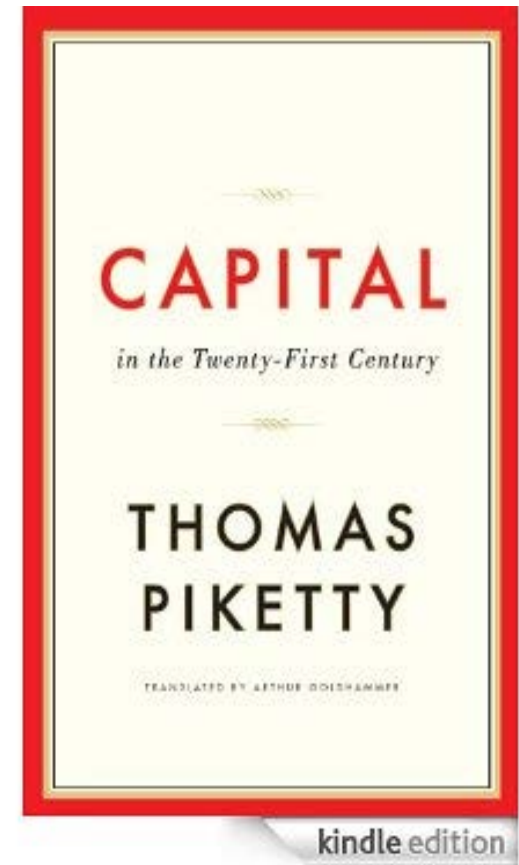
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Piketty's book

- Impressive data on wealth and income patterns since 1800
- Puts inequality back as key policy issue
- Argues long term trend getting worse
- Need for social/
Government action



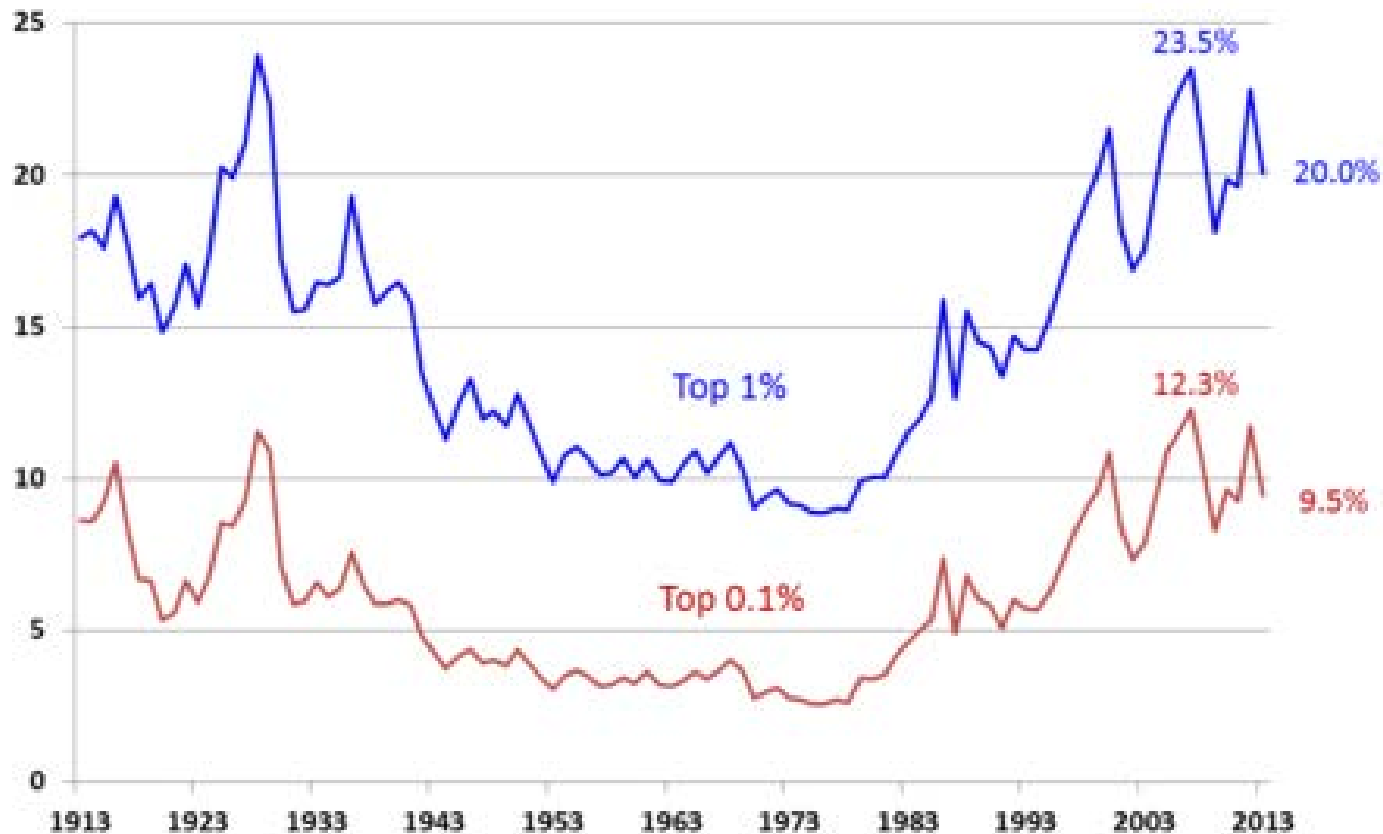


Economic Growth, inequality and commentators since 1800

Period	Growth	Inequality	Analysis
To 1860	Steady	Marked worsening	Marx
1860-1910	Steady	Worsening	
1910-45	Minimal	Improving	Kuznets
1945-80	Strong	Improving	Solow
1980-2010	Slower	Worsening	Piketty

Changes in US income disparities

U.S. Income Shares of Top 1% and Top 0.1% Households – Incl. Capital Gains (1913-2013)



Source: Piketty & Saez – January 2015



Private capital UK (% of GDP)

	1800	1910	1950	2010
Total	700%	700%	250%	550%
Ag land	300%	50%	-	-
Housing	100%	150%	100%	300%
Local	300%	300%	150%	250%
Foreign	-	200%	-	-

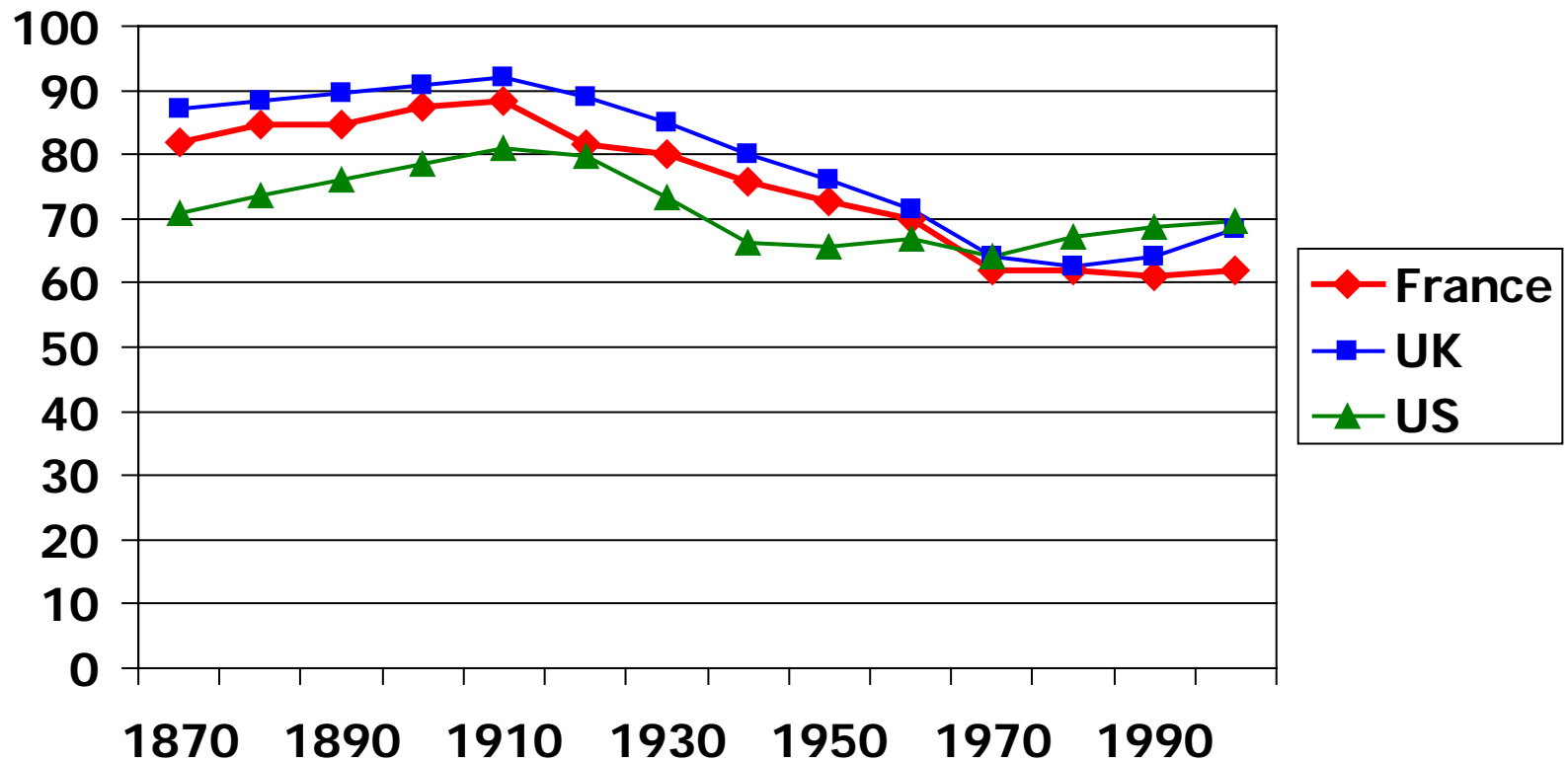


Patterns of Capital

- Size of capital stock has grown strongly since 1950
- Capital's share of national income has grown from 20% in 1970 to 30% now – leads to greater inequality
- Similar short term factors as for income
- Possibility of long term factors too?



Top 10%: share of private wealth





Important factors

- 1910-1960 - increased equality:
 - Dislocation of world wars, political changes
 - Also growth of home ownership
- Since 1980 - increased inequality
 - Short term factors noted above
 - Piketty argues for long term trend towards inequality (eg up to 1910, after 1980)



Piketty's key equation: $r > g$

- Key variables
 - r (return on capital) and
 - g (rate of economic growth)
- Overall incomes grow with g
- If returns on capital (5-6% 1900, 4-5% now) exceed GDP growth, then the wealthy share of national income grows



Responses to Piketty

- Wide range of criticism, often from entrenched positions
- General praise for wealth of data
- Some nit-picking re recent trends
- Some good points re importance of housing, and the social wage
- Distribution versus growth issues
- Strongest disagreement on long term inequality trends



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Should we care about inequality?

- Social justice reasons
- Entrenched poverty produces wasted human potential – both individual and social
- Social harmony important in social and economic growth – eg Steven Pinker's *Angels of our Better Nature*



Impacts of inequality - IMF

“if the income share of the top 20 percent (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down.

“In contrast, an increase in the income share of the bottom 20 percent (the poor) is associated with higher GDP growth.”

IMF *Causes and Consequences of Income Inequality* (June 2015) p4



Piketty's policy proposals

- Importance of the social state
- Review progressive income taxes – no evidence that lowering marginal rates since 1980 has encouraged growth/innovation
- New idea of a globally-coordinated tax on wealth



IMF policy comments

- **No one-size-fits-all.** Raising the income share of the poor, and ensuring that there is no hollowing-out of the middle class is actually good for growth.
- the drivers of inequality and their impact differ across countries for different income groups. [Therefore] appropriate policies would necessarily vary across countries, and would also need to take into account country-specific policy and institutional settings, and capacity/implementation constraints.

IMF *Causes and Consequences of Income Inequality* (June 2015) p30



Are these the most important issues/opportunities for us?

- Need to balance:
 - Theoretical advantages with practical implementation
 - Redistribution with incentives for growth
- Any tax policy requires social acceptance
- Groundswell now for action on eg
 - Superannuation tax concessions and
 - International tax minimisation



Does it matter if inequality trends are short or long term?

- Yes – if long term, this emphasises the importance of social/state action
- Free market/deregulation by itself will not produce best outcomes
- **But** while market failure can happen, government failure can also happen
- Need for well planned and implemented policies