

# National, Piketty, Equity

by Keith Rankin, 6 June 2014

This year, a big book by French economist Thomas Piketty – *Capital in the Twenty-First Century* – has taken the Anglophone economic commentariat by storm. While I would like to read it (there is an argument that my time would be better spent reading the many other important books that get much less exposure), there is at least a good swathe of review material from which to assess Piketty's central argument, to evaluate the public response to his work, and to assess some of its political implications.

Piketty alludes to Karl Marx through the book's title and size, while remaining himself quite modest about his achievement. (*The Economist* magazine has run a number of articles on the Piketty phenomenon, with titles like "A Modern Marx" and "Bigger than Marx". The *New Zealand Listener* also ran a recent feature on 26 May by Patrick Smellie, *The Book that Hit like a Bomb*.) And it is through this allusion to Marx that our conservative governments need to take note. The peasants – albeit the peasants of the Brooklyn (NY, though maybe NZ) variety – are revolting. Inequality has become a big issue that's not going to go away anytime soon.

Sceptics claim that income inequality hasn't risen much in the last twenty years, and that income inequality between countries this century has decreased. But income inequality – before or after tax – is not the full story, as Piketty makes clear. His focus is on the inequality of financial wealth, and his work is indeed opening up a whole can of worms that economic liberals and conservatives (synonyms in this context) will have to address sooner rather than later.

In their recent University of Auckland Robb Lectures on Inequality, Richard Wilkinson and Kate Pickett noted that the fear of Marxist-inspired revolution was very real in the 1930s (and still seen to be real in the 1950s), and that capitalism reformed itself in order to preserve itself in the face of the actual or perceived Marxian threat. That threat ceased to be credible by the 1970s, allowing a return to unreformed capitalism.

Piketty's book, which has arrived just when there was a large middle class constituency for its message, presents unreformed capitalism with its greatest threat since the middle decades of the nineteenth and twentieth centuries.

Piketty's analysis is that capital, as the economic class that drives (and benefits from) capitalism, has for the best part of three centuries gained returns that significantly outstrip economic growth. Hence the concentration of huge wealth in favour of a relatively small number of private owners of capital.

Piketty's policy proposal is for a global wealth tax (and marginal income tax rates upto 80 percent) that might redress this imbalance. Hardly a policy that the top five percent are likely to agree to without the incentive of a credible threat that would seem to them to be even worse.

So how should the National Party's constituency go about reforming capitalism to save it?

I won't use the term Universal Basic Income, because that has, in the hands of left-wing utopians, morphed into something quite different from what I had in mind when I wrote about it in the 1990s.

Instead, we consider the word 'equity' in the way that capitalists use it, to mean a property right. A property right is a human construct rather than a law of physics. And a public property right is at least as meaningful a concept as is a private property right.

Some people, most likely on the political far right (maybe Jamie Whyte?) may deny that there is such a thing as a public property right. But that would be no more than saying that public property rights have an equity value of zero. Everybody else could agree that it makes sense to attribute a non-zero monetary value to property that is inherently public. That's probably as far as near-unanimous opinion could go. People who think of themselves as supporters of right of centre governments would typically confer a lower monetary value to public property (and the income that derives from public property) than do people who think of themselves as supporters of left of centre governments.

My point is that the mere acceptance of public equity having a value in excess of zero gives the political right a powerful tool to combat the left-wing advocates of Thomas Piketty's suggested wealth tax. It means that payments that we already pay – payments we currently think of as tax discounts or as welfare transfers – can be re-interpreted as public equity dividends, conceptually little different from dividends paid to the shareholders of Telecom or Mighty River Power.

Further, the cognition of public equity creates the opportunity of assisting, through what today would be called tax cuts, the people who are most adversely affected by current tax-benefit arrangements; namely the aspirational but lowly paid workers whose votes are required by National if ever National wishes to contemplate being in government.

The public equity concept – like Keynes' insights from the 1930s – present a win-win-win outcome. The rich find a way that forestalls what they see as popular pressure for confiscatory taxation. The poor find a way that enables them to get significantly greater shares of future 'tax cuts' than they have had from past tax cuts. The planet gains an accounting means through which its environmental services might be valued. Further, the receipt of public equity dividends *as of right* – no matter how small they might be – takes the edge off the economic trauma that unemployment imposes. Anybody who is able to fall back on some property income is better placed to resist capitalist exploitation, than is someone who is 100 percent dependent on labour income.

When equity is more equally held, the problem that Piketty identified in his book becomes much less destabilising for the economic system as a whole. If returns to capital are no more unequally distributed than returns to labour, then the Pikettian threat disappears.

Public equity. Think about it. It's a concept that emphasises what we share; hence it brings us together, enhancing social capital. Advocacy of huge wealth taxes, on the other hand, feeds back into division and suspicion; talk of greed from the left and sloth from the right drives the have and have-nots further apart, creating social forces that can eventuate in large-scale conflict.

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