Piketty's global tax on capital: a useful utopia or a realistic alternative to a global disaster?

Heikki Patomäki [University of Helsinki, Finland]

One of the key claims of Thomas Piketty's *Capital* is that there is a tendency for r > g, where r is the average annual rate of return on capital and g is annual economic growth. This is especially likely for regimes of slow growth. Past wealth becomes increasingly important and inherited wealth grows faster than output and income. If this is combined with the inequality of returns on capital as a function of initial wealth, the result is an increasing concentration of capital (p. 443).

Piketty argues new solutions are required in our globalising world and that a global tax on capital is the most appropriate response to this fundamental tendency in capitalist market economy towards divergence (p. 532). As such he considers it a utopian idea, but possibly realisable on a regional basis, perhaps even in a relatively short run. Thus the proposal for a global tax on wealth plays a critical role in Piketty's overall argument. It is the chief normative conclusion from his analysis of the causes of the concentration of wealth that the world has experienced since the 1970s.

I agree with Piketty that new tools are required to regain democratic control over the globalized financial capitalism, and that a global tax on capital is a promising idea. In this paper, I make three points. First, tax reforms are not only made possible or at least easier by major wars, as Piketty maintains; arguably it is also true that concentration of capital makes major wars more likely. This strengthens Piketty's argument and underlines the urgency of reforms.

Second, on a more critical note, the choice between a utopian global approach and a more feasible regional approach to the tax is somewhat misleading. There are easier ways to realise a global tax. Third, while Piketty's exclusive focus on wealth distribution may make it plausible to assume that a single global tax would suffice to reverse the trends of the past decades, in reality economic policy involves many issues and concerns a number of other processes as well. A global tax on capital would have to be accompanied by a more general shift towards global Keynesian economic policies. This would not make changes necessarily more difficult.

Large-scale wars and tax reforms

The world wars of the 20th century constituted major economic and political shocks. Piketty goes so far as to argue that "we can now see those shocks as the *only* forces since the Industrial Revolution powerful enough to reduce inequality" (p. 8; italics HP). This is a point he repeats several times in the book; he also gives ample statistical evidence on the impact of the world wars on the level of taxation and inequalities (for instance pp. 18-20, p. 41, p. 141, p. 287, p. 471, pp. 498-500).

Piketty, however, is not fully consistent in formulating this point. Counterfactual developments are uncertain. Without the shock of World War I, "the move toward a more progressive tax system would at the very least have been much slower, and top rates might have never risen as high as they did" (p. 500). The war facilitated and speeded up change, but it was not a necessary condition for it. The weakest formulation is this: "[P]rogressive taxation was as much a product of two world wars as it was of democracy" (p. 498). Thus democratization too seems to have played a facilitating role. A problem is, however, that democracy cannot explain the decline of progressive taxation and the re-rise of widening inequalities since the 1970s.

Piketty turns his world-historical insight – that there is a close relationship between major modern wars and reduction of inequalities – into a question about possible futures. Must we wait for the next major crisis or war, this time truly global? Or are peaceful and lasting changes possible? (p. 471) For instance, the global financial crisis 2008-9 was not compelling enough to make any major difference in terms of the underlying structural problems, including the lack of financial transparency and the rise of inequality. A much more devastating economic and political shock seems to be required for any real changes to become possible.

This is an important problematic. Here I would like to reverse the question, however. What will the concentration of capital and the rising importance of past and inherited wealth mean to the likelihood of a major economic and political disaster? Piketty maintains that the developments we are now observing are likely to erode democracy. The concentration of capital can reach very high levels – "levels potentially incompatible with the meritocratic values and principles of social justice fundamental to modern democratic societies" (p. 26). Are these high levels also incompatible with democracy *per se*? What are the consequences of de-democratisation?

John Rawls (1973) warned about the consequences of the accumulation of privileges in his *A Theory of Justice*. Wealth can be translated into political influence also in liberal democracies. The rules restricting this influence can be changed:

> The liberties protected by the principle of participation lose much of their value whenever those who have greater private means are permitted to use their advantages to control the course of public debate. For eventually these inequalities will enable those better situated to exercise a larger influence over the development of legislation. In due time they are likely to acquire a preponderant weight in settling social questions, at least in regard to those matters upon which they normally agree, which is to say in regard to those things that support their favored circumstances (ibid., p. 225).

We should be able to observe these developments especially in the US, which in the last few decades has become noticeably more inegalitarian than most European countries, even though the latter have experienced increasing inequalities as well. For instance, the Task Force on Inequality and American Democracy (APSA, 2004) formed under the auspices of the 14,000-member American Political Science Association concluded "that Progress toward realizing American ideals of democracy may have stalled, and in some arenas reversed". The US political system is now much more responsive to the needs and wishes of the privileged than those of the ordinary American citizens. A further problem is that this process tends to become self-reinforcing. Logically, in the absence of powerful countertendencies, it follows that over time democracy must be getting thinner and thinner. Real power relations are turning steeply asymmetric, reflecting the hierarchies of the inegalitarian society in which capital is increasingly concentrated in the hands of relatively few people.

The concentration of capital shapes also the production and distribution of knowledge in society. Humans tend to incorporate confirming evidence, while disconfirming evidence is often filtered out (e.g. Gilovich, 1993). This tendency is liable to becoming stronger in a context which is developing into an increasingly homogenised direction, also through organizational changes (such as funding, ownership and power relations in education and research, media etc). When the point is reached that a particular interpretation and related expectations in various positioned practices turn into mutually self-fulfilling prophecies also the cognitive process becomes self-reinforcing. In other words, actors act on the basis of shared expectations, and this tends to reproduce a sufficient number of those expectations, thus giving evidence for a generalised world view and reinforcing it.

In this process, actors tend to lock themselves in particular and increasingly narrow epistemic positions, which then become constitutive of their mode of being and agency, as well as their ethical and political identities. Under these circumstances, anything perceived as threatening to the basic values, as seen from this vantage point, may be securitised; and anyone disagreeing with the direction, may be constructed as a potential or actual enemy. (See Patomäki, 2008, 26-31, 128-30) The logic of securitisation in this sense boosts tendencies towards "inverted totalitarianism". According to a American political theorist Sheldon Wolin (2010), who has coined the term, this is what has already, to a large degree, happened in the US.

These developments will not stay at home but spread across the across the globalising world, also through international law. New constitutionalism (Gill, 1992, 2008) is a political and legal strategy that has been actively pushed by the US and EU to disconnect economic policies from democratic accountability and will-formation by means international treaties and institutions, often framed in terms of "free trade". Many international treaties and institutions are more difficult to revise than typical national constitutions, thus providing protection against political changes.

There are two main reasons why these developments would increase the likelihood of major economic and political shocks. First, they strengthen the relative power of those actors who are predisposed to disregarding those rational economic policies needed to ensure full employment and steady economic developments. Michał Kalecki (1943) famously argued that the business leaders and capitalists wish to create circumstances in which policies depend on their confidence; the scope of free markets are maximised; and hierarchical power-relations in the workplace are ensured. If and when they get their will through, we should expect a slackening growth-trend; and within it unequal growth, concentration of capital and resources, oligopolization or monopolization of world markets, and increasingly large oscillations with perhaps increasing amplitude, not least in finance. Thereby the likelihood of major *economic* crises and shocks must increase.

Second, de-democratisation, securitisation, enemy-construction and inverted totalitarianism are likely to generate and aggravate antagonistic relations with different others. For instance, the "what is good for us must be good for you" attitude can mean imperial involvement in the developments of those regions that are lagging or falling behind or actively resisting the prevailing direction. However, as Piketty stresses, when countries face the increasingly adverse consequences of free-market globalisation, some of them can also respond by turning to nationalism and protectionism – and to measures which are unacceptable for those who defend free market globalisation and its quasi-constitutional guarantees. These kinds of juxtapositions can all too easily pave way for the escalation of conflicts, thus increasing the likelihood of major *political* shocks, even a new world war.

Global capital tax: from utopia to a feasible strategy of peaceful changes

If Piketty's detailed diagnosis and my sketchy analysis of the prevailing trends is even roughly on the mark, the world seems to be heading towards a global disaster. From this perspective it may seem slightly worrying that Piketty presents his main cure, a global capital tax, as "utopian". Does this mean that there is no feasible alternative at this point, that the best we can do is to hope that we will survive the inevitable global disaster, and that in its aftermath we will see, once again, a jump to a more egalitarian society? What then? Will the cycle continue also after this round?

Piketty himself is far from hopeless, although he repeatedly warns about the likely dire consequences of the on-going developments:

> Admittedly, a global tax on capital would require a very high and no doubt unrealistic level of international cooperation. But countries wishing to move in this direction could very well do so incrementally, starting with at the regional level (in Europe, for instance). Unless something like this happens, a defensive reaction of a nationalist stripe would very likely occur. (pp. 515-6)

Rather optimistically, Piketty praises the recent progress of the proposed financial transaction tax (FTT) in Europe, arguing that "it could become one of the first truly European taxes" (p. 562). Unfortunately the situation is not this simple. During the global financial crisis, the EU leaders tried to push the financial transaction tax onto the G20 agenda. At the G20 summit in Cannes in November 2011 several countries joined with the United States in opposing the idea. In September 2011, the Commission made a proposal that such a tax should be realised in the EU, that such a tax is necessary both from an economic perspective and in the interests of fairness.

The September 2011 proposal by the Commission comes close to Piketty's idea of "one of the first truly European taxes" (although falling short of the global idealism of the so called Tobin tax movement). However, as the UK and even some Eurozone countries have continued to reject the FTT, a part of the Eurozone has decided to take the lead as an area of enhanced cooperation. This is a procedure where at last nine member states can agree on some measures to further integration.

In June 2012, it was concluded that the proposal for a Financial Transaction Tax will not be adopted by the Council within a reasonable period, and that enhanced cooperation is the only way to proceed. The UK challenged even this idea in the European Court of Justice. Although the ECJ dismissed the United Kingdom's action against the authorization of the use of enhanced cooperation in April 2014, the current proposal seems more like an agreement to jointly implement national taxes than a European tax. The way it will be implemented remains to be seen.

As Piketty says, the FTT is far less significant than a tax on capital or corporate profits (p. 562). The fate of Commission's FTT scheme is thus not very promising in view of Piketty's more ambitious proposals. The most feasible path may not be to start with separate regional taxes, however. The first problem with this approach is that a realistic analysis of power-relations and the state of democracy in the EU indicates that the 'wishes' of business leaders and capitalists in the Kaleckian sense have become entrenched also in the prevailing EU culture, vested interests and institutional arrangements, thus making changes difficult. Even if some of the member-states may conclude that progressive changes are needed, and even when some rethinking and learning occurs within Commission, the cumbersome structure of the Union makes it exceedingly difficult to implement new ideas. (Patomäki, forthcoming)

The second problem is that the EU is for many purposes comparable to some of the largest states in the world economy. As much as a EU-wide capital tax could do in Europe, from a global perspective it would be no more than a "national" solution –potentially vulnerable to the exit options provided by economic globalisation.

There is a better way, however. The enhanced cooperation procedure can be globalised. Any coalition of willing countries can start of a system of global taxation by negotiating a treaty, which establishes a system of taxation and a new organisation to govern the tax and some of its revenues. The system can be designed in such a way as to encourage outsiders to join it. If the idea is to regain democratic control over the globalized financial capitalism, the tax system has to be democratic. A global tax organisation could combine, in a novel way, principles of inter-state democracy (council of ministers), representative democracy (representatives of national parliaments in its democratic assembly) and participatory democracy (civil society representatives in its democratic assembly). This would make it open to different points of view; capable of reacting rapidly to unexpected changes; and qualified to assume new tasks if needed. Alternatively, a directly elected body is possible as well.

Towards global Keynesian economic policies

Is it really true that a single global tax would suffice to cure the ills of capitalist market economy? In chapter sixteen, "The Question of Public Debt" (pp. 540-70), Piketty discusses various questions of European and world economic policy, such as what the role of the central bank should be; whether inflation could be a solution to public debt and the need for redistribution; what kind of common European budget is needed and how it should organised democratically; and what should we do to control climate change. None of these questions can be reduced to mere income or wealth redistribution. Piketty, too, seems to agree that more is needed than a mere tax.

Nonetheless, Piketty's overall argument is geared towards the promise that once wealth is redistributed through the global tax on capital, and via institutions of the social state, the capitalist market economy should work just fine. This excludes for instance questions related to Keynesian demand management. Piketty appears to explain the rate of growth, and especially the current slow growth period in Europe and elsewhere in the OECD world, in terms of (i) normal rate of growth and (ii) a global convergence process in which emerging countries are catching up (pp. 72-109). "The history of the past two centuries makes it highly unlikely that per capita output in the advanced countries will grow at the rate above 1.5 percent" (p. 95). Piketty also hints at the possibility that the most recent waves of innovation may have a much lower growth potential than earlier waves (p. 94); and notes that while in the service sector productivity growth has been slow or non-existent, nowadays some 70-80% of the workforce in the developed world works in this sector (p. 90).

These are all plausible hypotheses and possible partial explanations, but they exclude Keynesian concerns about aggregate efficient demand, nationally, regionally and globally. The lack of efficient demand is the source of many contradictions in global political economy. For instance, states may be committed to improving their current account balance by enhancing their "competitiveness". The problem is that current account deficits and surpluses cancel out and, moreover, attempts to increase cost competitiveness through internal devaluation tend to prove contradictory due to decreasing effective demand. Moreover, in contrast to a positive catch-up processes that almost automatically even out developments across the planet, post-Keynesian economists have stressed the equal importance of self-reinforcing tendencies towards uneven and contradictory trajectories of developments (e.g. Kaldor, 1972, 1996).

These and other global political economy contradictions can be resolved by means of collective actions and by building more adequate common institutions (Patomäki, 2013, pp. 164-93). For instance, it is possible to build a mechanism by means of which world trade surpluses and deficits are automatically balanced through tax-and-transfer along the lines of the Keynes-Davidson plan and a global central bank that can issue reserve money. These kinds of institutions can be characterised as global Keynesian, framing questions of public economic policy and politics on the world economic scale. Global Keynesianism aims to regulate global interdependencies to produce stable and high levels of growth, employment, and welfare for everyone and everywhere, simultaneously. To put it in Pikettian terms, a well-working global Keynesian system could make a big difference in terms of whether $r > g$ or $g > r$.

A well-working global Keynesian system would require several new institutions. Reforms and evolutionary changes may be piecemeal, and proceed through coalitions of the willing, but they are not necessarily separate. Processes are connected and interwoven in various ways. Hence, it may become increasingly evident to many that global warming requires global Keynesian responses, such as a democratically organised global greenhouse gas tax and world public investments, rather than a cap-and-trade system premised on the market. Accumulation of relatively small changes in specific areas may lead to ruptures and sudden transformations in others, as issues and processes are often linked.

Using this insight, a series of feasible political economy reforms can also be forged into a strategy of a democratic global Keynesian transformation. After a critical point, changes towards a particular direction can become mutually reinforcing and this may also be their deliberate purpose. Thereby, in the best-case scenario, one world-historical developmental path would come to be replaced by another.

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Author contact: heikki.patomaki@helsinki.fi

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