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Piketty shines a light through capital's fog

Keith Breckenridge

THOMAS Piketty will visit South Africa this month. His visit lays down an awkward deadline for the thousands of you who have bought his 700-page magnum opus. And it poses an interesting question: what does this global history of wealth and inequality, focused on France, have to say to South Africans, citizens of the country routinely described as the most unequal in the world? The short answer: a great deal.

There is much in Piketty's work about how to do economic research. History is his guide, but he is also intrigued by the accuracy of literary accounts of private income and private capital. His book circles back repeatedly to the insights Austen and Balzac offered of the importance of inherited wealth, of rentier capitalism, in the 19th century.

His argument works in two parts. First, growth under capitalism is lower than most people expect, at around 1% a year. And, second, under these (normal) conditions, the returns on invested capital tend to be significantly higher than the rate of growth. The historically accumulated portion of national income from capital grows more rapidly than the economy as a whole. In the absence of significant external shocks or state intervention, those with capital tend to earn an increasing portion of the income available.

What, then, of the age of prosperity and growth in Europe and America (and even South Africa) between 1945 and 1973, the sunny skies and Chevrolet era?

Here Piketty has bad news. It was the world wars, the global bankruptcies of the '30s, the confiscatory taxation and hyperinflation of the '40s, that wiped the slate of inherited wealth clean in Europe and the US, leaving those with earned incomes at an advantage. Here South Africa is an exception, for, while the world wars increased state spending, the Depression (and the crisis in 1932 that prompted the country to leave the gold standard) had the opposite effects here than they had in the north, strengthening the value of shareholdings in the gold mines and undermining the value of earned incomes. Much of his acclaimed *Capital in the Twenty-First Century* is an explanation of why the exceptions — especially from 1914 to 1970 in Europe and the US — prove his general rule: that, in the absence of these shocks, inequality will increase.

Events since the early '70s have made these forms of income inequality worse. Stupendous increases in the costs of elite education have been important. And the general decline in the tax rates applied to the highest earners, as Piketty shows, have encouraged companies to reward their best-paid workers in ways that would have made little sense when the state gobbled up the bulk of the largest incomes. He tracks the rise of a new patrimonial middle class — those between the bottom 50% and the top 1% — who now, like the very rich, also have a good chance of benefiting from inherited wealth, usually their parents' pensions or property. Yet these transfers of inherited wealth only take place late in life, because one of the most important changes after 1970 has been the growth in the capital holdings of the ageing baby boomers. In a very important sense, the global capital stock, and the income derived from it, now lie in the hands of those who are over 70.

What does this mean for us? Much of his work is concerned to show the old instruments of the welfare state — of subsidised education, healthcare, unemployment insurance and trade unions — were effective measures between 1930 and 1970 for slowing the accumulation of incomes at the top. These may be important arguments in our context, where something like welfare fatigue seems to be the norm. More importantly, however — here and around the world — what Piketty shows is that, in contrast to the detailed information credit agencies, banks and revenue services gather about salary earners, those who derive incomes from capital live in an informational void. Their assets are frequently held off-shore and their incomes largely untaxed and secret. In many countries, such as India and Russia, this informational fog is growing larger and darker around a new patrimonial class. And it is here that Piketty's most important recommendations lie. He suggests states should enforce a small and shared registration tax on all capital assets as a means of dissolving this fog, providing detailed and accurate information about the size and distribution of capital assets, wherever they are held. South Africans have special reason to endorse this proposal.

● *Breckenridge is a professor at the Wits Institute for Social and Economic Research*