

THE RISING TIDE

The gulf between rich and poor worldwide is growing ever wider, which is why LSE launched the International Inequalities Institute earlier this year. Co-director **Mike Savage** sat down with renowned economist **Thomas Piketty** to get his take on what has become one of the key issues of our time.

Rising inequalities, both within and between nations, have become one of the defining issues of the early 21st century, with numerous actors from Oxfam to the International Monetary Fund and World Economic Forum highlighting a concern about the growing gulf between the richest and poorest in society. The International Inequalities Institute (III) has been created to explore why inequalities are escalating across the world and to develop critical tools to address these challenges.

The III was delighted to announce the appointment of celebrated economist Thomas Piketty as Centennial Professor earlier this year. His recent book, *Capital in the 21st Century*, has sold more copies than any other work of social science in recent decades and has acted as a catalyst for further research and debate on this key theme.

In July 2015, I visited Paris to talk to Professor Piketty about his work. A doctoral student in the Economics Department between 1991 and 1993, he made it clear to me that his time at LSE was formative for him: “LSE for me was great. What attracted me to the III was, firstly, my strong attachment to LSE, but also the intense interdisciplinary nature of the Institute. I really believe that to do good work on inequality we need an interdisciplinary approach and I think LSE is probably one of the best places in the world to do that.”

Mike Savage: *Your book has generated lots of debate over the last year and a half...*

Thomas Piketty: What I really tried to do is develop a multi-dimensional approach to capital ownership and wealth – that’s why the book is so long! I show that the history of real-estate assets is different from the history of agricultural land, which is different from public debt, from the history of slave capital, from foreign investment... And all these different forms of assets



Thomas Piketty speaking at the launch of the LSE International Inequalities Institute in May 2015

involve specific compromise, specific institutional and legal forces, specific bargaining between owners and workers. To me that’s absolutely central to understand what’s going on, and is a big part of what’s happening in many countries at the moment.

MS: *Inequality is such a huge topic. What are the main issues you’d like to tackle in the next few years?*

TP: One impact of the book was that it created stronger pressure on the governments in Brazil, Korea, Mexico, etc to answer why they weren’t in the database, so it’s now easier to access some of the historical and fiscal data in a number of emerging countries. So one important area for the future is extending the database.

MS: *So it’s keeping the same models and approaches but extending the range?*

TP: You know, I’m not really a model-driven person. I think the history of inequality is always country-specific. Each country is trying to deal with inequality in its own way and address the basic problem of social equality with its own particularities. The history of inequality in South Africa is not the same as in France, which is

not the same as in Brazil, for example. So it’s quite obvious that there’s no universal model.

MS: *On inheritance, you raise the issue that how people themselves understand these issues is also important. What strikes me is that we don’t know much about inheritance in the UK. You show that the numbers of people who can expect to inherit a lot is quite high, but I think a lot of people think that their inheritance will get spent looking after old people and may not actually be transferred to them. So it seems to me that trying to pin together people’s subjective awareness as well could be a really important angle to take.*

TP: Yes, I agree. I think we are seeing a dual return of inheritance, a form of wealth transmission which we associate with the old times, together with more modern forms of inequality such as unequal access to skills, universities, etc. So the future will be a combination of these old forms of inequality with new forms. The return of inheritance today involves a larger group of people who will inherit medium to high returns and a far smaller group that will enjoy really high inheritance. This larger group don’t inherit enough to stop working,

but will still get more than what half the population is going to make in their whole life on minimum wage.

MS: *So we need to look beyond the richest 1 per cent?*

TP: Exactly. We need to look at these broad groups, and in a way that is more difficult to regulate. With the 1 per cent you have the illusion or the feeling that you can get rid of them, but when we’re talking about inequality between 10 per cent of the population and 50 per cent, you’re not going to cut the head off 10 per cent of the population.

MS: *You argue that we are seeing a return of the patrimonial society and older extremes of wealth inequality alongside new forms of inequality. I think we need to be asking what kind of new elites are forming, and how similar or how different are they from the old aristocratic elite?*

TP: I guess one of the main differences is that the new elite in a way want to have it all. They want to have the wealth and the merit, and they want to have the wealth and the virtue. I guess the rich have always been seeking virtue, but the new elite is unruly, violent in their way of assessing that basically they are where they are because they have the merit and the poor are where they are because they have low productivity and little merit or effort.

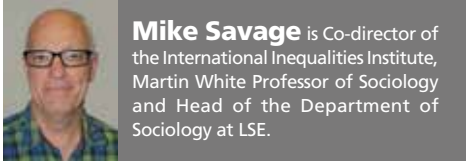
MS: *One of the readings of your account is that inequalities in the labour market, inequalities in income are reasonable because they do affect the way the labour market works and the market for skills. It’s when issues of inheritance and wealth become important, then the meritocratic idea sort of breaks down. Would that be fair do you think?*

TP: Well that’s what the winners of the game always try to pretend. Now, is it justified? I think popular discourse about inequality is always partly self-serving and partly containing some interesting elements of truth, or at least of experience. In the book this is what I call “meritocratic extremism” – it’s a very extremist way of presenting labour market outcomes as being fair.

MS: *Where do you stand on the argument that globalisation requires us to develop new sorts of research repertoires that go beyond the nation-state or the national level?*

TP: Yes, should we look just at the nation-state or should we look at the inequality in the cities of London, Paris, New York, or should we look wider in Europe or the Middle East? Consider the case of Europe. A big part of the capital stock in many Eastern European countries in effect is owned by either German owners or owners from different countries, so if you look at inequality, looking at Slovakia, Croatia, Hungary, Poland

together with Germany, you can have a different picture of inequality than if you just take Germany or Austria or France as the basic unit. So changing the geographical scale at which we look at these issues is definitely something I’d like to look at more. ■



This is an edited version of the conversation. A full transcript can be found at lse.ac.uk/InternationalInequalities/pdf/III-Working-Paper-1-Piketty.pdf

You can follow the work of the International Inequalities Institute at lse.ac.uk/InternationalInequalities/Home.aspx and on Twitter at @LSEInequalities



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