



# THE CAIRO REVIEW INTERVIEW

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## CRITIQUING CAPITALISM

*French economist Thomas Piketty discusses the dangers of economic inequality, definitions of poverty, and demands for financial transparency*

An unlikely, seven-hundred-page bestseller, *Capital in the Twenty-First Century* delivers an explosive argument against our global economic system. Its publication in 2013 made French economist **Thomas Piketty** an international celebrity—an unlikely achievement for academics who labor over sets of data. Piketty's big idea—that the return on investment outstrips the rate of economic growth—seemed to offer an elegant answer to why the “1 percent” have amassed such power and wealth in recent decades.

Piketty's provocative conclusion is that we are working our way backwards in time. If current trends in the growing concentration of wealth continue, our societies risk reverting to a kind of Dickensian “patrimonial capitalism” where wealth, and privileges like education and property that come with it, will rest overwhelmingly with the elite few. Piketty based his analysis on three centuries of income and wealth distribution starting with the Industrial Revolution. Some economists, detecting an unpleasant whiff of Marxism, have criticized Piketty's findings as ideologically motivated; others have objected that his policy prescriptions, like a global wealth tax, are nowhere near radical enough and would only paper over a deeply rotten system.

Controversy has fueled more interest in what Piketty has to say. On his recent visit to Egypt, for the launch of *Capital's* Arabic translation, he delivered a lecture to a standing-room-only audience at the American University in Cairo. *Cairo Review* Associate Editor **Amir-Hussein Radjy** interviewed Piketty in Cairo on June 2, 2016.

**CAIRO REVIEW:** *In 2015, the global rate of absolute poverty was predicted to drop below 10 percent for the first time. Given this statistic, should we readjust our definition of inequality? And what could inequality mean in a world with, theoretically, no absolute poverty?*

**THOMAS PIKETTY:** Poverty is a relative notion. The notion of poverty we use in these statistics we keep changing over time. Look, to me, we have to adopt a very pragmatic

◁ **Thomas Piketty,**  
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viewpoint on this issue. We want to do the best we can to improve the life opportunities and the situation of those in the world, and in each country, that have the worst situation. So inequality is not a problem as long as it is in the interests of the poorest group, but on the contrary, as long as we can rearrange our policy and our organization and our education system and our tax system, so as to do even better, and to reduce poverty even more, and to increase living conditions for the poorest groups even more, then we should do it. So we should redefine what we mean by poverty and our objective, depending on what target we can achieve. But we should not be satisfied with the fact that people have just more than one dollar per day, to give you a short answer. I think we can do better than that.

**CAIRO REVIEW:** *You argue, famously, that growing wealth concentrations are inherent to capitalism. Yet one of your suggested main policy solutions of a global wealth tax seems unlikely to happen, at least anytime soon. Is meaningful reform actually possible?*

**THOMAS PIKETTY:** There are many different ways to organize capitalism. If you take the European Union, you have twenty-eight countries, so you have twenty-eight different ways to organize capitalism. If you look at Sweden or Denmark, at one extreme, you have 50 percent of the GDP in tax revenue and public services, and these are the richest countries in the European Union.

If you take the poorest countries in the European Union, like Bulgaria or Romania, they have very small government, 20 percent of GDP in tax revenue. So if it was enough to have a small government to be rich, then Romania and Bulgaria would be richer than Sweden and Denmark. What you can infer from this—it's not that you always want a bigger government—depends on what you do with the money. If you use the public revenue to have efficient public services, to invest in universities, to invest in a system like Denmark and Sweden, then I think a big government is certainly not bad. In the case of France, where the public services, the public sector, are not as well organized as in Sweden, or Denmark, so then I think a big government is not necessarily good—it depends. If you have a big government, and it's completely corrupt, then of course that's very bad. So it all depends.

The evidence we have from history is that there is no country that has become rich with minimal government. This just does not exist. If you take rich countries today, whether in the United States, in Europe, or in Japan, the size of their government is between 30 and 50 percent of GDP in tax revenue. There's no country that has become rich with a government that has 10 percent of GDP. When we are taking India, or sub-Saharan Africa, and saying you should just have minimal government and everything should work fine, you know, this is ideology because this is not a recipe that rich countries would apply to themselves.

Regarding global wealth tax: Can we do better than the current situation in terms of international tax coordination? Yes, I think we can do better. I think when you look at the Panama Papers [some 11.5 million documents from a Panamanian legal firm leaked to journalists revealing how the world's rich and influential use offshore entities to avoid paying taxes and in some cases to engage in criminal activities], etc., we could have a much better exchange of information. Does this mean we are going to go all the way to a global wealth tax? No, certainly not. But in between there's a lot of progress that can be made.

And yes, I think we will go in this direction, because there is a strong citizen demand for this. The tax injustice, the feeling that many members of the middle class have that the richest people pay less than they do, I think that this is something that's really threatening the basic social fabric.

The government in Greece or France is another issue. We could talk a lot about it. But I think it's important to take a long-run historical perspective than this, and again, understand that there are very different forms of capitalism. Extreme laissez-faire capitalism is certainly not the most successful in history.

**CAIRO REVIEW:** *Capital today, within the global system, enjoys more freedom of movement than people. Is that a justifiable policy?*

**THOMAS PIKETTY:** I think it's difficult to justify. I think capital mobility should come with more transparency. I mean, it's okay to have capital mobility as long as you know who owns what from where. But if capital mobility means that you have no information on who owns your company and your real estate, because it all goes through financial opacity and tax havens etc., then I think that this cannot work. So I am in favor of the mobility of capital and labor, but I think this has to come with more transparency and more fiscal justice.

**CAIRO REVIEW:** *The Panama Papers again showed a lack of transparency about private wealth and how this clearly abets corruption. Why has the international community been unable to resolve this problem?*

**THOMAS PIKETTY:** I think it's a lack of political will. I think that the people who are benefiting from financial opacity have been more efficient at lobbying governments in the United States and Europe to keep the same system. But this doesn't mean that this will stay like that forever. There are different possible political trajectories. I don't believe in deterministic trajectories; I think political mobilization can make a difference. But so far it has not made a difference.

I think on this issue of tax havens and financial transparencies there are two mistakes that we can make. One mistake is some people say, "Oh, okay, we have already

solved the problem, this is behind us,” and this is wrong. This is a big mistake to say that. And the other mistake is: “Oh, we cannot do anything, it’s impossible.” And sometimes, those same people say both at the same time, a complete contradiction. The reality is in between. We can make a difference but we have to be really precise about what we’re asking.

I think the kind of global registry for cross-border financial assets that I am proposing in my book is realistic. At least the European Union and the United States, which together make almost half the world GDP, and an even bigger share of financial assets, could have this automatic exchange of information between them so that we know who owns what financial assets. This would also be useful for doing business. It’s useful to have transparency, also for the interest of doing business.

**CAIRO REVIEW:** *Absolutely. But it’s fundamental to democracy, too.*

**THOMAS PIKETTY:** Yes, yes.

**CAIRO REVIEW:** *In France, in Europe, in the United States, I think it’s fair to say across the West, it seems democracy is in crisis. Is bad economic policy, decades of neo-liberal policies, primarily to blame?*

**THOMAS PIKETTY:** Yes. In the case of Europe, I think we need much closer political union, in particular within eurozone countries. If you want to have a common currency, then you also need to have a common corporate tax, you need to have a common public debt, you need to have a eurozone parliament which can vote a common corporate tax, which can vote common financial sanctions against tax havens. It’s because we didn’t do this reform we still have nineteen different interest rates on our public debt, on which financial markets can speculate, and nineteen different corporate taxes in competition with one another.

The consequence is that we tried to reduce our deficits too fast in 2011, 2012, 2013. We have created, we have transformed a financial crisis which initially came from the U.S. private financial sector into a European public debt crisis, in spite of the fact that initially there was no more public debt in Europe than in the U.S. or Japan or Britain. So these are really bad policies, and yes, I hope we can do better in the future.

But I’m very concerned about the rise of nationalism and anti-migrant feelings, anti-Muslim feelings—certainly in a number of European countries. To me, this is the main danger with inequality, that if you don’t address it in a peaceful way, then you have all this temptation to go for politics of hate, politics of blaming specific groups. That’s a big danger.



**CAIRO REVIEW:** *There's a widespread feeling that Europe has failed to economically and socially integrate immigrants. Yet Europe has an aging population. Do migrants represent an opportunity for boosting chronically low growth?*

**THOMAS PIKETTY:** Until 2008, the inflow of migrants was very large and unemployment was actually declining. So everything was working well in a way, and integration was working well, and this was good for everybody, both for migrants and for Europe, because in particular in countries like Germany, but also in other countries, you have a decline in population which in the very long run is, of course, a catastrophe. So this was working.

The problem is that because of bad macroeconomic policies in Europe after the crisis, too much austerity, there was a big reduction in growth and a big increase in unemployment, and this happened in a way at the worst time, around 2010–2012, which is just the time when because of Syria, because of the crisis in the Middle East, there would have been a need for actually more refugees, and more migrants coming into Europe. So this has been really a disaster because right at a time when there was a need to open the frontiers even more, in fact just the opposite happened, and Europe became, you know, more xenophobic and more closed to migrants.

But the good news is, it could be different. I think if there was a different policy, a different macroeconomic policy in Europe, we could have more growth, more job creation, and at the same time Europe could be more open to migrants.

**CAIRO REVIEW:** *The refugee crisis seems to underline another systemic question. Is profit or human welfare the primary goal of economic activity? Are the two compatible?*

**THOMAS PIKETTY:** The primary goal is clearly human welfare. Profit maximization in some cases, if it is well regulated and limited by the public policy, by democratic institutions, by the tax system, it can be a tool in order to increase innovation and in the end to serve human welfare. But this can work only if we have strong democratic institutions which put market forces and innovation into the common interests. We cannot take this as a given, this is something which needs to be checked very carefully.

**CAIRO REVIEW:** *Should we be concerned that technology is creating new forms of social and economic inequality, and can this be prevented?*

**THOMAS PIKETTY:** This is a risk, and it can be prevented, again, by adequate public policy in a number of domains. Certainly access to skills, access to education, is absolutely key, and so if you have a well-funded public education system with open access for children, for students, for poor backgrounds, then this is of course going to work much better than a very unequal education or social system with a very complicated access for people from socially disadvantaged backgrounds.

Now education is not enough, it is also the organization of production, the labor market institutions, the tax system, the regulation, all determine to what extent technology will benefit broad segments of the population or not.

**CAIRO REVIEW:** *Following Brexit, the European Union and the eurozone, for that matter, have entered deeper into crisis. Would a more democratic union in Europe really create a more just economic policy and help stop the wave of euroscepticism?*

**THOMAS PIKETTY:** I think we have to rethink our political institutions in Europe. I think maybe one of the mistakes in European integration is that we should rely more on our national parliaments in order to build a new European parliamentary chamber. You know we have a European parliament, but it is completely separate from the national parliaments, so I think we should probably actually have two chambers: there should be the European parliament as it is today, that is elected separately and directly by the citizens of Europe, and then we should have a second chamber, which would be the great European chamber, which would be made up of members of national parliaments which would be in proportion to each countries' population, say, in the eurozone, and in proportion in the different political groups in the national countries. I think this could make a big difference, because you know otherwise it's very tempting for the national parliament members, of course in Britain in Westminster, but also in Paris or Berlin, just to complain about Europe, and not to feel part of Europe and be really invested in European union. I think it is important if we want to build a strong political union, and if we want to build some parliamentary sovereignty and democratic sovereignty at the level of Europe, this must be built upon national parliamentary sovereignty rather than against them.

And in the end, if we want to have a common corporate tax in the eurozone, if we want to have a common policy to the public debt and the restructuring of public debt, all these kinds of policies need the approval of national parliaments. You know the Bundestag needs to agree, the French Assemblée Nationale has to agree. Instead of having different veto powers for each national parliament, which is the reason why it is so difficult to take decisions and agree, to take decisions on common corporate tax, we want to put these national parliaments in front of the responsibility, and allow them to sit with one another, and take decisions on a majority basis, maybe with qualified majority rules. In any case, it will be better than the sequence of national veto power for each national parliament which we have today.

So this can seem like technical issues, but in fact I think it's constitutional design issues that are really important, and I think the problem is not the people, but the institutions. With better institutions we could have more solidarity, more and better policies. It's not just that the people are selfish and there's nothing you can do with

them. I mean sometimes, people are selfish of course, but I think although people are good, the problem is the institutions which make them behave badly or in an inefficient manner.

**CAIRO REVIEW:** *You have said that the Middle East suffers from one of, if not the highest, levels of socioeconomic inequality worldwide. What are the causes of this?*

**THOMAS PIKETTY:** I think the Middle East is probably the most unequal region in the world, and this comes from basically the extreme concentration of oil resources in small territories with sometimes very limited population, and so a few hundred kilometers away you can have a very poor country, like Egypt, or to some extent Iraq or Syria, and then a few hundred kilometers away you have Saudi Arabia, the oil emirates, or Qatar, with the highest per capita GDP level in the world. I think this is really striking to see in the end if you take inequality for the Middle East as a rule, you find an inequality level that is even higher than in countries like Brazil, South Africa. In a way oil has created a level of inequality that is even higher than apartheid in South Africa, or the legacy of slavery in a country like Brazil. This shows how far the consequences of oil and arbitrary frontiers, to some extent, how far this can go.

The solution is complicated but I think part of the solution is regional political integration. And of course the Middle East is not going to become one country, but I think if there was, there could be a parliament one day at the level of the Middle East or the Arab League, or some broader set of countries, which could organize solidarity and some form of regional investment funds and financial solidarity. I mean, it will never be complete, and certainly the European Union is not a perfect model, and it's not always working well, but at least you have regional redistribution and regional funds, you don't need to go and beg Saudi Arabia and Qatar every other year for a little bit more money. I think one day this will have to be put in place. At least it's worth thinking about this.