

A Pirate reads Piketty, part 3: The Rich Shall Inherit The Earth [1]



Written by George Walkden on 13 August, 2015 - 19:49

One of the refreshing things about Piketty's book - at least for a humanities academic like me - is that he uses literary sources, particularly the novels of Austen and Balzac, as evidence of attitudes to wealth in the nineteenth century. His favourite episode is from Balzac's *Père Goriot*, in which the young protagonist Rastignac is faced with a dilemma: marry Victorine and inherit a vast fortune, or work his way to the top? The cynical Vautrin comes to the rescue with a timely lesson, explaining to young Rastignac that even at the height of a career in law - for which he would have to fight hard and sacrifice much - he would still earn far less than he could simply by marrying into a wealthy family.

A depressing thought for anyone with the slightest attachment to meritocracy. But that sort of society is dead and gone. Isn't it?

Inheritance: back with a vengeance

Far from it. Inherited capital took a nosedive in the early-to-mid 20th century, due to two world wars and associated events, including population growth; however, as Piketty shows in detail, it is making a comeback. We've already seen that [the twentieth century was exceptional](#) [2] economically. At the start of the twenty-first century, inheritance is back with a vengeance.

Part Three of the book is its beating heart. It lays out exactly what has happened to inequality in the West, and what is likely to happen to it in the future if the same trends continue. I focus on inheritance because it's not just a bugbear of the hard left: for the free market to lead to the American Dream, it must be possible for someone to start off with nothing and work their way into the top centile of earners. Heavy inheritance of capital entrenches the class hierarchy, but also renders the hard-working and gifted incapable of bettering themselves financially. It's a hangover from hereditary feudalism, with no place in modern capitalist thought. And yet it's making a comeback. Why?

The inequality that explains inequality

Piketty argues that the rate of return on capital, r , will always tend to be greater than the growth rate of the economy, g . This inequality, $r > g$, is not a necessary truth but a historical fact (pp353-4), holding (before tax) in all known societies throughout history. If $r > g$, then capital will always increase in value at a faster rate than the economy as a whole. That means that unless a large chunk of the income from capital is used up during the lifespan (more than $r - g$), or the capital itself is used up, each generation will stand to inherit more than the previous one. The idea that people use up their wealth in their old age was made popular by

Modigliani's "life-cycle" theory, a view which Piketty politely debunks: it "cannot explain the observed facts - to put it mildly" (p391). Since the poorest 50% of the population tend to have approximately no capital whatsoever, this mechanism of inheritance will lead to spiralling inequality.

As a result, since 1970, "inheritance [has] regained an importance not seen since the nineteenth century" (p406). As mentioned above, that's bad news for everyone. Inequality (at some level) might be justifiable, in and of itself, for reasons of meritocracy, but inheritance is the bane of meritocracy. And inequality of capital ownership naturally tends to lead to an increased role for inheritance.

What is to be done?

Part Three mainly lays out the problem, but Piketty does hint at a solution: a global progressive tax on capital. ("Progressive" here is used not in the sense of trendiness or King Crimson, but in the sense of a tax that packs more of a punch the more capital is owned.) In the next part I'll no doubt be discussing this more.

Aside from the demonstration that inequality is likely to rise unless action is taken, which is the key message of Part Three, a few other thoughts are important from a Pirate perspective. The first concerns the relationship between democracy and the economy, on which Piketty is unequivocal: "Economic and technological rationality at times has nothing to do with democratic rationality. The former stems from the Enlightenment, and people have all too commonly assumed that the latter would somehow naturally derive from it, as if by magic. But real democracy and social justice require specific institutions of their own, not just those of the market, and not just parliaments and other formal democratic institutions." (p424)

The second point is that the pessimistic predictions about the rise of inequality are only valid if the political and social order, roughly speaking, remains the same as it is now. Piketty states that the main shortcoming of his predictive model is "that it relies on the assumption that no significant political reaction will alter the course of capitalism and financial globalization over the course of the next two centuries. Given the tumultuous history of the past century, this is a dubious and to my mind not very plausible hypothesis, precisely because its inegalitarian consequences would be considerable and would probably not be tolerated indefinitely." (p358)

Move over, Russell Brand. There's a call to action if ever I heard one.

This part has been considerably less Piratey and more Piketty than the previous ones, because I felt it was important to give prominence to Piketty's core arguments. I promise that in the last two parts I'll be returning to the relationship between these and Pirate thought.

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