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A Pirate reads Piketty, part 4: Transparency [1]

Written by George Walkden on 1 September, 2015 - 00:40

Transparency and its sister, the flip side of the coin, privacy, are at the heart of Pirate politics. The first of the seven principles on which the PPUK constitution [2] is founded states that society is built on the sharing of knowledge (and we've already seen [3] how important that is in reducing inequality, according to Piketty). The third principle makes this more explicit with respect to the role of government: "Everyone should have a say in the structure and processes of governance and the right to know what is done on their behalf".

Piketty has argued that inequality is in danger of spiralling out of control [4], "and that ought to worry even the most fervent champions of the self-regulated market" (p572). The solution that he advocates as the only realistic one is a progressive annual tax on capital, whereby the owners of the greatest fortunes are taxed at the highest rates. In part 4 of his book he lays out the case for such a tax, and the practical obstacles it faces. Of course, Piketty's conclusions, and the evidence on which he bases them, can be challenged. Since academic economics is only just beginning to take data seriously, and the historical record contains many gaps, this is not surprising, and Piketty himself stresses the need for them to be questioned and debated (p571). In the final part of this blog series I'll be taking into account some of the responses and reactions to the book. Still, as a layperson, I found his argumentation to be compelling.

Where does transparency come in, then? The answer is that it's a crucial prerequisite for any tax on capital.

A thick statistical fog

We actually have very little idea of the size of the fortunes of the wealthiest. As Piketty puts it (p519), "it is very difficult to have a rational debate about the great challenges facing the world today - the future of the social state, the cost of the transition to new sources of energy, state-building in the developing world, and so on - because the global distribution of wealth remains so opaque." The current sources of public information on wealth are problematic entities like the Forbes rich list, whose evidence base and methodology are highly unclear. One indication that something is seriously wrong with the financial information we possess is that the world's balance sheet doesn't add up: "Earth seems to be perpetually indebted to Mars" (p519). The solution is clear and simple to implement: banking data should be transmitted to the tax authorities as standard, across the world.

Is there a technical obstacle to doing so? I've argued in an earlier post [5] that we shouldn't let our sense of what is possible blind us to what is desirable: one can imagine a world in which automatic transmission of banking data is highly desirable, but unfeasible. We're not living in that world - at least not according to Piketty. For a start, this kind of transmission of information *already* takes place in the United States, France and Germany. Convincing tax havens like the Cayman Islands and Switzerland to play ball would be difficult - as Piketty acknowledges (p521) - but there's no purely technical argument against automated transmission of banking information. There is a potential privacy concern, sometimes invoked by the tax havens: the worry that governments would misuse the information. Piketty responds to that by noting that the concern applies equally well to "those incautious enough to keep their money in the country where they pay taxes" (p521), e.g. the US, France or Germany. One way of getting the tax havens to play ball involves a stick rather than a carrot: sanctions on exports could be imposed on those countries that don't require their financial institutions to part with the relevant information.

Economic openness is important for free trade as well as taxation, but the argument from taxation is particularly powerful if Piketty is right that we are (likely) doomed to ever-increasing inequality otherwise. Here a crucial Pirate principle is also crucial to saving the world from the forces of capital accumulation.

Greater international integration

One immediate objection to any progressive tax on capital is that the wealthiest would be able to evade it simply by moving to countries that did not implement it. Moreover, the desire to be a competitive destination for the big capital-owners could well dissuade governments from putting any such tax into practice. (Elsewhere in the book, Piketty assumes in his projections that the forces of tax competition are so strong that they will eventually lead to a total absence of tax on capital income for the period 2050-2100, p355-356.) Piketty is aware of this objection, and refers to the global tax on capital as a "utopian idea" requiring "a very high and no doubt unrealistic level of international cooperation" (p515). Still, it's clear that regional financial integration - or at least collaboration - would help to smooth the way towards a solution to inequality, by limiting the ability of the big players to take advantage of the world's various snakes and ladders.

Piketty explicitly discusses the European Union in this context, and it's interesting how his arguments parallel those I made in a blog post from last year [6] about clinical trial reporting. In both cases, the owners of large amounts of capital enjoy a large degree of geographical flexibility thanks to globalization, and hence can easily outmanoeuvre individual nation-states' efforts to rein them in. In both cases, the EU has the potential to combat this - but only if it takes meaningful steps and then enforces them. In both cases this is not yet happening. Ben Goldacre describes the EU's legislation on clinical trial registration as "risible", and Piketty describes the 2003 EU directive on foreign savings as "timid and almost meaningless" (p522). Neither directive is being properly enforced. Very likely greater levels of European integration and trust in European institutions are required - and progress in this direction is certainly not a given, and may well be undesirable for other reasons. Nonetheless, for Pirate parties - which have no *a priori* stance on European integration - these kinds of arguments are interesting both as possible advantages to greater integration and as "bottom line" requirements if such integration does happen.

A hefty tome, but a worthwhile read! The final part of the series will deal with some of the reactions that the book has engendered, both in Pirate circles and elsewhere.

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