

Piketty challenges us to consider if we need to rein in wealth inequality

Written by Frank Stilwell, Emeritus Professor, Department of Political Economy, University of Sydney

French economist Thomas Piketty, currently [in Australia](#), is known for his focus in on the inequality of wealth. His book on the topic has sold two and a half million copies worldwide, which is quite amazing for a book full of economic statistics and graphs.

Piketty concludes, optimistically, by saying that we don't have to accept the inevitability of wealth inequality. If there were the political will we could, as a society, reduce inequality. This includes his argument for an [inheritance tax](#).

Piketty spends less time explaining why excessive wealth inequality matters. This requires more attention because we cannot presume that there is sufficiently widespread public knowledge about the importance of the issue.

Some people evidently [think wealth inequality is a good thing](#), because they believe it creates stronger economic incentives. It is that sort of reasoning that leads them to favour the Turnbull government's proposed cuts to company tax rates, even though it would create yet more economic inequalities.

Meanwhile the International Monetary Fund has [published research](#) showing that more equality is also conducive to superior macroeconomic performance. Coming from such a usually conservative source, that should shake the belief that inequality is good for the economy.

There is also lots of other social science research showing the social problems that result from widening inequality. This includes the important research work reported by Wilkinson and Pickett in their book [The Spirit Level](#), which explains "why more equal societies almost always do better". It shows that more equal societies are generally happier and have a lower incidence of social problems, such as physical and mental illness, obesity, crime and violence and low levels of educational attainment. Other studies show that more equality is conducive to more sustainable and peaceful social arrangements.

More equal societies have healthier democracies too, as US economist [Joseph Stiglitz has argued](#), because there is less tendency for wealthy elites to corrupt political institutions.

Why Australia should care

These concerns are currently of great significance for Australia. And we now have the data necessary to understand the dimensions of the challenge.

A [new Australian report on wealth inequality](#) by the Evatt Foundation, drawing on the best data available, shows Australia is not the egalitarian nation that many people think it is. Rather, in terms of wealth inequalities, we're mid-ranking on the international league table. And we're becoming more unequal.

Currently, the wealthiest 10% of Australian households have approximately half of the total private wealth in the country. The top 1% of households alone have 15% of the total wealth.

At the other end of the spectrum, 40% of households have effectively no wealth. Most of them have modest current incomes, whether from wages or welfare, and they spend it all (and sometimes more, going into debt). Nothing is accumulated over time. Struggling to pay for housing is a big factor keeping them out of the wealth accumulation process enjoyed by those who have more substantial wealth.

Two wealth gaps are widening. One is between the top 10% of Australian households and the next 40% of "middle Australia". The other is between those two groups and the bottom 40% who are effectively "out of the loop," as far as sharing in economic prosperity.

These are the hallmarks of an unequal society, not an egalitarian society, as my colleague Chris Sheil and I [have argued previously](#).

I've also [put the case for inheritance taxation](#) as one of the policy measures that could be considered if we're serious about reining in inequalities. Piketty's presence here in Australia makes it timely to reconsider these issues and kickstart some policy action.

Slowing down the intergenerational transmission of inequality would be a good start to reversing the growing inequalities with which Piketty and the new Evatt Foundation report are concerned. That means having an inheritance tax.

Most other developed countries have taxes on inherited wealth. Australia used to have inheritance taxation too, until Queensland Premier Joh Bjelke-Petersen initiated the collapse of those arrangements in the late 1970s.

The case for an inheritance tax is well established. The last major review of the Australian tax system, chaired by former Treasury head Ken Henry, [supported it in principle](#).

The exact form of the tax needs careful consideration. Should it be on the estate itself, or on the windfall incomes that it provides for the participants? What minimum wealth threshold should be set? And, above that threshold, what rate or rates of taxation should apply? Other countries vary in their treatment of these issues, so it is important that we develop a system that is appropriate for local circumstances.

Of course, any such tax would be opposed by the wealthy elite. You wouldn't expect otherwise. But if the tax threshold were set at, say A\$2 million, only a tiny proportion of households would be affected. And the rest of us would benefit directly from the extra revenues, which might then be used to pay for universal free tertiary education, for example, or a major increase in public housing.

We would also benefit indirectly from living in a more cohesive society with less of those problems that the social science researchers have shown to be correlated with extreme inequalities.

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