



Press Conference by  
**Guest: Professor Thomas Piketty,**  
Paris School of Economics  
Author of  
**"Capital in the 21st Century"**

**“In slow-growth economies such as Japan, Europe  
and the US, we need to find the best policies to limit  
the rise of the income inequality”**

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Taking an opportunity of a publication of the Japanese version of his book "Capital in the 21st Century", Prof. Piketty has visited Japan. He has talked about some of the conclusions of his analysis on the issue of the income inequality and answered questions including ones on Japan's economic policies.

Moderator: Hirotsugu Aida (Kyodo News), Chairman of JNPC Planning Committee

Main questioner: Kensuke Karube (Jiji Press), member of JNPC Planning Committee

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**Moderator:** [Japanese] Good morning, ladies and gentlemen. Today we'd like to have a press conference with Prof. Thomas Piketty who is from France.

As you know he has published a book entitled *Capital in the 21<sup>st</sup> Century*, as you see on the screen, and it has caught a lot of attention from the whole world. I understand that his book has been published on the order of one million copies in the US, France, and of course also in China.

The Japanese translated version was published recently by Misuzu Shobo Publishing. I find it very interesting what he wrote. Of course I will not be speaking for a long time.

Well, this book caused a big sensation in the United States, which reminds me of the fact that Hayek's book caught a lot of attention 70 years ago, and what he really said in his book "The Road To Serfdom" 70 years ago was exactly the opposite of what Prof. Piketty is writing in his book, and it is indeed the opposite thought which has taken root in the US. And the whole world in the same manner 70 years ago. It started in Europe, went into the US, and through the US it went to the whole world. So I thought it quite interesting that a similar phenomenon is occurring with the opposite line of thought.

You are not here to listen to my comments. I know that I have to turn to Prof. Piketty right away, but briefly an introduction of him.

He was born in 1971, so he is a very young scholar. He is teaching at the Paris School of Economics, and also he was with the *École des hautes études en sciences sociales*. He taught at MIT as well. Although he is young, his name is firmly established in the international community.

Well, today the audience is 300 strong, limited to guests from France our Club has received in the past, this large audience is on par with President Mitterrand in 1982 and President Chirac of 1998; respectively, the audience was 332 and 310.

So much for my introduction. Without further ado, I will now turn to Prof. Piketty. The floor is yours.

**Thomas Piketty:** Thank you. Thanks a lot for welcoming me. I am very, very honored by this very large audience. Let me first apologize that my English sounds a lot like French and I hope this will be okay. I am very, very glad that my book is now available in Japanese. Japan of course is a very important country, and Japan is also a country where people read books and read newspapers, more than in many other countries, and I am very glad that my book is selling so well in Japan.

So in this presentation I am going to be extremely short. I am just going to show you one or two graphs showing some of my findings about the long-run evolution of inequality in Japan, Europe, and the United States.

So in this work I am trying to put the question of distribution back to the center of economics, and what's really new about this work and this book is that we have tried with a large number of collaborators from many countries to collect a very broad set of historical data about income and wealth distribution.

In the past there was much less historical data than what we have collected, so we still have too little data, too little knowledge, but at least we have made some progress. So in this presentation I will just show you one or two examples of the data that we have collected, but if you want to see all the statistical figures you can have a look at this website where you will find – I'm sorry that I cannot put the book online, my publisher would be very unhappy, but at least I put all the statistical data online – and you will find some more data in this World Top Income Database website where all countries in black or in red are in the database and all countries in blue are about to enter the database.

And one good thing about the publication of the book is that there are now more countries that are not on the map, like Mexico or Korea or Taiwan, which are now entering our database because more governments and more tax administrations let us use the fiscal data so that we can promote more open access and more transparency about the evolution of income and wealth.

Let me show you one example of the results that we find from this work. So this is a comparison between the US, Europe, and Japan. This is the top 10 percent income share. This is the share of total income in each country, going to the top 10 percent income-earners.

And what you can see is that in every country you have a decline in income inequality during the first half of the 20<sup>th</sup> century, in particular following World War I, the Great Depression, and particularly World War II. This is because of very large shocks, capital destruction during the war, inflation, and also the new social and fiscal policies that were adopted after the war, in particular in Japan.

Now you can see, starting around 1970, 1980, a return of large inequality, and particularly in the United States. It is less strong in Europe, and Japan is in between Europe and the United States, closer to Europe in many ways. So the rising inequality in Japan, it's less extreme than the US but I think it's not a reason to wait until it becomes as extreme as in the US to start to care about it as this is still quite substantial.

The share of total income going to the top 10 percent has increased from about, it was between 30 and 35 percent in Japan in 1980 or 1990, and now it's closer to 40 percent. This is

a substantial increase in inequality, particularly because during that time period the growth of the economy was very small, close to zero. So when you have very small growth and you have a rising share for the top 10 percent it means that some social groups in the bottom 90 percent are actually losing ground.

And so I think, generally speaking, one of the conclusions of my book is that in slow-growth economies, such as Japan or Europe or the US, the issue of inequality is becoming increasingly important and we need to find the best policies and institutions to limit the rise of inequality.

Maybe one final sentence. The explanation for the rise of inequality that is usually given is globalization, the fact that you have new emerging countries in the world economy, including China, that are creating big competition with the low-skilled and medium-skilled workers in rich countries, and I think globalization is part of the explanation, but as you can see, you have different trajectories in different countries.

So this shows that different policies, different institutions, can make a difference, and maybe rising inequality has been particularly large in the US because of very unequal access to education, for instance, or very unequal working of the labor market, which is also an issue important for Japan. But I will answer more questions and I will be happy to discuss more the interpretation for these findings.

Let me just say that my general conclusion is that there are different ways to organize globalization and to organize capitalism so as to limit the rise of inequality. We cannot just conclude that globalization leads to a rise of inequality and nothing can be done. I think different policies and different national trajectories and institutions can make a difference.

Let me stop here and I'll answer your questions.

**Moderator:** *[Japanese]* Well, thank you very much for your introductory remarks, and now we will open for the discussion period. Here at the head table we have Mr. Karube who is from the Jiji Press and a member of the Planning Committee of our Club. He has published a book on American money-driven politics. He is an authority on plutocracy, so I will ask him to make a couple of questions to begin the discussion.

**Ken Karube:** *[Japanese]* I'd like to ask one or two questions as a journalist, not understanding the economic theories at all.

My first question. As we can see from this graph, for example, Prof. Piketty, in order to counter the rise of inequality, you said that there could be various ways. Now, what is the level of the income ratio improvement which could be regarded as a success in controlling

inequality? Is it an economics issue or is it a policy-related issue? So first I'd like to ask you about how you would sort out this issue?

**Piketty:** I think extreme inequality is a problem both for economic and political reasons. I think extreme inequality, first, it is not very useful for growth. You can see that today we have more inequality than in the '60s or '70s and we also have less growth, so the fact that we have more inequality doesn't seem to be particularly good for growth. Or if you look at the early 20<sup>th</sup> century or in the 19<sup>th</sup> century, we had extreme inequality. This was not particularly useful for growth.

So when inequality is too high, it tends to come with a high concentration of economic power, with a high perpetuation of inequality, and that's certainly not good for growth.

The other reason why extreme inequality is not good is for political reasons. I think our democratic institutions can be under threat when inequality is excessive because extreme inequality tends to lead to very unequal access to political voice and political influence through the financing of political campaigns, sometimes through the financing of the media. So I think that's one of the big dangers of extreme inequality, and the recent US election campaign with very strong influence of private money in the political election committees is I think an example. So these are the two reasons, the economic and political where I think extreme inequality can be a problem.

**Karube:** [*Japanese*] So from your comment, is it fair to understand that what you are saying is that appropriate inequality---sounds odd---cannot be identified as a notion of economics?

**Piketty:** Well, I think some level of inequality can be justified by incentive consideration and growth consideration. Now we don't have a mathematical formula to determine what is this level, so all we have is historical experience and all I am trying to do in this book is to provide access I think in a readable manner. I think the book is quite long but it's a very readable and accessible book I believe, so I provide access to a broad set of historical and international experience so that people can make their opinion about the appropriate level of inequality. But of course it is up for democratic deliberation to decide, and the objective work of economists or social scientists is not to come up with a mathematical formula to solve the question instead of all of us.

**Karube:** [*Japanese*] Well, one more question. Although you are not showing this particular slide, I think there is a graph regarding the capital/income ratio and you are expecting that this capital/income ratio may rise continuously going forward, and your assumption is that capital/income ratio could rise with the stable saving rate of 10 percent. But if you look into the Japanese situation, according to the recent announcement, the household sector savings ratio is now plummeting into the negative domain, so looking into the Japanese situation

with the lowering of the savings rate, do you think that this situation, this fact, may impact your prediction, Prof. Piketty?

**Piketty:** Certainly the evolution of the savings rate is very, very important. At the same time, given the very low growth in Japan and the negative population growth, even very small savings can, if you can keep a very large capital-to-income ratio in place.

But let me say that the evolution of the capital/income ratio is very difficult to predict, just maybe to show you... So this is the evolution of the private capital-to-income ratio, so you can see that Japan has a very particular evolution with a very strong rise until 1990, and then you have a decline because of the decline in real estate and stock market prices in the 1990s, but if you take the long-run picture, you certainly have a long-run rise.

And today Japan, like other rich countries, is in a situation where private wealth, private household wealth relative to national income is much higher than what it was in 1970, and I think it will continue like this. So I'm not saying it will keep rising forever, but I think it will probably be in the coming future or foreseeable future at a level that is relatively high as compared to 1970, which means, which has very concrete consequences.

This means that wealth is playing a very large role in Japan and in rich countries right now, and that for the new generation who don't have family wealth and who only have their labor income, it's more difficult to access property than what it was back in 1970. So the role of inheritance, inherited wealth, and transmission of wealth is much more important in a society where the ratio of private wealth-to-income is what it is today than what it was in 1970. And I think that's not going to change very soon in the future.

**Moderator:** [*Japanese*] Thank you very much. Now we are venturing into the topic of discrimination or inequality or the gap, which could be appropriate. Now in your book you have cited paragraphs from the human rights declaration of France, and if discrimination exists, that must be based upon a common and joint interest. This is something also mentioned by philosopher Rawls. Of course the French human rights declaration comes ahead of Rawls' works, but anyway, Rawls says that if discrimination is to be necessary, that must be based upon the interests of the whole.

So during the conversation we had before this press conference, you mentioned that you also had some influence from Rawls' works. This discrimination or inequality question is politically a very difficult issue, but I could call your work more of a Rawls-like work?

**Piketty:** Well, yes, I think the Rawlsian ideas about social justice existed much before John Rawls, and I start the book with this quotation from Article 1 of the French Declaration of Rights of 1789 which indeed says social distinctions can only be based on common utility. So you can have social inequality, maybe not discrimination, but certainly inequality of

distinction, but this needs to be based on common utility, so this is a basic philosophical set-up in which I work, and so I have no problem with inequality as long as this can be justified by common utility. The problem is that extreme inequality I think cannot be justified by common utility.

**Question:** [*Japanese*] Thank you very much. I am Okonogi. I teach at Sophia University. Prof. Piketty, I have two questions.

The first one is your evaluation of Prime Minister Abe's economic policy. Do you think that Abenomics could impact Japan in a discernible way? You have cited the US as an example of a nation where inequality is rising, but at the same time we note that the US GDP is growing. Do you think that this kind of process is possibly applicable to Japan where inequality may rise but GDP also could grow?

The second question. Amongst the Japanese politicians, policymakers, bureaucrats, journalists, and so forth, there is more or less a consensus that probably raising the consumption tax rate is inevitable in order to have fiscal consolidation. The IMF and OECD and other international organizations are also pointing in the same direction and they are providing advice to Japan along those lines, but what they are advising is a way different or opposite from Prof. Piketty, what you are describing in your book. What is your view about this, the broad consensus about the need of increasing the consumption tax rate as a prescription of Japan's growth? Do you have any idea about that?

**Piketty:** Well, I think the increase in the VAT which happened last year in Japan was not terribly successful in terms of growth, and so I am not sure this is such a good idea to continue in this direction.

You know, I think the priority for fiscal reform in Japan will be to try to rebalance the tax system in favor of the young generation. Broadly speaking, I think the young generation, and in particular we should try to reduce tax for labor income, in particular middle wages and lower wages, and to increase tax on higher incomes and on property and wealth, and typically on the older generation who have sometimes a lot of accumulated wealth, whereas for the young generation, who don't have family wealth. It's very difficult to access to property in Japan now, so I think this is the kind of tax reform that we should do. So I don't see how the increase in the consumption tax for everybody is going to do this. So I'm not too convinced by this conventional wisdom, but maybe I am wrong.

Regarding US growth, I think the reason for good US economic performance is not inequality. I think the reason for good US economic performance is somewhere else. It has more to do, first, with the very large population growth of the US, so the US is attracting a lot of migrants from the rest of the world, has better fertility rate than Japan or than European countries, and so you have population growth, so it's a growing economy.

And also, although you have a lot of inequality in the education system, at least the top universities are very good. So you have a lot of innovation, a lot of research in the US university system, and I think that's a lot more important for the good economic performance of the US than the very high inequality. And I think that Europe and maybe also Japan should invest more in universities.

And I think in Europe right now the economic growth is very bad I think because there was too much austerity in Europe. We tried to reduce the public deficit too fast and now we have a little bit the same problem as Japan with deflation, and there is inflation close to zero, growth close to zero. And I think we should invest, in particular invest in education, invest in universities, and then this is the key for growth in the 21<sup>st</sup> century.

**Question:** Thank you for taking my question, Prof. Piketty. My name is Kaori Iida. I'm with NHK public television. I was wondering why you think there is so much attention on inequality today in countries such as Japan, such as the US, given as you have written in your book that inequality has been around for many years, many centuries. Is it because the rich are becoming concerned about this inequality? Or maybe is it because inequality has reached a new level, for instance? So again, why do you think there is so much attention on inequality?

And just quickly, what is your level of confidence that inequality will shrink in countries like Japan, like the United States, in the foreseeable future. Thank you.

**Piketty:** Well, I think inequality is a growing concern because inequality has increased, and I think even without seeing these statistics people can feel that inequality has increased, that top incomes have increased more than average and bottom incomes. So there is this feeling. And also the other reason is slow growth. So when you are in a high-growth country and everybody is going up, rising inequality, maybe it's not too much of a problem, but when you have very slow growth or even stagnation of incomes, rising inequality creates more tension.

What's going to happen in the future? I think there are several possible futures. It really depends on the institution and the policies that we choose, and that's the main conclusion of my research is that I don't believe in economic deterministic laws. I think the history of inequality is not only economic; it is political, it is social, it is cultural, and so it depends on the policies that we choose in education, taxation, labor market, and many other dimensions.

**Question:** [*Japanese*] I am Takeda, also from NHK. Sorry for two journalists in a row coming from NHK. Well, my question is related to the previous question regarding Abenomics. I think currently the economic philosophy of Abenomics is the concept of trickle down, like during the Reagan days of the United States. In other words, the trickle down theory goes that if the top income earners become richer, then it will trickle down and the benefits will

reach the bottom level as well. As a result, the entire population will become richer and so forth. I think that is the philosophy that dictates the current economic policy in Japan.

However, as you noted, there is a growing concern about the expanding inequality in Japan. Then one could argue that the trickle down theory does not work. In that sense, what can Japan do or should do? In Japan there was an attempt to expand the scope of the inheritance tax, but if the trickle down theory does not work, then what should Japan do?

**Piketty:** Well, first, I am here to learn about Japan, not to give lessons to Japan about what Japan should do, and I think trickle down is an interesting theory. Now I'm not so sure it works so well in practice. If you look at the evolution over time, you have a lot of rising inequality in the recent decade. You have rising inequality everywhere except in the growth statistics because the growth rates in the recent decades were not particularly good, even in the US. The growth rates were better in the '50s, '60s, '70s when there was less inequality. So the view that we should always wait for more and more inequality in order to have more growth did not really work in the past and I don't think it will work in the future.

I think in a country like Japan it is possible to have a more progressive tax system, as I said, more favorable in particular to the young generation. I think also it's important regarding the labor market reform that part-time workers and temporary workers benefit from better social protection and social security, and I think this is one of the important dimensions of inequality in Japan, particularly for the young generation and also for women. And I think inequality with respect to the young and also gender inequality with respect to women is a very important issue in Japan, and this has also negative consequences for the fertility and for the evolution of population, which I think should be the central concern in Japan for the future.

**Question:** [*Japanese*] My name is Takeuchi and I am a journalist from the *International Development Journal* which is a journal dedicated to ODA-related issues. Probably I shouldn't ask you about what Japan can do or should do, but Prof. Piketty, you are suggesting the international wealth tax in your book. In Japan there is actually a movement toward introducing an international solidarity tax. There is already a parliamentarian group formed to introduce this new tax system. The Ministry of Foreign Affairs is now forming a study group to discuss the possibility of introducing an international solidarity tax.

Of course the discussion has not yet entered into details which would identify the concrete schemes of this tax system and so forth, but probably because of the lack of strong interest in this inequality question in Japan, actually the movement toward the introduction of an international solidarity tax is not making solid progress. So what kind of scheme do you think would be desirable from your perspective? This is my first question.

The second question is UN-related. This year marks the last year of the Millennium Development Goals (MDGs) and there is a discussion and debate going on for the Post-15 MDGs. And for MDGs, poverty eradication is very important. The World Bank is now focusing on infrastructure development. Prof. Piketty, what is your view regarding what the directionality of the Post-15 Millennium Development Goals should be?

**Piketty:** Well, you know, let me first say I believe in globalization and I believe in particular that globalization can help to reduce poverty in the world and to help emerging countries to keep growing, but that we need strong international democratic institutions in order to put these powerful market forces into the right direction, and so public infrastructure investment is important.

I also think we need more financial transparency, and that's important for rich countries, but that's even more important for emerging countries, so in many emerging countries the lack of transparency and the lack of good information about inequality is a problem. For instance it's very difficult to measure inequality and distribution of income and wealth in China. China is a country where you have an income tax but there are no income tax statistics. It's impossible to know how the number of income tax payers by income bracket is changing, and I think it's important if we want to achieve development goals, if we want to fight corruption, I think we need more transparency, and I think this should be important in the new development goals.

Regarding the international solidarity tax, I think this can be useful and this goes in the right direction, but I don't think this can replace the need for a better coordinated corporate tax where we need better international coordination, and this cannot replace the kind of wealth tax that I talk about in my book. But this is complementary.

**Question:** [*Japanese*] My question is regarding corporate income tax. Listening to today's presentation, I felt that you are more or less concerned with the inequality question on the individual level. Therefore, I thought I could argue that we don't have to take so much corporate income tax. As long as corporations are profitable, then individuals can gain remuneration, salaries, and wages out of the profits that they will make. And when taking tax from the remuneration, the progressive nature should be applied so the inequality question can be removed. In this way, inequality in Japan can be a little improved to a certain extent. Can I hear your view on this?

**Piketty:** Well, I think the corporate income tax is very important and that when you have too much, when you have a lot of international competition to attract large multinationals and in the absence of international cooperation you can end up in a situation where large multinational corporations pay a lower effective tax rate than small- and medium-sized businesses, and I don't think that's good. I think it's a big problem.

In Europe we had recently the Luxembourg Leaks scandal with the news that very many multinationals in Europe were paying almost no corporate income tax by optimizing their tax strategy and really localizing their profits in Luxembourg, and I think this is a major problem. I think we need to establish for instance in Europe a common corporate tax in order to avoid this. And more generally, at the international level, I think we need to use all international agreements and treaties, including trade liberalization treaties between Japan and the US or Europe and the US in order to promote the idea of a common corporate tax base with a minimal tax rate for large multinational corporations.

**Question:** [*Japanese*] My name is Nishioka. I am from Asahi Shimbun newspaper company. Now in your book, *Capital in the 21<sup>st</sup> Century*, I have had an opportunity to look at the Chinese version, and you have written a preface especially for the Chinese version. Toward the end of the Chinese version of your preface you said that the political democratization would come along with the economic democratization. Now China is going for the market-based economic system and they have come to reform their economy and opened their economy. However, politically the autocratic system still prevails in China. So what kind of contribution do you think economic democratization in China could make for political democratization?

The second question, a very simple one. President Mitterrand and President Chirac have given press conferences in this same room but they all spoke French. How come you are speaking all the time in English while you are staying in Japan?

**Piketty:** Let me start with the final one. I am very happy to speak in French if you want me to speak in French. [*laughter*] I prefer to speak French than to speak English. It's just my understanding that there are more people who understand English than people who understand French, and this is the only reason, to be understood by more people. But I am very happy to speak French. And my book was first written in French and I think it's a much better book because it was written in French [*laughter*].

Regarding China, the big question is, is it possible for China to modernize in particular their fiscal system and to have a more transparent fiscal system and a more transparent approach to inequality without political democratization at the same time? And I don't know the answer to these questions but I think that economic and fiscal transparency has to come together with political democratization at some level, and right now in China, as I said before, there's very little transparency about income and wealth.

And so the Chinese government, they say that they want to fight corruption, but the way they fight corruption, it's a little bit like in Russia. They put in jail a few oligarchs from time to time but I am not sure this is a very efficient way to fight corruption, and I think it would be better for instance to publish income tax statistics at the local level, at a very detailed level, by income brackets. I think in many cases we would realize that the income tax system is not

being applied very well and this will be a way to put pressure, for the population to put pressure on the administration and the government to try to improve the system and to make it more transparent and to try to build trust in the government.

Now I am not so sure the Chinese government wants to do that, but when you ask them, they say that this is what they want to do and that is what they will do. I am still waiting to see. I don't know.

**Moderator:** [*Japanese*] Time is pressing and he has another appointment to follow, so reluctantly we have to close this press conference at this juncture.

Thank you very much, Prof. Piketty, for coming to our press club. He has written in our guest book in English his appreciation for being invited to the Japan National Press Club. His presentation and discussion were quite insightful today. There are many important points mentioned in his book, but one important point is patrimonial inequality, so I really would like to have a discussion on that on some other occasion. Thank you very much. [*applause*]