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CONFERENCE REPORT

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THE CHALLENGE OF ECONOMIC INEQUALITY TO RECOVERY AND WELLBEING

WITH THE SUPPORT OF TASC AND IN COLLABORATION WITH CARNEGIE TRUST

Conference Report written by Kathryn Keating from the National University of Ireland Maynooth

This year's TASC-FEPS conference brought together a dynamic audience including economists, academics, policy makers, public representatives, social justice advocates and activists to discuss 'the challenge of economic inequality to recovery and wellbeing'. With Thomas Piketty, fresh from the success of his best-selling book *Capital in the Twenty-First Century*, as keynote speaker, the conference drew an enthusiastic crowd of over 650 people to discuss and debate economic inequality, including policy proposals for more equitable alternatives to current systems and structures in Ireland and Europe.

Thomas Piketty with Nat O'Connor, Proinsias De Rossa, Patrick Honohan and Joan Burton, MP

The conference turn out and reception of Piketty's book has been seen by many to signal an increased public interest in rising inequality and social division, a weariness with old economic models that privilege the few to the detriment of the many, "a hunger for a better society, and a belief that it can be achieved".

While Ireland has one of the highest GDP per capita levels globally, rising levels of extreme inequality are clear, particularly among the top ten and one percent of incomes, with the top 10% now taking over a third of all income (35%) and the top 1% taking 10%. This rise occurred from 1975 to 2006, the peak of the 'economic boom', with 90% of the population losing a tenth of their income, putting to rest the idea that a rising tide may lift all boats and with the economic collapse resulting in deepening social divisions. This rise of extreme inequality and concentration of

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wealth in the top 10% is documented in Piketty's analysis of income distribution and wealth in over 20 countries from the 18th century to the present, and has shone a light on the "rise of the top 1% – and indeed the top 0.1% and 0.01% of people in Ireland – who have extraordinarily high levels of income and wealth compared to everyone else, and who are the major champions of Ireland's current economic model".

In the context of austerity, cuts to public services and regressive taxation that disproportionately affects marginalised groups, providing a forum for discussion of economic inequality and to propose equitable and evidence-based policy alternatives was very timely.

Interpreting subjective wellbeing alongside objective inequality

Speakers including Helen Johnston, Charles Seaford and Ivan Cooper challenged assumptions around levels of economic growth 'trade off' needed to achieve greater redistribution of wealth. GDP alone ignores the distribution of income within societies and there is a need to move from a culture that is growth-focused towards a more holistic stance on overall wellbeing. This includes a move from the idea that economic growth

Ivan Cooper from The Wheel

means progress and requires inequality, towards recognition that social progress and wellbeing are linked to greater equality, and are fundamental for a flourishing society to the benefit of all, leading to improved societal health outcomes, educational attainment, greater social mobility and lower crime rates.

Participants referenced the fact that Ireland has a strong community and voluntary sector (albeit one that has suffered devestating cuts by successive governments) and high levels of community support and engagement, and noted that to embed equality in policy we need to articulate what we want and how to get there, as well as engage citizens (to mean all persons living in a country) in order to develop better policies and better buy-in to those policies from those affected.

Also underlined, and a recurring theme throughout the day, was that there is an inherent value-base in all decision-making, including economics; that a more equal society is achievable, but requires political will and an articulation of values that will not tolerate rising economic inequality.

Economics, Finance and Inequality

Another recurring topic was the need for a rebuilding of the European financial system which currently reflects and reinforces three decades of deepening inequality.

Ten reforms were proposed by Gary Dymski for a more stable and equitable financial system that is democratically accountable and transparent:

- Eliminate financial risk-taking
- Rein in the activities and size of too-

big-to-fail megabanks

- Gain financial and regulatory control of shadow banking and of offshore financial-centre tax-havens
- Limit those forms of interconnectedness across national borders that can lead to destabilising financial flows
- Encouraging pluralistic banking systems to better meet local needs
- Retool the European Investment Bank so that reform of European economic and social development
- Reform the mandate of the European Central Bank to include employment targets, and make the ECB democratically accountable
- Rethink the forms, extent and terms of Europe's financial integration with financial centres and firms in the rest of the world
- Set trans-European rights on predatory lending
- Establish the concept of financial citizenship for Europe, including voice and exit-rights for European citizens.

Gary Dymski from Leeds University Business School

A wage or income-led recovery was advocated by several speakers. That should rely on containment of wage dispersion as through legal minimum wages, and reduction of inequality in distribution of disposable income such as by progressive taxation. Re-regulation of the financial sector was echoed by Eckhard Hein, including a downsizing of the sector, a reduction in top management salaries and profit claims of financial wealth holders, as well as improved bargaining power for trade unions, a re-orientation of macroeconomic policies (monetary, fiscal and wage policies) alongside re-construction of international macroeconomic policy coordination at a global and European level.

The case that policies adopt an intersectional approach, incorporating a gender-aware perspective and examining inter-group equality and exclusion, is crucial as central bank policies differentially impact groups including women, ethnic minorities and other marginalised groups. This approach must take into account cumulative disadvantage and disenfranchisement to ensure that economic policies do not simply serve to benefit those with more wealth and power. The importance of addressing the politics and division of caring work, and incorporating care and the production of human capital into any analysis was emphasised by Elissa Braunstein, as well as greater recognition of the value of care and reproductive work.

The lack of focus in economic policy on gender and social class, and how these are reproduced in a market economy was also challenged. A more sustainable approach would aim to reevaluate structures, investing in social structures and prioritising equality, rather than systems which reproduce social divisions. Diane Perrons spoke on how fiscal space is a "political choice not a technical necessity", and that alternative economic strategies are always feasible. Austerity policies have had a disproportionate impact on women and lower income groups in which women are over-represented, and there are economic alternatives that are more inclusive and equitable as through wage revaluations and progressive taxations.

Taxation as the price of quality public services, and as a way to produce legal categories and transparency around income and wealth was referenced throughout the day. Tom McDonnell discussed how a well-designed wealth tax for the top 1% of incomes - with just 1-2% of households liable at a threshold of €1 million - might be implemented in Ireland, with the potential to raise hundreds of millions of euro while retaining a high threshold and low income rate.

The panel on Finance and Inequality with Özlem Onaran, Elissa Braunstein, Tom McDonnell, Diane Perrons and Eckhard Hein

Importantly this wealth tax would be on net wealth holdings, a tax on stock of assets as distinct from income tax, or 'pseudo wealth-taxes' such as local property tax or pension levies. This would aim to increase transparency and provide for greater horizontal and vertical equity (i.e. that those with the same ability to pay should do so, and those with greater capacity should pay a proportionately larger amount). The introduction of such a tax should support economic efficiency, minimising economic distortions, and would also seek to minimise risk of capital flight, a more assertive approach to tax havens and corporations, as well as minimise administration and complicance costs.

There was consensus that many of the changes discussed are readily achievable and can be implemented, but require political will and a commitment to a value base that prioritises greater equality, rather than the continuance of cuts to public services and regressive taxation that disproportionately affects those on lower incomes. The responsibility of the media in representing a diversity of opinions as regards economic policy, not just big business interests and corporations, was also emphasised.

Capital in the Twenty-First Century

Keynote speaker, Thomas Piketty, delivered a presentation based on his book, *Capital in the Twenty-First Century*, which looks at the global dynamics of income and wealth since the 18th century in over 20 countries. With his colleagues Piketty has constructed the largest historical database on income and wealth inequality, with the objective of providing data in "an area where too little is known". This documentation and analysis challenges the assumption in classical economics that inequalities decrease as post-industrial societies grow. By putting income and wealth in historical perspective and analysing long-term trends in distribution, a fall and then, over the past century, rise of extreme inequality can be seen indicating a return towards 19th century levels of inequality, 'patrimonial capitalism' and a wealth-based society.

The data suggests that the rate of return ('r') on capital outstrips the rate of growth ('g'), and as a result inherited wealth always grows faster than the economy and earned wealth. Rather than a market imperfection, this rising inequality is a direct result of capitalism functioning 'normally' – "the more perfect the capital market, the higher r - g". As such this rise in concentration of wealth, with three quarters of total growth going to the top 10% and most of that to the top 1%, seems likely to continue without intervention.

In the discussion that followed with participants and the panel, Piketty brought up the need for proper sanctions on tax havens, a common corporate income tax base (with Ireland's low rates part of an unsustainable tax competition 'game' creating a false representation of economic activity without attracting real investment or creating sustainable jobs), and more political and fiscal integration with the Eurozone to facilitate countries who wish to do so to exchange information and make common tax decisions, as well as the "need to be concrete about political decision-making and actions that are needed rather than just talking and leaving these issues for the future".

Piketty's suggestion of a global tax on wealth was referred to by one panel member as having "captured the imagination" of the public. Indeed, the question and answer session that followed showed widespread enthusiasm for the idea of a well-designed wealth tax, with some advocating that it should also be ring-fenced for specific expenditure areas and for public services, as well as debate on how this may be implemented. Again the need to inform economic analysis and policy with a strong value base was referenced.

Thomas Piketty from Paris School of Economics

Piketty cites one of his objectives in writing *Capital…* as providing an evidence-base in an area around which there is scant data so that people can use this to "write their own 'Part 4'" i.e. their own evidence-based proposals and alternative policies for a more equitable society, describing these as "issues too important to leave to economists alone".

Prionsias De Rossa, Chair of TASC's Board and former MEP

In introducing Piketty, Prionsias De Rossa, Chair of TASC's Board, made a strong call and challenge to Irish policy and decision-makers to seriously engage with this ongoing debate and draw conclusions, including revising policies in this light, to address rising disadvantage and economic inequality and rebuild confidence in democratic decision making. Ten policy proposals were put forward at the conference by TASC to tackle economic inequality in Ireland as follows:

1. Targeted investment in key infrastructure
2. Ensure all workers receive at least a living wage from full-time employment
3. Enshrine trade union rights, including collective bargaining, in law
4. Accelerate the drive to a universal system of health care in Ireland
5. Improve childcare and elder care
6. Further reform the education system
7. Develop and implement a comprehensive social and affordable housing strategy
8. Ensure everyone has sufficient income
9. Reduce the cost of living
10. Adjust our tax system so that we can improve our public services (as addressed in TASC's recent policy paper A Defence of Taxation.)

Prionsias De Rossa, Patrick Honohan, Paul Sweeney, Thomas Piketty and Nat O'Connor

For more information regarding the TASC – FEPS 5th Annual Conference and the FEPS 'Finance and Inequality' project please contact Dr. Giovanni Cozzi, FEPS Economic Advisor at giovanni.cozzi@feps-europe.eu

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