Soak the Rich

An exchange on capital, debt, and the future

David Graeber, Thomas Piketty

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This exchange is from a conversation in Paris between David Graeber and Thomas Piketty, discoursing on the deep shit we're all in and what we might do about climbing out. It was held at the École Normale Supérieure; moderated by Joseph Confavreux and Jade Lindgaard; edited by Edwy Plenel; first published by the French magazine Mediapart *last October; and translated from the French for* The Baffler *by Donald Nicholson-Smith.*

Moderators: You both appear to think that the prevailing economic and financial system has run its course, and cannot endure much longer in its present form. I would like to ask each of you to explain why.

Thomas Piketty: I am not sure that we are on the eve of a collapse of the system, at least not from a purely economic viewpoint. A lot depends on political reactions and on the ability of the elites to persuade the rest of the population that the present situation is acceptable. If an effective apparatus of persuasion is in place, there is no reason why the system should not continue to exist as it is. I do not believe that strictly economic factors can precipitate its fall.

Karl Marx thought that the falling rate of profit would inevitably bring about the fall of the capitalist system. In a sense, I am more pessimistic than Marx, because even given a stable rate of return on capital, say around 5 percent on average, and steady growth, wealth would continue to concentrate, and the rate of accumulation of inherited wealth would go on increasing.

But, in itself, this does not mean an economic collapse will occur. My thesis is thus different from Marx's, and also from David Graeber's. An explosion of debt, especially American debt, is certainly happening, as we have all observed, but at the same time there is a vast increase in capital—an increase far greater than that of total debt.

The creation of net wealth is thus positive, because capital growth surpasses even the increase in debt. I am not saying that this is necessarily a good thing. I am saying that there is no purely economic justification for claiming that this phenomenon entails the collapse of the system.

Moderators: But you still say the level of inequality has become intolerable?

Piketty: Yes. But there again, the apparatus of persuasion—or of repression, or a combination of the two, depending on what country you are considering—may allow the present situation to persist. A century ago, despite universal suffrage, the elites of the industrialized countries succeeded in preventing any progressive taxes. It took World War I to bring about a progressive income tax.

David Graeber: But the indebtedness of one person has to imply the enrichment of another, don't you think?

Piketty: That is an interesting question. I loved your book, by the way. The only criticism I would have is that capital cannot be reduced to debt. It is true that more debt for some, public or private, is bound to increase the resources of others. But you do not directly address possible differences between debt and capital. You argue as if the history of capital were indistinguishable from that of debt. I think you are right to say that debt plays a much more significant historical part than has been assumed—especially when you dismiss the fairy tales retailed by economists concerning capital accumulation, barter, the invention of money, or monetary exchange. The way you redirect our attention by stressing the relationships of power and domination that underlie relationships of indebtedness is admirable. The fact remains that capital is useful in itself. The inequalities associated with it are problematic, but not capital per se. And there is much more capital today than formerly.

Graeber: I do not mean to say that capital is reducible to debt. But the absolute opposite is what everybody is told, and it is our task to fill in the blanks left by that account with respect to the history of wage labor, industrial capitalism, and early forms of capital. Why do you say that resources increase even as debt increases?

Piketty: Net wealth has increased—"wealth" meaning resources inasmuch as we can calculate them. And this is true even when debt is taken into account.

Graeber: You mean to say that there is now more wealth per capita than before?

Piketty: Clearly, yes. Take housing. Not only is there more housing now than fifty or a hundred years ago, but, by year of production, housing, net of debt, is increasing. On the basis of annual GNP, if you calculate national capital (defined as all revenue engendered by economic activity) and then the total indebtedness of all public and private actors in the country, the former will be seen to have increased relative to the latter in all the rich countries. This increase is somewhat less spectacular in the United States than in Europe and Japan, but it exists nevertheless. Resources are increasing much faster than debt.

Graeber: Getting back to the original question, the possible collapse of the system, I think that historical forecasts of this kind are a trap. What is certain is that all systems must end, but it is very hard to predict when the end might come. Signs of a slowing down of the capitalist system are visible. So far as technology is concerned, we no longer have the sense, as we did in the 1960s and 1970s, that we are about to see great innovations. In terms of political visions, we seem to be very far from the grand projects of the postwar period, such as the United Nations or the initiation of a space program. U.S. elites can't act on climate change, even though it puts our ecosystem and human life itself in jeopardy. Our feelings of helplessness stem from the fact that for thirty years the tools of persuasion and coercion have been mobilized to wage an ideological war for capitalism, rather than to create conditions for capitalism to remain viable. Neoliberalism places political and ideological considerations above economic ones. The result has been a campaign of fantasy manipulation, a campaign so effective that people with dead-end jobs now believe that there is no alternative.

It is quite clear that this ideological hegemony has now reached its limit. Does this mean that the system is on the point of collapse? It's hard to say. But capitalism is not old. It hasn't been around forever, and it seems just as reasonable to imagine it can be transformed into something completely different as to imagine it will necessarily continue existing until the sun blows up, or until it annihilates us through some ecological catastrophe.

Moderators: Is capitalism itself the cause of the problem, or can it be reformed?

Piketty: One of the points that I most appreciate in David Graeber's book is the link he shows between slavery and public debt. The most extreme form of debt, he says, is slavery: slaves belong forever to somebody else, and so, potentially, do their children. In principle, one of the great advances of civilization has been the abolition of slavery.

As Graeber explains, the intergenerational transmission of debt that slavery embodied has found a modern form in the growing public debt, which allows for the transfer of one generation's indebtedness to the next. It is possible to picture an extreme instance of this, with an infinite quantity of public debt amounting to not just one, but ten or twenty years of GNP, and in effect creating what is, for all intents and purposes, a slave society, in which all production and all wealth creation is dedicated to the repayment of debt. In that way, the great majority would be slaves to a minority, implying a reversion to the beginnings of our history.

In actuality, we are not yet at that point. There is still plenty of capital to counteract debt. But this way of looking at things helps us understand our strange situation, in which debtors are held culpable and we are continually assailed by the claim that each of us "owns" between thirty and forty thousand euros of the nation's public debt.

This is particularly crazy because, as I say, our resources surpass our debt. A large portion of the population owns very little capital individually, since capital is so highly concentrated. Until the nineteenth century, 90 percent of accumulated capital belonged to 10 percent of the population. Today things are a little different. In the United States, 73 percent of capital belongs to the richest 10 percent. This degree of concentration still means that half the population owns nothing but debt. For this half, the per capita public debt thus exceeds what they possess. But the other half of the population owns more capital than debt, so it is an absurdity to lay the blame on populations in order to justify austerity measures.

But for all that, is the elimination of debt the solution, as Graeber writes? I have nothing against this, but I am more favorable to a progressive tax on inherited wealth along with high tax rates for the upper brackets. Why? The question is: What about the day after? What do we do once debt has been eliminated? What is the plan? Eliminating debt implies treating the last creditor, the ultimate holder of debt, as the responsible party. But the system of financial transactions as it actually operates allows the most important players to dispose of letters of credit well before debt is forgiven. The ultimate creditor, thanks to the system of intermediaries, may not be especially rich. Thus canceling debt does not necessarily mean that the richest will lose money in the process.

Graeber: No one is saying that debt abolition is the only solution. In my view, it is simply an essential component in a whole set of solutions. I do not believe that eliminating debt can solve all our problems. I am thinking rather in terms of a conceptual break. To be quite honest, I really think that massive debt abolition is going to occur no matter what. For me the main issue is just how this is going to happen: openly, by virtue of a top-down decision designed to protect the interests of existing institutions, or under pressure from social movements. Most of the political and economic leaders to whom I have spoken acknowledge that some sort of debt abolition is required.

Piketty: That is precisely my problem: the bankers agree with you!

Graeber: Once we grant that debt cancellation is going to take place, the question becomes how we can control this process and ensure that its outcome is desirable. History offers many examples of debt elimination serving merely to preserve iniquitous social structures.

But debt abolition has also at times produced positive social change. Take the Athenian and Roman constitutions. At the origin of each was a debt crisis resolved in such a way that structural political reform ensued. The Roman republic and Athenian democracy were the offspring of debt crises. Indeed, there is a sense in which all great moments of political transformation have been precipitated by such crises. During the American Revolution, the annulment of debt by Great Britain was one of the revolutionaries' demands. I feel that we are now confronted by a similar situation and that it calls for political inventiveness.

Cancellation is not a solution in itself because history records so many hopelessly regressive cases of it. Researchers at the Boston Consulting Group have written a paper entitled "Back to Mesopotamia?" on this issue. They roll out various models to see what might happen in the event of massive debt cancellation. Their conclusion is that great economic turbulence would result, but that failing to take such a course of action would create even more severe problems. In other words, the protection of prevailing economic structures requires debt cancellation. This is a typical case of reactionary calls for debt annulment.

As for capitalism, I have trouble imagining that it can last more than another fifty years, especially given the ecological issue. When the Occupy Wall Street movement was reproached for failing to frame concrete demands (even though it had in fact done so), I suggested—somewhat provocatively—that debts should be forgiven and the workday reduced to four hours. This would be beneficial from the ecological viewpoint and at the same time respond to our hypertrophied work time. (This means that we work a great deal at jobs whose sole purpose is to keep people occupied.) The present mode of production is based more on moral principles than on economic ones. The expansion of debt, of working hours, and of work discipline—all of them seem to be of a piece. If money is indeed a social relationship, founded on the assumption that everyone will assign the same value to the banknote that they have in their possession, shouldn't we think about what kind of assumptions we wish to embrace regarding future productivity and commitment to work?

That's why I say that the abolition of debt implies a conceptual break. My approach is intended to help us imagine other forms of social contract that could be democratically negotiated.

Moderators: Reading your work, Thomas Piketty, one gets the impression that for you the eradication of debt is not a "civilized" solution. What do you mean by this?

Piketty: The fact is, as I say, that the last creditors are not necessarily the ones who should be made to pay. What do you think, David, of the proposal that a progressive tax be imposed on wealth, which seems to me a more civilized way to arrive at the same result? I must repeat how perplexed I am by the fact that the most enthusiastic supporters of debt abolition, apart from you, are the partisans of "haircuts," to use an expression favored by the International Monetary Fund (IMF) and the Bundesbank. That proposal comes down to the idea that the holders of public debt took risks so now they must pay. So reduce the Greek debt by 50 percent or the Cypriot debt by 60 percent—hardly a progressive measure!

Forgive me, but I am very surprised that you attach so little importance to the question of what tools we should employ, what collective institutions we should create, the better to target those whom we wish to target. Part of our role as intellectuals is to say what collective institutions we want to construct. Taxation is part of this.

Graeber: Progressive taxation seems to me to epitomize the Keynesian era and redistributive mechanisms based on expectations of growth rates that no longer seem valid. This sort of redistributive mechanism relies on projections of the increased productivity, linked to rising wages, which historically accompanied the application of redistributive tax policies. But are such policies workable in the context of weak growth? And with what social impact?

Piketty: Well, weak growth actually makes those fiscal tools even more desirable. I am thinking not only of traditional income taxes, but also of a progressive tax on wealth and capital. People possess a certain quantity of capital, net of debt. If you impose a progressive tax rate on this, for those who possess very little that rate may be negative, which amounts to forgiving some of their debts. So this is a far cry from Keynesian income-tax policies.

Moreover, a weak growth rate makes both income taxes and wealth taxes even more desirable because it widens the gap between the rate of return on capital and the growth rate. For most of history, the growth rate was almost zero, whereas the return on capital was around 5 percent. So when the growth rate is around 5 percent, as it was in Europe after World War II, the gap between the two rates is minimal. But when the growth rate is 1 percent, or even negative, as in some European countries today, that gap is enormous. This is not a problem from a strictly economic point of view, but it certainly is in social terms, because it brings about great concentrations of wealth. In response to which, progressive wealth and inheritance taxes are of great utility.

Graeber: But shouldn't such a progressive tax on capital be international in scope?

Piketty: Yes, of course. I am an internationalist, and so are you, so we have no differences on that score.

Graeber: All the same, it is an interesting question, because historically whenever an era of expensive credit begins, some kind of overarching means is generally found for protecting debtors and giving creditors free rein—even going so far on occasion as to actively favor debtors. Such mechanisms for constraining creditors' power over debtors have taken many forms, including a monarchy based on divine right in Mesopotamia, the biblical Law of Jubilee, medieval canon law, Buddhism, Confucianism, and so on. In short, societies adopting such principles had institutional or moral structures designed to maintain some form of control over lending practices.

Today we are in a period in which lending is decisive, but we do things the other way around. We already have the overarching institutions, which are almost religious in character inasmuch as neoliberalism may be seen as a kind of faith. But instead of protecting debtors from creditors, these institutions do just the opposite.

For thirty years a combination of the IMF, the World Trade Organization (WTO), the financial institutions that came out of Bretton Woods, the investment banks, the multinationals, and the international NGOs has constituted an international bureaucracy of global scope. And unlike the United Nations, this bureaucracy has the means to enforce its decisions. Since this whole structure was explicitly put in place in order to defend the interests of financiers and creditors, how might it be politically possible to transform it in such a way as to have it do the exact opposite of what it was designed to do?

Piketty: All I can say is that a lot of people would need to be convinced! But it is important to know exactly where we want to get to. What bothers me here is the fact that for the large institutions you are talking about, it is far more natural than you think to forgive debt. Why do you think they like the word "haircut" so much? Your prescription is trapped in the moral universe of the market. The culprit is the party that owns the debt. The danger I see is that the financial institutions move in exactly the direction you describe.

Typically enough, in the case of the Cypriot crisis, after entertaining the idea of a (slightly) progressive tax on capital assets, the IMF and the European Central Bank eventually opted for "haircuts," along with a flat-level tax.

In the France of 1945–46, the public debt was enormous. Two means were used to deal with the problem. The first was high inflation, which is the main way, historically, of getting rid of debt. But this reduced the worth of those who had very little: poor old people, for example, who lost everything. As a result, in 1956, a national consensus supported the introduction of an old-age pension, a form of guaranteed minimum income for retirees so affected.

The rich, meanwhile, had been untouched by the inflation. Inflation did not reduce their wealth because their investments were in real capital, which sheltered them. What did lose them money was the second measure, adopted in 1945—namely, an uncustomary progressive tax imposed on wealth and capital. Today, seventy years later, the IMF would have us believe that it is technically impossible to establish a graduated tax on capital. I really am afraid that the institutions you mention have powerful ideological reasons for favoring haircuts.

Moderators: What about the risk of tax evasion? Isn't it easier for the owners of capital to avoid taxes than to avoid the impact of debt cancellation?

Piketty: No, it is very easy to avoid the effects of debt forgiveness, just as it is easy to protect oneself against inflation. The big portfolios do not hold letters of credit—they are composed of real capital. Is it possible to fight tax evasion? Yes, if you want to, you can. When modern governments really want their decisions to be respected, they succeed in getting them respected.

When Western governments want to send a million soldiers to Kuwait to prevent Kuwaiti oil from being seized by Iraq, they do it. Let's be serious: If they are not afraid of an Iraq, they have no reason to fear the Bahamas or New Jersey. Levying progressive taxes on wealth and capital poses no technical problems. It is a matter of political will.

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