

# The Illusion of Meritocracy: “Rock Star Economist” Thomas Piketty in Australia

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*No one likes being lectured, and when it comes in the form of Gallic smugness delivered from literally the left of centre, it can grate. The equally smug social engineers and commentators who see their society as an exemplar to emulate find that hardest to stomach.*

Thomas Piketty, repeatedly introduced as a “rock star” economist by those short of words, is certainly full of advice for the places he visits. For Australia, he has specific observations about rising inequality, being at a historic high since the post-war period. Such points are noted with specific sensitivity by the myth makers who believe that Australian society is somehow egalitarian, with small income gaps between ever widening tiers.

Much of Piketty’s critical armoury is laid out in *Capital in the Twenty-First Century*. His target, as ever, is emerging uncorrected inequality, the sort that has seen a doubling of the income share of the top 1 per cent between 1980 and 2010. The returns of capital, be it dividends, rent, capital gains and savings interest, have left labour returns stuttering in their wake.

Last Sunday, Piketty shone a light on historic comparisons before his Sydney Opera House audience that made some squirm in disbelief. His overall thesis is that the after-tax rate return on wealth, coupled by sluggish growth, compounds inequality. The stress caused on that level is so profound as to make inequality “oligarchic” in nature, the sort not seen since the nineteenth century.

The Australian case is far from pretty. Despite boasting about less disparity between the poor and the wealthy, the income share of the top 10 per cent of earners rose to 30 per cent in 2013. This disparity is noted as being the highest since 1951.

As a consequence, the three richest Australians possess more wealth than the poorest one million. “Certainly Australia has a more egalitarian tradition and a more egalitarian culture than the US or Brazil but relative to this tradition, the country has become more unequal in recent decades.”[1]

Piketty has also gone into waving the red flag of taxation to his Australian hosts. Those who should fork out to fill that particular chest should be the well-endowed. Naturally, that means a return to that great tradition of taxing, if not the dead, then certainly what is bequeathed by the dead to their inheritors.

“Japan,” he noted, “just raised its top inheritance tax rate from 45 to 55 per cent last year.” Never mind the fact that it was a “right-wing government” – there was a general consensus in many European countries and Japan that such a tax was appropriate and necessary. No

policy maker in those states had seriously considered a reduction from say 40 per cent, “to the Australian level of zero per cent”. [2]

Piketty’s enthusiasm should not be confused with a lust to prey on the wealthy, except perhaps those in the filthy wealthy category. The point is to exempt smaller properties and lesser inheritances, focusing instead on the multimillion dollar transactions that go unattended. “The objective must be to reduce taxes for others and in particular for those with middle wages and lower wages.”

Left only with your labour income, and being short in the family wealth department, is bound to leave you behind in the modern state, a point that Australians are not exempt from. The market of house ownership, deemed a near divine right of the Australian resident, has become prohibitive. Property in such cities as Sydney and Melbourne appreciate at exponential rates, creating seemingly indestructible bubbles of inflating prices.

“Families who can transmit property and some part of the young generation who don’t have that kind of family connection and wealth, this is the big challenge to the kind of meritocratic ideal that we believed in the postwar decades, where indeed it was easier to start from zero and access property yourself” (ABC News, Oct 24).

Rejoinders were bound to follow, and they were bound to come from economists keen to point out the missing parts in the Piketty analysis. Former Reserve Bank of Australia board member Warwick McKibbin insisted that egalitarianism remained a sound reality in the antipodes. “Everybody had a share in the pie.”

The point that Piketty had missed, charged McKibbin, was the fact that income inequality had also been accompanied by an overall rise in income growth. “We don’t seem to have income distribution causing problems for growth, when everybody’s income is rising.” [3]

The *Australian Financial Review* proved even less accommodating, sneeringly suggesting that Piketty sought to do “what socialists have always done: empirically prove that socialism is not only morally right, but scientifically correct.” [4] The *AFR*, indeed, revelled in mocking Piketty’s France, different from Australia, which is a country of “immigrant opportunity”. Australia was also unlike France, with its “large ghettos of intergenerational poverty that are now rearing battalions of Islamist terrorists.”

Such a charming view, stemming from the *AFR* and the Murdoch press, is predictable. It is to accept that there will always be inequality, which is not a bad thing. Focus, instead, on the exceptional immigrants, the millionaires made good. (No mention of tax systems and inequalities on that score.) Think of 39-year-old property developer Kosta Drakopoulous, who dropped out of vocational education and eventually achieved wealth approaching \$60 million.

Piketty’s fundamental appeal is that he has pulled the rug from under the carpet of the capitalist system, notably on the illusory point of championed meritocracy. Be sceptical, he suggests, of those who bandy the term about, those merry accumulators. “Meritocracy is largely a myth invented by the winners of the system.”

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## Notes

- [1] <http://www.afr.com/news/economy/thomas-piketty-debunks-australias-meritocracy-fairy-tale--20161023-gs8sb6>
- [2] <http://www.abc.net.au/news/2016-10-24/celebrated-economist-suggests-inheritance-tax/7961270>
- [3] <http://www.afr.com/news/economy/thomas-piketty-debunks-australias-meritocracy-fairy-tale--20161023-gs8sb6>
- [4] <http://www.afr.com/opinion/editorials/thomas-piketty-can-spare-us-the-lecture-australia-a-land-of--opportunity-20161024-gs97cn>

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