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Debt

Thomas Piketty and public debt

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We cannot but rejoice at Thomas Piketty's refusing the *Légion d'honneur* that the French governement wanted to award him with at the beginning of 2015.

A few days earlier in an op-ed in the French daily paper *Libération* Thomas Piketty fiercely exposed the absurdity of neoliberal policies, notably by the French and German governments, which enforce on countries such as Greece or Spain blatantly antisocial measures allegedly in order to repay their public debts. Piketty writes, â€˜The amnesia award goes to Germany, with France a faithful second. In 1945, these two countries had a public debt at over 200% of GDP. By 1950, it had fallen to less than 30%. What happened, did they suddenly create budget surpluses that let them pay off that debt? Of course not: it was by inflation and pure and simple repudiation that Germany and France got rid of their debt in the last century. If they had tried to patiently build surpluses of 1% or 2% of GDP a year, they'd still be at work on it, and it would have been more difficult for the postwar governments to invest in growth. These are however the two countries that have been explaining since 2010-11 to South European countries that their public debt must be paid back to the last euro. This is short-sighted selfishness, because the new budgetary treaty adopted in 2012 under German and French pressure, that organizes austerity in Europe (with excessively rapid reduction of deficits and a totally inoperative system of automatic sanctions), has led to generalised recession in the Eurozone.' **[2**
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The CADTM takes this opportunity to examine how Piketty analyzes public debt in his work *Capital in the Twenty-First Century*, which in 2014 became a bestseller in several languages. [3] The CADTM takes over several of Piketty's arguments but has a different approach to possible solutions. We first sum up Piketty's positon, next we develop the solutions suggested by the CADTM. [4]

In his 1,000 page book Piketty devotes a dozen or so very interesting pages to the question of public debt over the last two centuries, focusing his analysis mainly on France and the United Kingdom. He rightly states that in discussing public debt, studying the past is worthwhile for understanding and dealing with the challenges of the current crisis: "*This complex question of the indebtedness of States and the nature of the corresponding wealth is at least as much a concern today as it was in 1800, and examining the past can enlighten us about this phenomenon, which is so significant in the world today. For even if public debt in the early twenty-first century is still far from attaining the astronomical levels of the early nineteenth century (at least in the UK); on the contrary, in France, and in many other countries it is near its historic record levels, and is probably the cause of more confusion today than during the Napoleonic era."* [5]

Between the end of the 18th century and the beginning of the 19th century, France and the United Kingdom adopted policies that were quite different regarding public debt. Whereas in the years 1760-1770, public debt stood at nearly 100% of national income in both countries, forty or fifty years later the situation had changed completely. France's public debt was only 20% of its national income in 1815, whereas Britain's debt had skyrocketed to 200% of national income.

How did that happen? In France, the burden of paying off public debt and the people's refusal to bear that burden alone played a central role in the revolutionary explosion of 1789. Measures taken during the Revolution radically reduced the burden of public debt. Piketty sums up the sequence of events as follows: "*The French monarchy's inability to modernize its taxes and end the fiscal privileges of the nobility is well known, as is the ultimate revolutionary outcome, with the convening of the Estates-General in 1789, which led to the implementation of a new taxation system in 1790-1791 (including a real-estate tax affecting all landowners, and an inheritance tax on all estates) and the â€˜two-thirds bankruptcy' in 1797 (which in reality was an even more massive default, with the episode of the* assignats *[6] and the resulting inflation), which closed the books on the Old Regime. That is why*

France's public debt was suddenly reduced to extremely low levels at the start of the 19th century (to less than 20% of national income in 1815)." [7]

Britain took a completely different path. In order to finance its war to oppose the Declaration of Independence signed by the 13 British colonies in North America, and "*above all, the multiple wars with France during the Revolutionary and Napoleonic periods, the British monarchy chose to borrow without limit. Public debt went from approximately 100% of national income in the early 1770s to nearly 200% in the years after 1810 – ten times that of France in the same period."* [8]

Piketty explains that it took the United Kingdom a century of austerity and budget surpluses to reduce its indebtedness gradually to less than 30% of national income at the beginning of the second decade of the 20th century.

What lessons can be drawn from Britain's experience? First, there is no doubt, according to Piketty, that the heavy public debt increased the extent of private wealth in British society. Wealthy Englishmen readily lent money to the State.

Piketty goes on: "*This heavy public indebtedness generally served the interests of the lenders and their descendants quite well – at least in comparison to a situation in which the British monarchy would have covered its expenditures by making them pay taxes. From the point of view of those who have the means to do it, it is obviously much more advantageous to lend a given sum to the State (and then to receive interest on it for decades) than to pay it in the form of taxes (without compensation).* [9] He adds that the massive recourse to public debt by the State enabled the bankers to raise interest rates, which was beneficial to the wealthy lenders such as entrepreneurs, the independently wealthy, and bankers. This powerfully recalls the current situation.

According to Piketty, the essential difference with the 20th century (see below) is that public debt was reimbursed at a premium in the 19th century: *"Inflation was quasi nil between 1815 and 1914, and the interest rate on government certificates was very substantial (generally around 4%-5%), and in particular was well above the growth rate. Under such conditions, public debt can be a very good deal for the affluent and their heirs."* [10]

Piketty offers a hypothetical case in which: "*cumulative public debt … is equal to 100% of the GDP. Suppose that the government does not seek to reimburse the principal, but only pays the interest each year … if the interest rate is 5%, every year it will have to pay 5% of the GDP to the holders of this additional public debt, endlessly. That is basically what happened in the United Kingdom in the 19th century."* [11] Now, let us travel in time and space: in Greece in 2014 public debt was over 175% of GDP. If we entertain the hypothesis that the State will reimburse that debt to the Troika and its other creditors at a rate of around 5% [12] on average, and if we also take into consideration that growth is non-existent [13] and that the rate of inflation is also nil, Greece will have to pay its creditors, indefinitely, the equivalent of 8% of its GDP without reducing the debt, since only the interest on it is being paid off. [14]

Now let us return to the 19th century: total public debt in France, which was very limited in 1815, increased rapidly over the next decades, in particular during the period of the censitary monarchies (1815-1848). After the defeat at Waterloo in 1815, the French State went deeply into debt to finance the compensation paid to the armies of occupation, then again in 1825, to finance the famous "émigrés' billion" [15] paid to the aristocrats who went into exile during the Revolution (to compensate them for the consequences of the Revolution, and in particular the confiscation of part of their land holdings). In all, public debt increased to the equivalent of over 30% of the national income. Under the Second Empire, debts were paid "cash on the nail."

Piketty recalls the short work *The Class Struggles in France,* written in 1849-1850, in which Karl Marx denounces Louis-Napoleon Bonaparte's Minister of Finance, Achille Fould – a worthy representative of the bankers and high finance –, who decided to increase taxes on beverages in order to pay off wealthy holders of government bonds. Twenty years later, following the defeat at the hands of Prussia in 1870-1871, the French State further increased public debt to pay a war tribute equivalent to some 30% of national income. Finally, the indebtedness policy conducted between 1880 and 1914, which was favourable to creditors, brought public debt to a higher level in France than in the United Kingdom – around 70-80% of national income, compared to less than 50% previously.

Piketty adds, "*Government annuities were a very secure investment throughout the 19th century in France, and contributed to reinforcing the extent and level of private fortunes, as was also the case in the United Kingdom.*" He concludes that the policy of public indebtedness pursued during the 19th century in France and the United Kingdom " *explains why the socialists of the 19th century, beginning with Karl Marx, were extremely mistrustful of public debt, which they perceived – rather clairvoyantly – as an instrument used to encourage the accumulation of private capital.* " [16] He goes on to say, very accurately, *"A large portion of the public debt* (…) *is held in practice by a minority of the population, so that the debt results in a major redistribution of wealth within a country* (…). *Given the very high concentration that has always characterized the distribution of wealth* (…)*, studying these questions while ignoring the inequalities between social groups amounts to disregarding* de facto *a major aspect of the subject and the realities that are at play."* [17]

Piketty explains that over the course of the 20th century, France underwent a major change in the way public debt is managed. The public authorities benefited from inflation, and then made use of it to reduce the real value of the debt. "*The consequence for the State is that, despite a large initial public debt (close to 80% of national income in 1913) and very high deficits during the period 1913-1950, in particular during the war years, in 1950 France's public debt was again at a relatively low level (approximately 30% of national income), as in 1815. In particular, the huge deficits of the Liberation were almost immediately wiped out by inflation in excess of 50% per year for four consecutive years, from 1945 to 1948, in a supercharged political atmosphere. In a way, it was like the â€˜two-thirds bankruptcy' of 1797 – the books were closed on the past in order to proceed with the reconstruction of the country with a low public debt.*" [18]

Based on this experience in the second half of the 20th century, a very different vision from that of Marx and the socialists during the 19th century was developed, founded on the conviction that indebtedness can be an instrument in the interest of a policy of public spending and redistribution of wealth in favour of the poorest citizens.

"*The difference between the two visions is quite simple: In the 19th century, debt was reimbursed at a premium, which was to the advantage of the lenders and tended to bolster private fortunes; in the 20th century, debt was diluted by inflation and reimbursed in "funny money," making it possible* de facto *to put the burden of financing the deficits on those who had lent their wealth to the State, without having to increase taxes as much. This "progressive" vision of public debt in fact continues to hold sway with many thinkers in the early 21st century, even though inflation has long since fallen back to levels that are not far from what they were during the 19th century, and its distributive effects are relatively obscure*
*." [19]*Thomas Piketty is quite right to stress the dangers of a unilaterally positive vision of public debt.

Piketty's proposals

Let us now analyse what Piketty proposes. From the outset, he makes it clear that he does not defend public debt in anyway: "*I have repeatedly stated that it often results in reverse redistributions, from those who have less to those who can afford to make loans to the State (and who as a rule ought to pay taxes instead)."* [20] We can only agree with this statement. He adds that "*national capital is very poorly distributed, with private wealth exploiting public poverty, which means that we currently spend much more paying interest on debt than we invest in higher education.*

This is actually a rather old situation: considering the rather slow growth since the 1970s-1980s, we are in a historical era in which debt is a heavy burden on the treasury. This is the main reason it must be reduced as quickly as possible (…)" [21]

Piketty considers (but rejects) two solutions for reducing public debt, before proposing a third one. The first rejected solution is to privatize public assets to repay the debt. The second consists in cancelling the debt. The third one, which he supports, is to levy an exceptional progressive tax "*so as to spare those with the least amount of wealth, and ask more of those with the most*." [22]I will not spend much time on the first solution, because it is so clear to me that it must be rejected. This is the solution currently being rolled out by governments that are merely extending the wave of privatisations undertaken in the 1980s-1990s.

As for the second solution, which Piketty also rejects, it is obvious that he does not fully explore all possible scenarios for debt cancellation. The only model he mentions explicitly is the one applied to Greek debt in March 2012, a so-called *haircut* operation, while there are other possibilities.

He is right to reject this kind of partial debt cancellation devised by the Troika (the European Commission, ECB, and IMF) for Greece. In this case, debt cancellation was based on measures that run against the civic, political, social, and economic rights of the Greek people, and it contributed to dragging Greece even further into a downward spiral. The operation aimed at making it possible for foreign private banks (mainly French and German ones) to pull out while limiting their losses, for private Greek banks to get fresh capital from the public treasury, and for the Troika to tighten its long-term grip on Greece. While Greek public debt amounted to 130% of GDP in 2009, and 157% in 2012 after partial debt cancellation, it reached 175% in 2013! The unemployment rate, which was 12.6% in 2010, was 27% in 2013 (50% among youths under 25). Piketty is thus completely right when he rejects such haircuts, which merely aim to keep the victim alive in order to bleed it longer.

On the other hand, he is wrong to not give serious consideration to the idea of debt cancellation or the suspension of debt payments as decided on by the debtor country, on its own terms, and under citizen control. This is what Ecuador in 2008-9 and Iceland from 2008 onward did in two different sets of circumstances. Based on an audit decided on by the government and carried out with the active participation of citizens in 2007-2008, Ecuador unilaterally suspended payment on the portion of its public debt owed as securities maturing in 2012 and 2030, which were mainly held by foreign banks. [23] The outcome was positive: Ecuador bought back 91% of these securities at less than 35% of their market value. Thanks to what the country had saved in debt repayment, it could greatly increase social spending, particularly in the fields of education and healthcare (see Appendix 2 for a more detailed presentation of Ecuador's experience). In the case of Ecuador, we should not simply take the current process as a model: it is essential to continue analysing the situation there. However, it does demonstrate that a State can take a unilateral sovereign decision in terms of debt auditing and suspension of payment, and consequently increase public spending in fields such as education and health.

From the end of 2008, Iceland unilaterally refused to pay for the debts of private banks that owed money to foreign creditors. This occurred in the context of strong citizen mobilisation that put pressure on Iceland's government to refuse the claims of foreign creditors, especially the UK and the Netherlands.

What happened in Iceland? Because of the collapse of the banking system in 2008, Iceland refused to pay compensations to people in the UK and in the Netherlands, who had deposited a total of â‚¬3.9 billion in subsidiaries of private Icelandic banks that had just collapsed. The British and Dutch authorities compensated their own citizens, and demanded that Iceland pay them back. Under popular pressure (demonstrations, sit-ins, referenda), the Icelandic government refused. As a result, Iceland was listed as a terrorist organization, Icelandic assets were frozen in the UK, and the Icelandic government was sued by London and The Hague in the Court of Justice of the European Free Trade Association States (EFTA). [24] In addition, Iceland completely blocked the outflow of capital. Ultimately, it fared much better than many other European countries that had met their creditors' demands. Of course, we should not simply take Iceland as a model to be emulated, but we should draw lessons from its experience.

Ecuador and Iceland are two recent examples that should be examined carefully for they show that there are solutions for debt cancellation other than the Greek *haircut* or other forms of restructuring. [25] Those two examples offer proof that if you do not comply with creditors' demands your country does not simply collapse, quite the opposite.

Let us return to Piketty's position. He is convinced that cancellation will hardly affect the richer creditors, because they will manage to "*restructure their portfolios on time*" and consequently he claims that "*there is no guarantee that those who will have to pay are those who should.*" [26] However, he produces no evidence that is based on concrete examples or statistical data to support this, while history shows that when a country hints that it might stop repaying its debt or when it actually does, the market value of its debt securities plummets, and it is very difficult for stockholders to unload them at a good price. [27] This is what occurred between 2007 and 2009 in Ecuador, and all those who follow what is happening on the debt market know that it is virtually impossible to get rid of a large amount of securities without significant losses in the case of unilateral debt cancellation or suspension. Moreover, it is easy for a country taking such measures to provide compensation and protection to those with limited income, assets, and savings. It is quite possible to make sure that those who should pay *do* while protecting those who deserve to be protected.

Let us now examine Piketty's proposal on finding the means necessary to reduce the burden of public debt. After considering the possibility of "*a 15% proportional tax on all private assets,*" [28] he rejects this idea, because as he writes "*it would not make much sense to levy a proportional tax [29] on all European private assets.*" [30] He claims that "*it would be better to use a progressive schedule so as to spare those with the least amount of wealth, and levy more on those who have the most wealth.*" [31]

Piketty is favourable to a partial reduction of the debt, amounting to 20% of the GDP. In order to reach this objective, he suggests that a progressive exceptional tax be levied: "*0% under â‚¬1 million, 10% between â‚¬1 and â‚¬5 million, and 20% beyond â‚¬5 million,*" [32] while recognising that other rates could be used.

It must also be mentioned, and deplored, that Piketty never considers the issue of the legitimacy of public debt. It is actually astonishing, because throughout the book he shows that a regressive tax policy results in an increase in public debt, and that, as he states repeatedly, those who pay back the debt are for the most part lower-income people, given the share of taxes they pay, while those in the higher income brackets lend to the State, since this is a safe investment. He does not suggest either that citizens should organise and audit the debt, while he must know that in France (and elsewhere in Europe), since 2011 citizen debt audit initiatives have been developing with a certain amount of success. [33]

The CADTM's proposition on public debt

To contribute to the debate needed to find solutions to the public debt crisis, the CADTM argues that the portion of public debt identified as being illegitimate (or illegal) should be repudiated instead of being repaid.

The CADTM adds that the following measures should be instituted: 1. Those who own small quantities of government bonds will be completely reimbursed; 2. The following rule of thumb should be applied in line with point 1: "*When public debts are cancelled, small savers who have invested in government bonds, and wage earners and old-age pensioners who have part of their social security contributions (pension, unemployment, health-care, and family benefits) invested in institutions or bodies that mange the same kind of bonds must be protected*." [34]; 3. The portion of public debt that has not been identified as illegitimate should be decreased by making those who gained from it contribute to paying it back. One possible option to do this would be to levy an exceptional progressive tax on the richest 10%. The revenues from this tax could be used to prepay a portion of the debt that is not considered to be illegitimate. There are other possible solutions, and the CADTM remains open to discussion.

The procedure used to identify the illegitimate part of public debt that must be cancelled will be based on a far-reaching citizen debt audit, which must mobilize people and ultimately lead public authorities to formally repudiate this debt. The CADTM is making concrete propositions while participating actively in different citizen debt audit initiatives. It is through a democratic debate linked to the debt audit process that we will be able to more precisely define propositions leading to a popular consensus, and thanks to the mobilization of as many people as possible that these ideas will be put into practice by our government leaders.

The different forms of responsibility in the debt process must also be determined during the citizen debt audit, and those responsible for running up debt nationally and internationally must be held legally accountable. If the audit demonstrates that there are offences linked to the illegitimate part of the debt, the perpetrators (natural or legal person(s)) must be severely sanctioned and forced to pay reparations. They should not be allowed to work in any credit or banking sector jobs (any banks found to be guilty could have their banking license revoked), and should be given jail sentences if their actions deserve such punishment. Furthermore, the public authorities who committed to any illegitimate loans must be held legally accountable.

A legal framework must also be established to avoid crises like the one that started in 2007-2008, and should include the following five measures. 1) It must be illegal to socialise private debt; 2) An obligation to conduct continuous auditing of the public debt with citizen participation; 3) The non-applicability of statutory limitations to offences linked to illegitimate debt; 4) Illegitimate debt must be considered null and void; [35] 5) A golden rule must be adopted according to which it is illegal to cut any public spending needed to guarantee fundamental human rights, which take precedence over spending to repay debts.

A State must be able to borrow so that it can improve the living conditions of its people, by improving public infrastructure and investing in renewable energies. Some of these projects can be funded by its current budget thanks to determined political choices, but government borrowing can make other more far-reaching projects possible. For instance, such money would be needed to make a transition from the “car culture” to the large-scale development of public transport, to definitively close nuclear power plants and replace them by renewable energy sources, to build or re-open local railways throughout the country, starting in urban and peri-urban areas, or even to renovate, rehabilitate, and construct high-quality low-energy public buildings and social housing.

The CADTM argues that a transparent public borrowing policy must be established, and would like to make the following propositions: 1. All public borrowing must be used in a way that guarantees improved living conditions, and breaks with the logic of environmental destruction; 2. All public borrowing must contribute to a wealth redistribution process aimed at reducing wealth inequalities. This is why the CADTM argues that all financial institutions, major private corporations, and wealthy households should be legally bound to purchase government bonds in amounts proportional to their wealth and income, which earn 0% interest and are not indexed on inflation. The remainder of the population could purchase these bonds on a volunteer basis, and would be guaranteed a real positive yield (for example 3%) that is greater than inflation. In this case, if the annual inflation rate were 3%, the interest rate paid by the government would be 6% for that same year.

Such affirmative financial action (comparable to the policies adopted to fight racial discrimination in the United States, the cast system in India, and gender-based inequalities) would help us to move toward more tax justice and a more egalitarian distribution of wealth.

The CADTM also argues that national banks and the ECB (for eurozone countries) must offer countries 0% loans to fund their national budgets.

Piketty's central idea to create a worldwide, progressive tax on capital

Piketty declares that it is essential "*to adequately revamp the 20th century social-democratic and neo-liberal fiscal programme.*" He believes that we must defend and improve both the welfare state and the progressive income tax system. We must also innovate "*by establishing a progressive worldwide tax on capital, accompanied by a high degree of financial transparency*." This "*institution would enable us to avoid a spiral of perpetually increasing inequality and effectively regulate the disturbing wealth concentration dynamic that has been developing throughout the world.*" [36]'

Piketty has no illusions about how fast his proposition will be put into practice: "*A worldwide tax on capital is utopian: it is hard to imagine in the near future all the nations on earth agreeing to put it in place, establishing a tax schedule that would apply to all the great fortunes on the planet, then harmoniously distributing the revenues raised to all countries. However, it is a useful utopia (…).*" *[37]*

Piketty specifies that "*In my opinion, the goal must be to levy an annual, progressive tax on capital [38] at the individual level, i.e., on the net value of the assets each person owns.*" [39] He proposes three variants for this progressive tax on private capital.

Variant 1: a rate of 0% below â‚¬1 million; 1% from â‚¬1 to â‚¬5 million; 2% more than â‚¬5 million

Variant 2: upward adjustment, 5% or 10% beyond â‚¬1 billion

Variant 3: downward adjustment, 0.1% below â‚¬200,000, and 0.5% from â‚¬200,000 to â‚¬1 million.

This tax is complementary to what already exists, but it could be used to decrease the current tax payments (or to reduce the national debt, note 1, p.840). It would result in a relatively small increase in current national incomes. Even if it were very low, this tax would give authorities knowledge on the wealth of the inhabitants in the areas concerned.

Piketty adds: "*At the present time, the international organisations in charge of regulating and monitoring the world financial system, such as the International Monetary Fund, have only extremely approximate knowledge on the distribution of financial assets throughout the world, and in particular the amount of assets based in tax havens.*" [40] If it were established, "*the tax on capital would be a kind of world finance registry, which does not exist today.*" [41]

> A programme with complementary measures must be created

We fully support Piketty's proposition for a progressive tax on private wealth or *capital* to employ the term he uses; however, we do not agree with him when he argues that the highest priority must be placed on this objective. Instead, a programme with complementary measures must be created. A progressive tax on capital, along with the cancellation of illegitimate debt and a drastic reduction in the portion of public debt not found to be illegitimate, must be included in a comprehensive programme that would enable society to make a transition toward a post-capitalist and post-productivist system. First implemented in one or two countries, such a programme should also have European and worldwide ambitions. It should put an end to austerity measures, reduce the amount of time worked by hiring new employees while maintaining wages, and socialise the banking sector. There must also be a general fiscal reform, measures to ensure gender equality, and the implementation of a well-defined policy that will ensure the ecological transition. [42]

Piketty is under the illusion that he will be able to convince others of the need to give highest priority to his proposition, whereas what would be truly effective and unite people would be to define a common platform, bringing together the maximum number of people in favour of radical democratic change that will foster social justice.

In addition, as we argue in *"Cancelling debt or taxing capital: why should we choose?": "The essential critique that can be made of Thomas Piketty is that he thinks the solution may be found within the current system. He proposes a progressive tax to redistribute wealth and save democracy, but he does not question the very conditions in which this wealth is produced or the consequences of the current system. His idea is only a solution for one of the negative effects produced by the system, but he does not tackle the true causes of the problem. First of all, if a tax on capital were applied as a result of social struggle, the great danger is that its product would go up in smoke to repay illegitimate debt, if that debt is not first cancelled. Furthermore, can we content ourselves just because the wealth produced by the system is shared more fairly, if this same system remains predatory, has no respect for people or common property, and destroys our ecosystems at an increasingly faster rate? Capital is not only a useful means of production that deserves a regular 5% return on investment as Piketty suggests, it is also an important vector of social relationships of domination by the possessing classes over society as a whole. Capitalism as a mode of production is not only the cause of more and more unbearable social inequalities. It is also a menace to our ecosystem, the justification for the plundering of common property, domination, exploitation, and alienation of the people through materialistic values, and a logic of accumulation that transforms men and women into spiritually enslaved individuals obsessed by material possessions to the detriment of the immaterial basis underlying our humanity.*" *[43]*

One of the characteristics and weaknesses of Piketty's approach is that he does not call for a mobilisation of the social movements to try to have an influence on current policies. He *is* conscious that the people played a decisive role in the orientations taken since World War I, and denounces the repression of the miners in Marikana, South Africa in August, 2012, but in the more than one hundred pages at the end devoted to his own propositions, which reflect on the solutions to the basic problems, no mention is made of organised citizen action, and no allusion is made to the *Indignados* movement, even if in the pages just before his propositions, he does mention the *Occupy Wall Street* movement. At best, he expresses the hope that the dissemination of research like his will raise people's awareness and thereby ultimately lead to change. This is a major weakness in Piketty's approach. It comes as no surprise then that he proposes to establish a "*Eurozone Budget Parliament*" [44] alongside the European Parliament. He suggest that "*This Parliament could include about fifty members for each of the big countries in the zone, in proportion to the population. Its members could be chosen from the finance and social affairs commissions of the national Parliaments, or appointed in some other way."* [45] In addition, he is favourable to "*the election of a European Union President on the basis of the popular vote, a proposition which should be logically accompanied by an extension of his or her powers."* [46] Piketty embarks on a pathway to making reforms that does not question the European treaties and institutions in which the defence of the interests of major capital owners is set in stone. Yet, we all know that fundamental change is necessary, and that it must include the abrogation of those treaties and the initiation of a constituent process with the production of registers of grievances by citizens united in action.

To conclude, Piketty's work is extremely valuable in terms of the clear data it provides on trends in wealth inequalities over the past two centuries. His book gives us a very useful tool for understanding them, and will enlighten the debate on possible alternatives. [47] Unfortunately, he fails to go far enough in terms of the need to join theory and action, issues relating to debt cancellation, and taxation thresholds.

Appendix 1. Capital in the Twenty-First Century: Valuable research despite some basic shortcomings

Piketty has gathered his data meticulously and provided a useful analysis of the unequal distribution of wealth and income, yet some of his definitions are somewhat confusing and even questionable. Consider, for instance, his definition of capital: [48] *"In all civilisations, capital has served two great economic functions: on the one hand to provide dwellings (that is to say, to produce "housing services," the value of which is measured in terms of the rental value of the dwellings: this is the value of well-being of having a roof over one's head as opposed to being outside); and, on the other hand, as a factor of production for producing other goods and services."* He continues: *"Historically, the early forms of capitalistic accumulation seem to concern tools (from flint, etc.), agricultural infrastructure (fences, irrigation, draining, etc.), and rudimentary dwellings, before evolving into more sophisticated forms, such as industrial and professional capital and increasingly elaborate dwellings".* Piketty hereby proposes a scenario that suggests capital has been present from the origins of humanity.

This major confusion continues in the heart of his analysis in *Capital in the Twenty-First Century.* For Piketty, an apartment worth â‚¬80,000 or â‚¬2,000 on a savings account may be defined as capital, in the same way as a factory or commercial premises worth â‚¬125 million. The ordinary citizen who owns an apartment, has some reserves in a savings account and a life insurance policy worth, say, â‚¬10,000 will readily agree with Piketty's definition, which corresponds with those found in standard economic textbooks and repeated by their bank manager. However, they are wrong, because capital in our capitalist society is much more complex than these simple definitions. Capital is a social relationship that permits a minority (the richest 1%), to get richer by exploiting the labour of others. Yet when Piketty talks of a progressive tax on capital, he confounds the different levels of wealth that are â‚¬1,000 on a savings account with the Lakshmi Mittal or Liliane Bettencourt fortunes.

The same confusion continues in his analysis of income: Piketty considers that the income from renting out an â‚¬80,000 apartment is a capital gain of the same kind as the income Liliane Bettencourt makes from her corporation L'Oréal.

This also goes for a retired person's savings account, (if â‚¬10,000 is deposited at 2% interest it earns â‚¬200 a year), but as little as this is Piketty considers it to be capital income.

As far as wages are concerned, Piketty considers that all income declared as wages *are* wages whether this means the â‚¬3 million salary package of the CEO of a banking group or the â‚¬30,000 salary of a bank employee.

We must ask ourselves what exactly Piketty means by "capital" and "labour," and better define the difference between capital income and labour income.

For example, below a certain level income from rent, interest on a bank account, or corporate shares should not be defined as capital. Likewise, personal wealth below a certain level should not be considered as capital either.

In addition, if we want to understand how the 1% accumulates capital, we must go beyond remarks such as this: *"If capital plays a useful role in the production process it is natural that it earns a return."* [49]

Piketty's confusion is undoubtedly the result of his fundamental convictions: "I am not interested in denouncing inequalities or capitalism as such (…) social inequalities are not a problem in themselves if they may be justified, that is to say for the common good." [50]

My critique of Piketty's definitions in no way minimises the interest of the monumental portrait his research draws of the wealth and income inequalities that have developed over the last two centuries.

Appendix 2. The struggle of the Ecuadorian people against illegitimate public debt

Towards the end of the 1990s, a series of popular movements, particularly Jubilee 2000 Guayaquil (Ecuador's biggest city and port) began a campaign against the unjust debt demanded from the country. At first, the positions of this social movement were moderate and confused. In 1998, they went to the Paris Club hoping to present a case for restructuring Ecuador's debt along with obtaining a significant reduction. After waiting patiently for two years, they realised that the Paris Club did not have the slightest intention of renegotiating, and that it had only agreed to discuss the issue for public relations.

In 2001-2002, CADTM International and the Centre for Economic and Social Rights (CDES) began a campaign against Ecuadorian debt specifically centred on the sale of fishing boats to Ecuador by Norway. The two groups mounted a case demonstrating that the debt owed to Norway for this purchase was illegitimate because the sale had been a measure in the interest of Norway's ship building industry, at the time in crisis in need of export orders, and not in the interest of the Ecuadorian people. These boats had hardly been used for their original purpose of fishing, instead they were made available to one of the countries wealthy banana producers to transport bananas. This concrete example illustrates how a campaign against debt can be started: by drawing attention to a specific debt, and linking to it the notion of illegitimate debt. We managed to work with the Norwegian organisation SLUG, and to introduce the idea of debt auditing to clarify what, if anything, Ecuador really owed.

This campaign was managed against a background of social unrest between the end of the 1990s and beginning of the 2000s. In 2000 and 2005, several important popular movements succeeded in bringing down two neoliberal Presidents. In 2000, the President was removed and new Presidential elections were won by Lucio Guttierez on a left wing, anti-IMF, and anti-US platform. Once in office, he changed his policies completely announcing, *“I am the best friend of the USA, Chavez is our enemy.”* This caused discontent, frustration, and another popular uprising in 2005 that forced the President to abandon the Presidential palace by helicopter. There followed a transitional government with Rafael Correa in the office of Finance Minister in a period when oil prices were quite high. The question of the debt was important because the social movements had been conducting this campaign for 7 or 8 years.

As Finance Minister, Rafael Correa allocated all the extra oil revenues to health and education spending, with no question of dilapidating them on foreign debt payments. The debt was considered to be illegitimate, and the people must benefit from the export revenues and the taxes earned on them. The World Bank and IMF reacted violently and refused to allow Ecuador to use the oil revenues on social spending. The World Bank threatened to suspend its lending to the country if such measures were taken. However, Correa refused to be pushed around by the World Bank, and maintained this attitude before the rest of the Ecuadorian government. Ultimately, he preferred to resign and enter into opposition rather than withdraw a decree that was in his country's interest. The interim President who replaced Correa decided to launch a debt audit commission, but with very limited powers. Nevertheless, the results of the study on Ecuadorian debt were interesting and contributed to raising awareness on the question of debt.

Correa ran for President in the 2006 elections proposing a new radically different more democratic constitution, and putting an end to illegitimate debt. “Elect me as President and I promise to take measures so that the country can stop paying for illegitimate debt.” He also promised to close the US naval base on Ecuadorian territory and to abandon the negotiations that were leading to a free trade treaty with the US. His objective was to regain Ecuadorian independence with a project for a democratic political system, constitutional change, abolition of illegitimate debt, national sovereignty and independence, and the closing of the foreign military base.

The 2007 – 2008 debt audit and its positive consequences

Correa was elected in December 2006, and immediately started a referendum campaign in February 2007 in favour of a new Constitution. He was victorious in spite of the opposition of all the big media.

The next step, as from May 2007, was to settle the debt question. The first thing the new President did was to expel the World Bank's permanent representative to Ecuador. The message was clear: The WB had not respected Ecuadorian sovereignty in 2005, driving Correa to resignation, it had interfered in Ecuador's internal affairs, Go home! World Bank clear off (to put it nicely)! In July 2007, by Presidential decree, Rafael Correa created a commission to audit the national debt. The Ecuadorian participants were drawn from “grass roots” civil society movements, and from four state institutions: the General Accounting Office, the Anti-corruption Commission, Ministry of Finance, and the Ministry of Justice. In addition, six foreign experts on debt were called upon. It was in this context that I took part in this commission mandated to analyse the internal and external public debt contracted from 1976 to 2006.

We had access to all the information needed to carry out our work as auditors. After fourteen months, a report was established on the debts that were illegitimate and submitted to the government with our conclusions and recommendations. During these fourteen months, we had three meetings with the President and the Government, which then studied our conclusions and recommendations for one and a half months.

In November 2008, Correa announced a unilateral suspension of the reimbursement of two thirds of the commercial debt concerning bonds on the financial markets coming to maturity in 2012 and 2030. For six months, Ecuador remained silent, letting the financial markets stew in incertitude. During this time, the international investment bank “Lazard” was asked to discretely purchase these Ecuadorian bonds on the secondary debt market for the Ecuadorian State. This operation enabled Ecuador to buy back a large share of the bonds and then make an offer to those who still owned bonds that had not yet been sold to Lazard Bank. A large portion of the bonds were bought back in this way at 20% of their nominal value. In April 2009, there followed an offer to buy back the remainder at 35% of nominal value. By the end of the offer period in June 2009, 91% of the concerned bonds had been bought back officially. The remaining 9% were never repurchased. The bond holders had had long enough to sell them back to the State.

In this way, it cost Ecuador only $900 million buy back $3.2 billion of its own bonds. The total amount saved including the interest that would have been paid until the maturity of the 2030 bonds is $7 billion, which became available for social spending for items such as health care, education, and infrastructure development.

If we consider Ecuador's budget, we see that from 2009 – 2010, the cost of servicing the debt diminished radically and socially useful spending increased considerably, enabling the living conditions of people to be improved. This is why Rafael Correa was re-elected for another term, under the new constitution in 2009. This term finished in 2013, when he was again re-elected with 57% of the votes, a higher score than in either of his previous presidential campaigns!

What lessons can we draw from this experience? Rafael Correa won the 2006 elections on an illegitimate debt and anti-World Bank platform, and at the same time, he created an important base of popular support. This shows that an organisation, a candidate or a collective of organisations such as a Popular Front, which is in the opposition, can gain the support and the votes of a large portion of the general public, so that illegitimate debt can be repudiated. This is possible if there is long-term action and awareness raising by the popular movements. The discourse on debt is extremely important for raising public awareness and demonstrating that alternatives to current government policies do exist.

Translated by CADTM

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[1] In this respect see Hubert Huertas, â€˜Affaire Piketty : histoire d’une amnésie collective’, 3 janvier 2015, http://www.mediapart.fr/journal/france/030115/piketty-et-la-legion-dhonneur-lamnesie-du-pouvoir

[2] See text in French at www.liberation.fr/economie/2014/12/29/2015-quels-chocs-pour-faire-bouger-l-europe_1171435. the English translation comes from The European Tribune http://www.eurotrib.com/story/2015/1/4/16244/52980

[3] Thomas Piketty, *Capital in the Twenty-First Century* (translated by Arthur Goldhammer),Harvard UP, 2014, 696 pp. Next to critical reviews and comments in French such as 'Réflexions sur Â« Le capital au XXIe siècle Â» de Thomas Piketty' par François Chesnais http://cadtm.org/Reflexions-sur-Le-capital-au-XXIe (et 'Éléments de réponses Ã François Chesnais' par Thomas Piketty http://cadtm.org/Elements-de-reponses-a-Francois), Jean-Paul Petit http://gesd.free.fr/jppetit.pdf, Robert Boyer http://gesd.free.fr/boyerpik.pdf, or Michel Husson, http://hussonet.free.fr/piketcap.pdf, we can also point to some interesting comments in English such as Prof. David Harvey’s â€˜Afterthoughts on Piketty’s Capital’ http://davidharvey.org/2014/05/afterthoughts-pikettys-capital/, or James K. Galbraith in *Dissent* http://www.dissentmagazine.org/article/kapital-for-the-twenty-first-century,

[4] What follows was published on the CADTM website on 24 February 2014, Éric Toussaint, 'What can we do with what Thomas Piketty teaches us about capital in the twenty-first century?', http://cadtm.org/What-can-we-do-with-what-Thomas

[5] p.185

[6] “The *assignats* originated with the creation of the Extraordinary Chest in December 1789. This chest was to receive the proceeds from the sale of the property confiscated from the clergy. The *assignats* were simply advances on the sale of national property. The *assignats* bore interest.

However, events evolved rapidly. In September 1790, the *assignats* no longer bore interest and became “legal tender for all public and private exchanges.” The amounts issued continued to increase through 1796. As this paper currency proliferated, the value of the national property that theoretically backed it was insufficient and the value of the *assignats* collapsed.” http://sceco.univ-poitiers.fr/hfranc/assignats.htm (in French), accessed 17 January 2014.

[7] p.206-207

[8] p.206-207

[9] p. 208

[10] p. 208

[11] p. 209

[12] In reality, the rate is higher, but this is only a theoretical hypothesis.

[13] The hypothesis of zero growth is theoretical and used to facilitate calculations. In reality, the GDP decreased by 20% between 2009 and 2013, and it is difficult to predict exactly what will happen in the years ahead.

[14] Let us use the same reasoning with Portugal, whose public debt represents 130% of GDP in 2014, and where the rate of growth is zero (it also decreased between 2011 and 2013) and the rate of inflation is very low. Portugal reimburses its debt at a rate of about 6.5%, and so for many years will have to pay the equivalent of 8.5% of its GDP. Italy reimburses at a rate of 5%, and its public debt is 133% of its GDP. Thus, Italy will have to pay the equivalent of 6.5% of its GDP for many years. Let me again point out that the figures cited above are part of a theoretical hypothesis. They are nonetheless close to reality. The examples given are mine not Piketty’s.

[15] See http://fr.wikipedia.org/wiki/Loi_du_milliard_aux_%C3%A9migr%C3%A9s (in French)

[16] p. 210

[17] p. 216

[18] p. 212

[19] pp. 211-212

[20] p. 931

[21] p. 933

[22] p. 889

[23] I participated in the auditing process as a representative of CADTM for 14 months in 2007-2008.

[24] The Court of Justice of the European Free Trade Association States, though anything but an anti-globalization association, judged that Iceland was right. See CADTM, "EFTA court dismisses â€˜Icesave' claims against Iceland and its people," http://cadtm.org/EFTA-court-dismisses-Icesave, 29 January 2013**.**

[25] Commentators often reply that the situations in these two countries are completely different from countries in the EU. While there are obvious differences, it would be a mistake to disdain such experiences. Those who do, show how ignorant they are of the complex situations the governments had to face and partly overcame.

[26] p. 888.

[27] The function of haircuts advocated by the IMF and the governments of creditor countries is precisely to limit the losses of large private creditors through organized restructuring. In my Ph.D. dissertation, I showed how the Brady plan is a model in these matters. See *Enjeux politiques de l'action de la Banque mondiale et du Fonds monétaire international envers le tiers-monde (Political Aspects of World Bank and International Monetary Fund Actions toward the Third World)*, Ph.D. dissertation in political science completed at the universities of Liège and Paris VIII in 2004, http://cadtm.org/Enjeux-politiques-de-l-action-de . See also *The World Bank: a never-ending coup d'état. The hidden agenda of the Washington Consensus*, 2008 http://cadtm.org/The-World-Bank-a-never-ending-coup.

[28] p. 887.

[29] Here is the definition of proportional tax provided on the official website of the French tax office (our translation): "Proportional tax applies the same tax rate whatever the taxable amount is (e.g., corporation tax). The tax base refers to economic categories (income, assets, turnover…). Advocates of proportionality consider that this is a fair way of calculating tax as everybody contributes the same proportion of their income. (…) Proportional taxes are also easier to calculate and hence cost less to collect. With progressive tax, the tax rate increases according to the tax base (e.g., income tax: the higher the income, the higher the tax rate)." http://www.vie-publique.fr/decouverte-institutions/finances-publiques/ressources-depenses-etat/ressources/qu-entend-on-par-proportionnalite-progressivite-impot.html. Piketty uses the same definition of proportional taxation.

[30] pp. 888-889.

[31] p. 889

[32] p. 890.

[33] See the International Citizen debt Audit Network - ICAN), http://cadtm.org/ICAN,750

[34] Thomas Coutrot, Patrick Saurin, and Éric Toussaint, “Canceling debt or taxing capital: why should we choose?”, http://cadtm.org/Cancelling-debt-or-taxing-capital

[35] See Eric Toussaint, Â« La Constitution équatorienne : un modèle en matière d’endettement public Â» (“The Ecuadorian Constitution: a model to follow in terms of public debt,” â€” in French) http://cadtm.org/La-constitution-equatorienne-un, 27 December 2010.

[36] p. 835

[37] p. 836

[38] We must remember that Piketty gives a definition of private capital that includes the tangible and intangible assets of the poorest 50% of the population.

[39] p. 838

[40] p. 842.

[41] p. 843.

[42] See the aforementioned text by Thomas Coutrot, Patrick Saurin, and Éric Toussaint, “Cancelling debt or taxing capital: why should we choose?” http://cadtm.org/Cancelling-debt-or-taxing-capital See also Damien Millet and Eric Toussaint, “Europe: What emergency programme for the crisis?” 1 July, 2012, http://cadtm.org/Europe-What-emergency-programme

[43] http://cadtm.org/Cancelling-debt-or-taxing-capital

[44] p. 916.

[45] Note 1. p. 916.

[46] p. 917.

[47] This essential contribution is developed in the first part of our text referenced above http://cadtm.org/What-can-we-do-with-what-Thomas

[48] P. 337.

[49] p.674

[50] p. 62

