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Institute for Governance and Policy Studies
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IGPS lecture: ‘A New Zealand perspective on Thomas Piketty's Capital in the 21st century’
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New Zealand is likely to face increased concentrations of wealth, inequality and power in the twenty-first century, according to newly assembled data.

Economist Geoff Bertram, in a lecture to the Institute for Governance and Policy Studies, where he is a senior associate, said data he had assembled showed New Zealand fitted the pattern of other countries set out in Thomas Piketty’s groundbreaking work *Capital in the Twenty-First Century*.

Noting that concentrated wealth and power among elites was the norm for non-capitalist societies, Bertram said Piketty’s work asked the question, ‘Are capitalist societies different?’. Piketty’s answer was an “essentially pessimistic” one, predicting the emergence and entrenchment of a wealthy capitalist elite across the major developed countries, though he did not present data for New Zealand.

Some wealth holders might originally have been entrepreneurs, but as their wealth accumulated, they rapidly became “rentiers”, earning profits simply by virtue of owning assets.

Piketty also showed that the level of wealth in a society, measured as a multiple of the income generated by that society in a given year, was determined by the economy’s savings rate divided by its growth rate.

This implied that the share of national income going to the wealthy was not determined by its “productive contribution” but was essentially fixed as a result of other variables.

Neo-classical economists had justified returns on assets by arguing that wealth contributed to productivity and economic growth, but Piketty’s data showed that wealth levels fluctuated hugely during the 20th century without any apparent connection to growth rates. “The entire body of neo-classical growth theory has simply been parked out of the way,” Bertram said.

Piketty’s key insight was that standard savings and growth rates would tend to drive the level of wealth towards an equilibrium with a “very high” level of inequality. If the savings rate could be assumed to be 12% a year, and growth 2%, the level of wealth would stabilise at six times a country’s annual income – a figure similar to that seen in nineteenth-century Europe.

One key driver of this widening inequality was the fact that the rate of return on wealth was – with the exception of the mid-twentieth century – generally much higher than the growth of wages and salaries.

Neo-classical economists had argued that this effect would taper off, because as more wealth was amassed, the abundance of it would drive down its returns. However, this was not true if, as Piketty argued, accumulated wealth could displace labour "out of productive employment", taking "a larger and larger piece of the action".

And because so much wealth was held by "a subset of the population", this would in turn drive widening income inequalities.

In New Zealand, income inequality had been relatively stable in the last decade, but this masked growing wealth inequality of the kind Piketty had identified, Bertram said.

A very large rise in income inequality from the mid-1980s to the early 2000s had translated into a concentration of wealth at the top, and Statistics New Zealand research showed poor households borrowing large amounts while wealthier households saved, exacerbating existing inequalities.

Data assembled by Bertram showed New Zealand's stock of wealth following a similar pattern to the countries in Piketty's work. In particular, it had risen sharply in the 2000s, as households had taken "a decade or so" after the sudden rise in income inequality to watch their balance sheets either improve or decline.

New Zealand's wealth concentration was converging to the same level as those of the major world economies covered by Piketty, Bertram said. This was not surprising given that New Zealand's economy was "as open as you can get" to foreign wealth, individuals and ideas. Also, the factors determining wealth inequality – such as the savings and growth rates – tended to become equalised in a globalised world.

This implied that local policymakers who had contributed to New Zealand's increased inequality – including politicians such as Roger Douglas and Ruth Richardson – were merely "riding the wave" of growing world inequality. "[Local] institutions and policies matter, but they are countervailing forces, not the prime drivers."

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