EXCLUSIVE INTERVIEW THOMAS PIKETTY

1. Your book "Capital in the Twenty-First Century", based on fifteen years of research, is a worldwide success and has got many politicians talking. Do you think this is just hot air or do you witness moves in the right direction? How important is it to take a global stance over this issue?

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The success of my book can be explained, I believe, by the fact that there is a strong and rising global demand for some form of democratization of economic knowledge. In my book, I put together a lot of historical material about the long run evolution of the structure and distribution of national wealth and national income in over 20 countries since the industrial revolution. This database was collected by a large team of international scholars. This is a long book, but it is non-technical, and it is readable by anyone, with no particular background. I think this explains the success of the book. There are many people across the world who are tired of hearing that economic and financial issues are too complicated for them, and that they should be left to a small group of self-proclaimed experts. Issues about capital ownership, public debt, income and wealth, are not technical issues: these are political issues, and everyone can and should have an opinion. As I show in my book, we have already seen in the past many inequality or public debt crises, some of them even bigger in magnitude than what we see today. The good news is that we have always found ways to get around them, and also that there are different ways to do so. This is the main lesson from history: there are always alternatives.

2. The absence of consensus about the definition of tax fairness has a negative impact on the European social model. Is a common euro-corporate tax the appropriate measure to reduce inequalities, and what would be the most desirable rate? What about labour taxation?

The European social model is threatened by financial opacity and the rise of tax competition, tax evasion and tax havens. If small and medium size businesses feel that they are paying higher effective tax rates than large multinationals, if the middle class feels that they are paying more than the very rich, then it is our basic social contract that is at stake. Fiscal consent is fragile and can disappear. European leaders have been talking a lot about financial opacity and tax havens, but with little action so far. Regarding the corporate tax, it is not enough for Juncker to apologize after the LuxLeaks scandal. We now need to establish a common corporate tax base and rate, otherwise there will be other similar scandals in the future. In the US, the federal corporate tax rate is 35%, and on top of this you have state corporate tax rates of 5% to 10%, which makes a total rate of 40% to 45%. Given that the total tax burden is higher in Europe than in the US, I see no reason why the corporate tax rate should be smaller in Europe. Otherwise you end up over-taxing labour, which is certainly not good for employment and job creation. More generally, we need to establish a European registry of financial assets, so that we can effectively tax high wealth and high income individuals and companies. There is a lot of hypocrisy about fiscal transparency in Europe right now: we ask the Greeks to modernize their tax system, but at the same time our banks in Germany, France or Luxembourg are happy to receive the asset holdings of wealthy Greeks and other Europeans and to help them not to pay taxes anywhere. And now we are going to privatize vast quantities of public assets in Greece so that these same people can purchase them at low prices instead of paying taxes...

3. At the Progressive Economy Forum you proposed setting up a Euro-Chamber, based upon members of national parliaments, to replace the Eurogroup when it comes to decisions regarding the Eurozone. Can you please elaborate on this idea? Does

institutional integration inevitably lead to a dual institutional set-up and, consequently, to a two-speed European Union?

At this stage, each national parliament has in effect a veto power on whatever budgetary, financial or fiscal decisions we might want to take in the Euro zone, for instance if we want to decide about a new aid plan for Greece, or if we want to reform the corporate tax so as to make large multinationals pay their fair share. We cannot make substantial progress towards a closer political, fiscal and budgetary union with 19 veto powers. So I think we need to set up a Euro Chamber where each Euro zone country would be represented by a number of national parliament members, in proportion to its population, and ideally in proportion to the different political groups that are represented in national parliaments. This Euro Chamber would be able to take majority-rule decisions on a number of budgetary and fiscal issues that we would decide to delegate to it, such as the common corporate tax, sanctions against tax havens and financial opacity, or the democratic supervision of the ESM. In some cases, we may prefer qualified majority decision making, say with 60% or 70% majority rules to adopt common policies. But the 85% majority rule that we currently have for the ESM grants is too high. Most importantly, we need public democratic deliberation, which is not at all what we currently have with the ESM or the Eurogroup of the European Council. I believe this same reasoning would also apply in a situation where all 28 countries would have adopted the euro: we would still need a European Chamber based upon national parliaments, in addition to the European Parliament that is directly elected by citizens. Europe has yet to invent its own original form of bicameralism. We will never build a truly European

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democracy without the national parliaments. Anyway, for a long time to come, the set of EU countries and the set of Euro zone countries will be different, and we need the Euro Chamber now. The 2012 budgetary treaty seems to assume that we can forget about democracy and public deliberation. This is a major mistake that needs to be corrected.

4. How can we explain to European citizens the need for more European integration? How can we ensure that any change to the current institutional set-up is seen as democratic progress rather than yet another top-down imposition?

Bottom and middle socioeconomic groups feel that Europe is not working for them. The only way to reconcile them with the European idea is to set clear targets in our new European treaties. For instance, we should set as a minimal target the objective that large companies and high income and wealth individuals pay effective tax rates that are at least as large as companies and individuals in the middle or at the bottom of the distribution. Most importantly, we should disclose information so that citizens can monitor whether such targets are fulfilled. We should set social targets, e.g. about minimum wages in Europe. We also need a major debt conference in Europe, similar to what happened after World War 2, and from which many countries - particularly Germany - strongly benefited for their future growth performance. We cannot construct Europe simply with targets on public deficits. We have to look ahead and propose a new future to the young generations and the most fragile economic groups.

5. After the long meeting of 13 July 2015, where a third bailout was agreed by Eurozone leaders, German authorities were accused of having taken a too harsh stance towards the Greek authorities. Do you think that these criticisms were justified? Do these clashes risk further jeopardising European integration?

It seems to me that many German political leaders, from the right but also from the left, have contributed in recent years, months and weeks to exacerbating irrational nationalist attitudes in their country rather than to explaining what was really going on. Greece has reduced its public deficit from almost 15% of GDP in 2009 to close to 0% (or even a small primary surplus) in 2014-2015. This was too fast, and as a consequence Greek GDP is now 25% below its 2007 level. As long as Greek GDP is not back to its 2007 level, or even to a small but positive growth trajectory since 2007, we should ask Greece nothing more than a small primary surplus (say, 1% of GDP or less). With such a low level of economic activity, it makes absolutely no sense to ask Greece to raise their primary surplus to 2% in 2016, 3% in 2017, and so on. This is bad policy for Greece, and particularly for the young generations who suffer from austerity and unemployment. And this is also bad policy for the creditors: how do you want to be repaid if you push Greek GDP to even lower levels? The mixture of irrational nationalism, lack of common sense, and historical amnesia that we have seen recently in Germany is extremely frightening for the future of Europe. We all have a lot to learn from the German social and industrial model, and from the great success of German unification. But Germany also has to learn from other countries, and in any case cannot contribute to European unification simply by giving lessons to other countries.