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Paul Krugman: What the 1% Don't Want You to Know

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By Bill Moyers, Moyers & Company

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The median pay for the top 100 highest-paid CEOs at America's publicly traded companies was a handsome \$13.9 million in 2013. That's a 9 percent increase from the previous year, according to a new Equilar pay study for The New York Times.

These types of jumps in executive compensation may have more of an effect on our widening income inequality than previously thought. A new book that's the talk of academia and the media, *Capital in the Twenty-First Century* by Thomas Piketty, a 42-year-old who teaches at the Paris School of Economics, shows that two-thirds of America's increase in income inequality over the past four decades is the result of steep raises given to the country's highest earners.

This week, Bill talks with Nobel Prize-winning economist and New York Times columnist Paul Krugman, about Piketty's "magnificent" new book.

BILL MOYERS: Welcome. Even in this age of hyperlinks and cyberspace, nearly six centuries after Gutenberg devised his printing press, it's still possible for a single book to shake the foundations, rattle clichés, upend dogma, unnerve ideologues, and arm everyday people with

the knowledge they need to fight back against the predatory powers that have robbed them of their birthright as citizens.

This is such a book: “Capital in the Twenty-First Century,” by the French economist Thomas Piketty. The book of the season to many. To others, the book of the decade. Reviewers have called it “a bulldozer of a book,” “magisterial,” “seminal,” “definitive,” “a watershed.”

At 700 pages it’s already a best seller. And there isn’t a single scene of seduction, not one celebrity interview, not one picture -- just graph after graph, fact on fact, drawn from two centuries of data and imbedded in prose that can suddenly explode like a supernova in the brain.

Here’s one of its extraordinary insights: we are heading into a future dominated by inherited wealth as capital concentrates in fewer and fewer hands, giving the very rich ever greater power over politics, government, and society. “Patrimonial capitalism” is the name for it, and it has potentially terrifying consequences for democracy. For those who work for a living, the level of inequality in the US, writes Piketty, is “probably higher than in any other society, at any time in the past, anywhere in the world.” Over three decades, between 1977 and 2007, 60 percent of our national income went to the richest 1 percent of Americans. No wonder this is the one book the 1 percent doesn’t want the other 99 percent to read.

Paul Krugman has been writing extensively and generously about Piketty’s book. The Nobel prize-winning economist and “New York Times” columnist calls it “a tour de force...a magnificent sweeping meditation on inequality...that will change both the way we think about society and the way we do economics.”

As scholar, author of many books, and widely read columnist and blogger, Paul Krugman has himself changed a lot of thinking on politics and economics. Welcome back.

PAUL KRUGMAN: Hi.

BILL MOYERS: Inequality's been on the table for a long time. You've written extensively, others have, too. I mean, it's a familiar issue, but what explains that this book has now become a phenomenon?

PAUL KRUGMAN: Actually, a lot of what we know about inequality actually comes from him, because he's been an invisible presence behind a lot. So when you talk about the 1 percent, you're actually to a larger extent reflecting his prior work. But what he's really done now is he said, "Even those of you who talk about the 1 percent, you don't really get what's going on. You're living in the past. You're living in the '80s. You think that Gordon Gekko is the future."

And Gordon Gekko is a bad guy, he's a predator. But he's a self-made predator. And right now, what we're really talking about is we're talking about Gordon Gekko's son or daughter. We're talking about inherited wealth playing an ever-growing role. So he's telling us that we are on the road not just to a highly unequal society, but to a society of an oligarchy. A society of inherited wealth, “patrimonial capitalism.” And he does it with an enormous amount of documentation and it's a revelation. I mean, even for someone like me, it's a revelation.

BILL MOYERS: I was going to ask, what could-- what has Paul Krugman had to learn from this book?

PAUL KRUGMAN: Even the title, the first word in the title, "capital." We stopped talking about capital. Even people like me stopped talking about capital because we thought it was all about human capital. We thought it was all about earnings. We thought that the wealthy were people who one way or another found a way to make a lot of money.

And we knew that that wasn't always true. We knew that in the Gilded Age or in the Belle Époque in Europe, which he prefers to talk about. That high incomes were mostly a result of having lots and lots of assets. But we sort of said, "Well, that's not the way things work anymore." And he says, "Oh yeah? It turns out that you're wrong." That's true, that right now, a lot of high incomes in America are people who didn't start out all that rich. But we're rapidly moving towards a state where inherited wealth dominates. I didn't know that. I really was-- I should've known it. I should've thought about it, but I didn't. And so then here comes this book with-- I mean, it's beautiful-- absolutely analytically beautiful, if that makes any sense at all.

BILL MOYERS: As you know, I'm no economist, but I found this book, as I said in the opening, just very readable and suddenly there would be this moment of epiphany.

PAUL KRUGMAN: Yeah, it's a real "eureka" book. You suddenly say, "Oh, this is not-- the world is not the way I saw it." The world in fact has moved on a long way in the last 25 years and not in a direction you're going to like because we are seeing not only great disparities in income and wealth, but we're seeing them get entrenched. We're seeing them become inequalities that will be transferred across generations. We are becoming very much the kind of society we imagine we're nothing like.

BILL MOYERS: Here's Piketty's main point: capital tends to produce real returns of 4 to 5 percent, and economic growth is much slower. What's the practical result of that?

PAUL KRUGMAN: What that means is that if you have a large fortune, or a family has a large fortune, they can -- the inheritors of that large fortune -- can live very, very well. They can live an extraordinary standard of living and still put a large fraction of the income from that fortune aside and the fortune will grow faster than the economy.

So the big dynastic fortunes tend to take an ever-growing share of total, national wealth. So once you-- when you have a situation where the returns on capital are pretty high and the growth rate of the economy is not that high, you have a situation in which not only can people live well off inherited wealth, but they can actually pass on to the next generation even more, an even a higher share.

And so it's all, in his terms, "r" the rate of return on capital, and "g" the rate of growth of the economy. And when you have a high r, low g economy, which is what we now have, then you're talking not-- you're talking about a situation in which dynasties come increasingly to increasingly dominate the top of the economic spectrum and a tiny fraction of the population ends up very dominant.

BILL MOYERS: What's the realistic impact of this on working people?

PAUL KRUGMAN: There's a direct impact, which is that part of income is always going to go to labor, although that seems to be a diminishing fraction. But the part that comes from capital is going to be in the hands of a very few people. The other thing, which I think is critically important, that he talks about more towards the end of the book is political economy.

That when you have -- Teddy Roosevelt could've told you and did -- that when you have a few people who are so wealthy that they can effectively buy the political system, the political system is going to tend to serve their interests. And that is going to reinforce this shift of income and wealth towards the top.

BILL MOYERS: Do you agree with him that we are drifting toward oligarchy?

PAUL KRUGMAN: Oh yeah. Oh, I don't think that's even -- I don't see that there's any question of it. If you look at the-- certainly if you look at what we know already, and we're learning more, but what we know already about the concentration of income, of wealth, you can see that it is growing. You can see that-- and you can actually see-- I've spent a little while just sort of going through the "Forbes 400" list.

And what you find is already there's an awful lot of inherited wealth in there. It's no longer a list of self-made men. And of the self-made men, a lot of them are pretty elderly. And their-- those fortunes are going to be passed on to next generations. So the drift towards oligarchy is very visible, both casual observation and in the numbers.

BILL MOYERS: I was taken with something you wrote the other day. You said that in your opinion, the real problem is not capital accumulation per se as much as it is, quote, "remarkably high compensation and incomes." Now how is that different from what you were just saying about wealth that passes to the next generation?

PAUL KRUGMAN: So right now, high incomes are still primarily coming from people who've made a lot of money typically as corporate executives. That has been the story, so the big expansion of inequality in the United States since the 1970s has so far been driven by high salaries, high bonuses and all, so on.

That's where we are now. But our image of the top is really a quarter century old. It is about the way things were when these great fortunes were just getting started, when we were just seeing the explosion of inequality. But we're well along the way towards one in which it is, in fact, an older thing, where people accumulate capital, pass it on to their heirs, and you get this dynastic wealth.

So right now, and this is where Piketty has interesting things to say, but not this compelling vision about why America is so unequal right now. But looking forward, he's telling us that the story is already changing. And it's going to change more. So we are going probably, unless something gets better, we're going to look back nostalgically on the early 21st century

when you could still at least have the pretense that the wealthy actually earned their wealth. And, you know, by the year 2030, it'll all be inherited.

BILL MOYERS: And at the same time, we can't even manage to pay workers a minimum wage of \$10.10.

PAUL KRUGMAN: Yeah. And what's amazing, I thought actually one of the most depressing things, although enlightening in his book, is he talks about France in the Belle Époque, the years before World War I, which was ideologically as much a society committed to equality in principle as we are today. But in practice, was totally dominated by very wealthy families, where it was impossible to even raise the possibility of seriously taxing great wealth.

Where it was very hard to do anything to improve the conditions of ordinary workers. And it shows you how that can happen. How you can have a society where the-- even though the ideology is democratic, even though we claim that all men are equal, in practice, not a chance.

BILL MOYERS: Isn't that what's happening now in this country?

PAUL KRUGMAN: Exactly, exactly. That's the point. And what's funny is at the time, Americans used to say, "Oh-- we should never allow ourselves to become like old Europe." And in fact, we have.

BILL MOYERS: But we have had the Rockefellers, we've had the Carnegies, we've had the Pews. We've had big dynasties that transferred their wealth from one generation to another.

PAUL KRUGMAN: Yes. Before World War I, we had our dynastic families, but they were not nearly as dominant as they were in Europe. Largely-- not because we didn't have high returns on capital, but because we were growing so fast. We were an immigrant nation, a fast-growing nation.

So they hadn't been able to establish a lock. And then after that, we had a long period of high taxation of large estates, high taxation of capital income. But now we're on our way back. Now we're on our way back towards something that looks much more like that kind of hierarchical society.

BILL MOYERS: Piketty makes the point, that the very size of inherited fortunes today is so great that it practically makes them invisible. Quote "Wealth is so concentrated that a large segment of society is virtually unaware of its existence."

PAUL KRUGMAN: Sure. If you have conversations with people who are not in this business, who are not economists, they have no idea what real wealth means in America. They think that having a million dollars makes you wealthy. They think that-- or having a salary of several hundred thousand dollars makes you wealthy. And while it's certainly true, that's a vastly privileged condition compared with most people, the sheer size of those big fortunes is so far outside our normal experience that it does become invisible. You're never going to meet these

people. You're never going to have any sense of what it is that they control. And most people I think have no idea just how far the commanding heights are from you and me.

BILL MOYERS: You remind us often, and you did so just the other day, that the United States has a much more unequal distribution of income than other advanced countries. And that much of this difference comes from government actions, such as?

PAUL KRUGMAN: If you look at, oh, look at European countries, just about all of them. They don't actually necessarily have higher taxes on very high incomes. That's not so much the factor. And they have higher taxes overall, which are used to pay for a lot of programs of aid.

So you have universal healthcare, and we have-- sort of are stumbling our way towards something like that now but they have a lot of income support for people with low incomes. They have lots of support for young parents, they have lots of basically, a lot of redistribution. Which is a dirty word in US politics, but in fact is essential for having a decent society. So that to be the average American is richer than the average person in France.

Although that's mostly because we work longer hours. But to be in the bottom fifth of France is a far, far better thing than to be in the bottom fifth in the United States because of these government policies. It's not that wages are especially high at the bottom in France. A little bit higher than in the United States, because we have a high minimum wage. But mostly, you have government programs, which make an enormous difference. The level of inequality of market income what people actually make is not that different among advanced countries. The level of inequality of disposable income, once the government has gotten through taxing and spending, is much, much higher in the US than it is in most other advanced countries. And that's because of the government.

BILL MOYERS: Well why is, as you said, redistribution such a noxious word in our political system?

PAUL KRUGMAN: I think mostly it's just because there's a very effective apparatus of TV and print media and think tanks and so on who hammer against any suggestion of redistribution. It's just, they've managed to convince a lot of people that it is somehow un-American.

Which actually, if you look at American history, that's not all true. But they-- it's just been pushed very hard. I think also the United States, look, we have to admit, race is always lurking under almost everything in American life. And redistribution in the minds of a lot of people means taking money from people like me and giving it to people who don't look like me. And I think that is a big difference between us and Europe.

BILL MOYERS: You do know that conservatives are regularly, consistently saying that inequality doesn't matter, that if the very rich were less rich, it wouldn't really make a difference to people out there working for a living.

PAUL KRUGMAN: But of course, what Europeans do, which is to tax the rich and use it to provide benefits to people lower down the scale. That makes a big difference. That can make an enormous difference. Take--

BILL MOYERS: How so?

PAUL KRUGMAN: Take a few percent of national income, take it away from the top 1 percent and direct it towards the bottom 20 percent, that's a tremendous gain in the quality of life for the bottom 20 percent. So just think about it. Actually, we have a health reform. It's not the health reform we would've wanted, but it's better than no reform.

It's financed in large part with small surtaxes on high incomes. That's, if you actually ask where the money's coming from, a lot of it is coming from an additional tax on investment income, an additional tax on earned income for very high earners. That is going to give basically everybody in America the guarantee of being able to have essential, basic health insurance at an affordable cost.

That's a huge change in people's lives. Which is being financed in large part by taking a little bit from the top. So a little bit of Robin Hoodism does a lot. You can do a lot more with that. And so no one is talking about just-- let's punish the rich for the sake of punishing them. But the question is, can you do redistribution in a way that makes this a better society, and the answer is yes.

BILL MOYERS: Well at the end of his book, Piketty is talking about the global tax on wealth. Do you think that's feasible?

PAUL KRUGMAN: Well, is it feasible politically? You know, if the United States were behind it. Lots of things would become possible. If the United States were to support this, then I think you could pretty much guarantee that the Europeans would-- enough Europeans would be willing to go along.

And while there would be some countries that would, you know, rogue countries that would want to serve as havens for tax evasion, we would have a lot of leverage over them. So really it's not that the international global system makes this impossible, it's really, it's the US political system that makes it look impossible right now. And that can change.

BILL MOYERS: But given the dysfunction of Congress, given the fact that the Supreme Court has in effect decided to enable corporations and their rich to consolidate their hold on our political system, do you have any hope of the kind of change that both Piketty and you would advocate?

PAUL KRUGMAN: I think you don't give up hope on these things. We have-- look at the American political tradition. Look at the-- one of the interesting things that Piketty says is that serious progressive taxation of high incomes and great wealth is an American invention. We invented it, and we invented it in the early 20th century, right at the peak of our Gilded Age.

And somehow we found it in ourselves to turn-- to find political leaders, people like Teddy Roosevelt, who are willing to say, "This is a bad thing, we do not want the society that is emerging here." So I think things can change. What-- if you ask, you know, are we going to get a wealth tax, a global wealth tax before the 2016 election? Well no, we're not. Might we get one by the 2024 election? Possibly.

BILL MOYERS: You wrote something the other day that's hard to forget. You said, "We live in such an ugliness in America right now."

PAUL KRUGMAN: Yeah. This is one of the things that puzzles me actually about my own country, which is it's one thing to have disparities of income and wealth and to have differing views about what we should be doing about it. But there's a level of harshness in our debates mostly coming from the people who are actually doing very well.

So, you know, we've had a parade of billionaires whining about being-- you know, the incredible injustice that people are actually criticizing them. And then comparing anyone who criticizes them to the Nazis. You know, it's almost a tic that they have. This is-- this is very strange. And it's kind of scary because, you know, it's one thing if someone without a lot of power seems to be going off and into a rage for no good reason. But these are people who have a lot of influence because of the amount of money they control.

BILL MOYERS: Given what you just said and given the fact that there's this ugliness, what do you think it's going to take? A mass uprising? Consistent demonstrations? Insurgent politics? How are we going to stem the tide that he says is taking us into oligarchy?

PAUL KRUGMAN: There's a negative and there's a positive take. Piketty argues-- seems to argue through much of the book that we only escaped the old oligarchy for a while thanks to really disastrous events. Thanks to wars and depressions, which disrupted the system. That's an argument you can make.

On the other hand, if you read histories of the New Deal, you know that it didn't come-- it didn't spring out of nowhere. That we had a progressive movement and a lot of proto New Deal programs building for quite a long time.

There was, in fact, a move in America. There was an increasing political, philosophical readiness to take on inequality of wealth and power long before FDR moved into the White House. And so, I think there are better angels of our nature. That there is this ugliness which can be frightening. But there is also a redemptive streak in-- here and in other places.

And that-- don't give up hope on this. That given consistent argumentation, given events, and perhaps you know, as people become more aware of what is actually going on then there is a chance of changing things. Do we know that? No. But there's nothing in what we know now that says you should give up hope of being able to change this even without a catastrophe.

BILL MOYERS: Paul Krugman, thank you very much for joining me.

PAUL KRUGMAN: Thank you for having me on.

BILL MOYERS: The evidence keeps mounting. Just this past Tuesday, the 15th of April, Tax Day, the AFL-CIO reported that last year the chief executive officers of 350 top American corporations were paid 331 times more money than the average US worker. Those executives made an average of \$11.7 million compared to the average worker who earned \$35,239.

As that analysis circulated on Tax Day, the economist Robert Reich reminded us that in addition to getting the largest percent of total national income in nearly a century, many in the one percent are paying a lower federal tax rate than a lot of people in the middle-class. You will, no doubt, remember that an obliging Congress, of both parties, allows high rollers of finance the privilege of carried interest, a tax rate below that of their secretaries and clerks. And at state and local levels, while the poorest 20 percent of Americans pay an average tax rate of over 11 percent, the richest one percent of the country pays half that rate. Now, neither nature nor nature's God drew up our tax codes. That's the work of legislators, politicians, and it's one way they have, as Chief Justice John Roberts might put it, of expressing gratitude to their donors. Oh, Mr. Adelson, we so appreciate your generosity that we cut your estate taxes so you can give \$8 billion as a tax-free payment to your heirs, even though down the road the public will have to put up \$2.8 billion to compensate for the loss in tax revenues.

All of which makes truly repugnant the argument, heard so often from courtiers of the rich, that inequality doesn't matter. Of course it matters. Inequality is what has turned Washington into a protection racket for the one percent. It buys all those goodies from government: tax breaks, tax havens, allowing corporations and the rich to park their money in a no-tax zone, loopholes, favors like carried interest, and on, and on, and on.

Listen, there's a big study coming out in the fall from Martin Gilens at Princeton and Benjamin Page at Northwestern, based on data collected between 1981 and 2002. Their conclusion, quote, "... America's claims to being a democratic society are seriously threatened ... the preferences of the average American appear to have only a minuscule, near-zero, statistically non-significant impact upon public policy."

Sad, that it's come to this. The drift toward oligarchy that Thomas Piketty describes in his formidable book has become a mad dash, and it will overrun us, and overwhelm us, unless we stop it.

At our website BillMoyers.com, you can find out much more about Piketty's book and the debate it has sparked on both the left and right. That's at BillMoyers.com. I'll see you there and I'll see you here, next time.