



Principles of Business : course n°2

Economics Policy for 21st Century and New consensus of Business
Economics

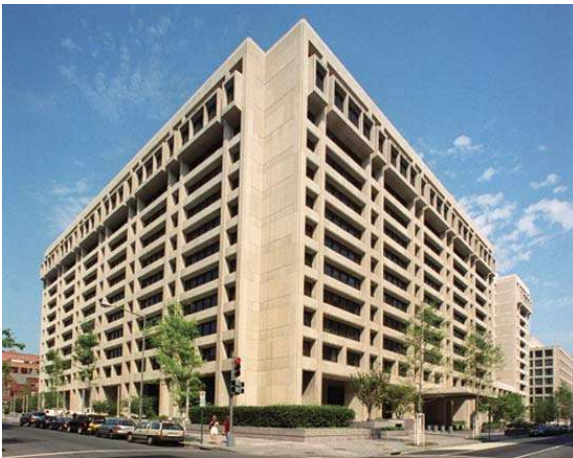
« Washington consensus »

Thomas PIKETTY : Capital in the Twenty-First Century
The Limits to Growth

BA 2nd Year - 08/01/2020

Washington Consensus

The Washington Consensus is a set of 10 economic policy prescriptions considered to constitute the "standard" reform package promoted for crisis-wracked developing countries by Washington, D.C.-based institutions such as the International Monetary Fund (IMF), World Bank and United States Department of the Treasury. The term was first used in 1989 by English economist John Williamson. The prescriptions encompassed policies in such areas as macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy.



Washington Consensus : 10 points

- 1) Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP
- 2) Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment
- 3) Tax reform, broadening the tax base and adopting moderate marginal tax rates;
- 4) Interest rates that are market determined and positive (but moderate) in real terms ;
- 5) Competitive exchange rates;
- 6) Trade liberalization: liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs ;
- 7) Liberalization of inward foreign direct investment ;
- 8) Privatization of state enterprises ;
- 9) Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions ;
- 10) Legal security for property rights.

Washington Consensus : disambiguation

More recently, the expression « Washington consensus » is used in an other sense, not related to economy at all.

From early 2008, the term "Washington Consensus" was used in a different sense as a metric for analyzing American mainstream media coverage of U.S. foreign policy generally and Middle East policy specifically. Marda Dunsky writes, "Time and again, with exceedingly rare exceptions, the media repeat without question, and fail to challenge the "Washington consensus"—the official mind-set of US governments on Middle East peacemaking over time."

Washington Consensus criticism

Criticism from left: Strongly market-based approach (sometimes described as market fundamentalism or neoliberalism)

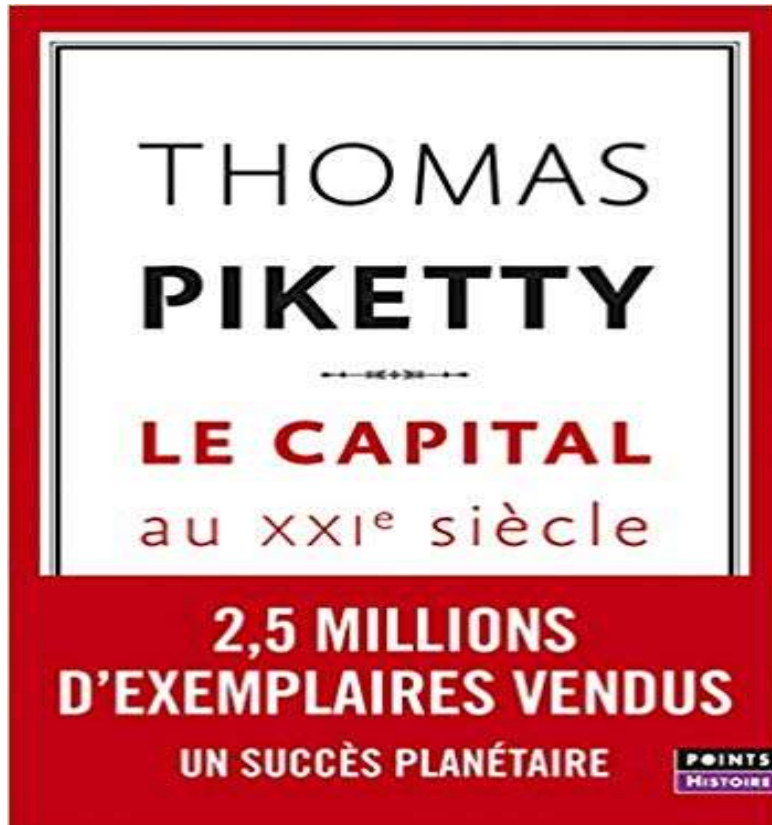
Criticism from Asian after the 1997 Asian crisis.

Criticism from me : accelerate the rapid destruction of environment and use of non renewable resources.

Washington Consensus criticism



Capital in the Twenty-First Century



Do we live in a world where wealth will concentrate more and more ?

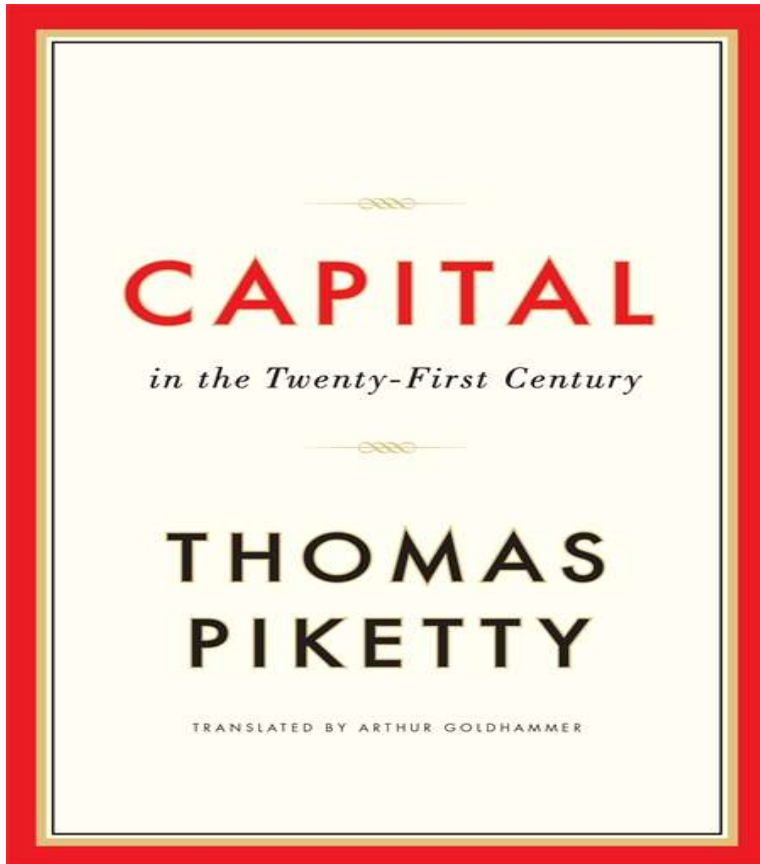
Facts & figures from Piketty's "Capital in the twenty-first century" Published 2013

Enormous succes for economic book
976 pages !

The book is very politic and M. Piketty is clearly a leftist. He even promotes a grobal taxation on wwealth.

Read it only with a critical mind !

Capital in the Twenty-First Century



- The book's central thesis is that when the rate of return on capital (r) is greater than the rate of economic growth (g) over the long term, the result is concentration of wealth, and this unequal distribution of wealth causes social and economic instability.
- Piketty proposes a global system of progressive wealth taxes to help reduce inequality and avoid the vast majority of wealth coming under the control of a tiny minority.

Capital in the Twenty-First Century

- The central thesis of the book is that inequality is not an accident, but rather a feature of capitalism, and can only be reversed through state interventionism. The book thus argues that, unless capitalism is reformed, the very democratic order will be threatened.
- Piketty bases his argument on a formula that relates the rate of return on capital (r) to economic growth (g), where r includes profits, dividends, interest, rents and other income from capital and g is measured as growth of society's income or output.
- He argues that when the rate of growth is low, then wealth tends to accumulate more quickly from r than from labor and tends to accumulate more among the top 10% and 1%, increasing inequality. Thus the fundamental force for divergence and greater wealth inequality can be summed up in the inequality $r > g$. He analyzes inheritance from the perspective of the same formula.

Capital in the Twenty-First Century

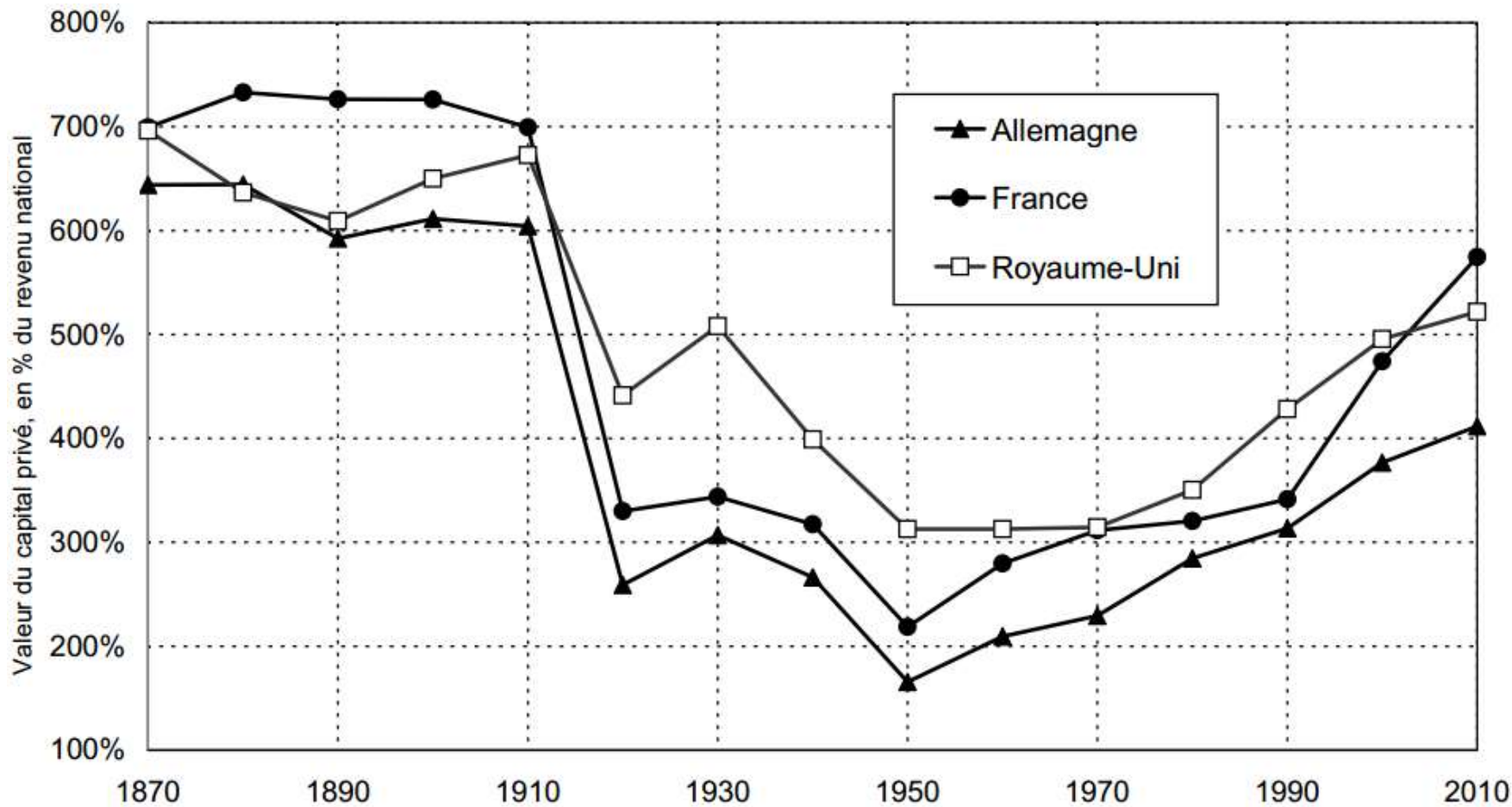
- The book argues that there was a trend towards higher inequality which was reversed between 1930 and 1975 due to unique circumstances: the two world wars, the Great Depression and a debt-fueled recession destroyed much wealth, particularly that owned by the elite.
- These events prompted governments to undertake steps towards redistributing income, especially in the post-World War II period. The fast, worldwide economic growth of that time began to reduce the importance of inherited wealth in the global economy.

Capital in the Twenty-First Century

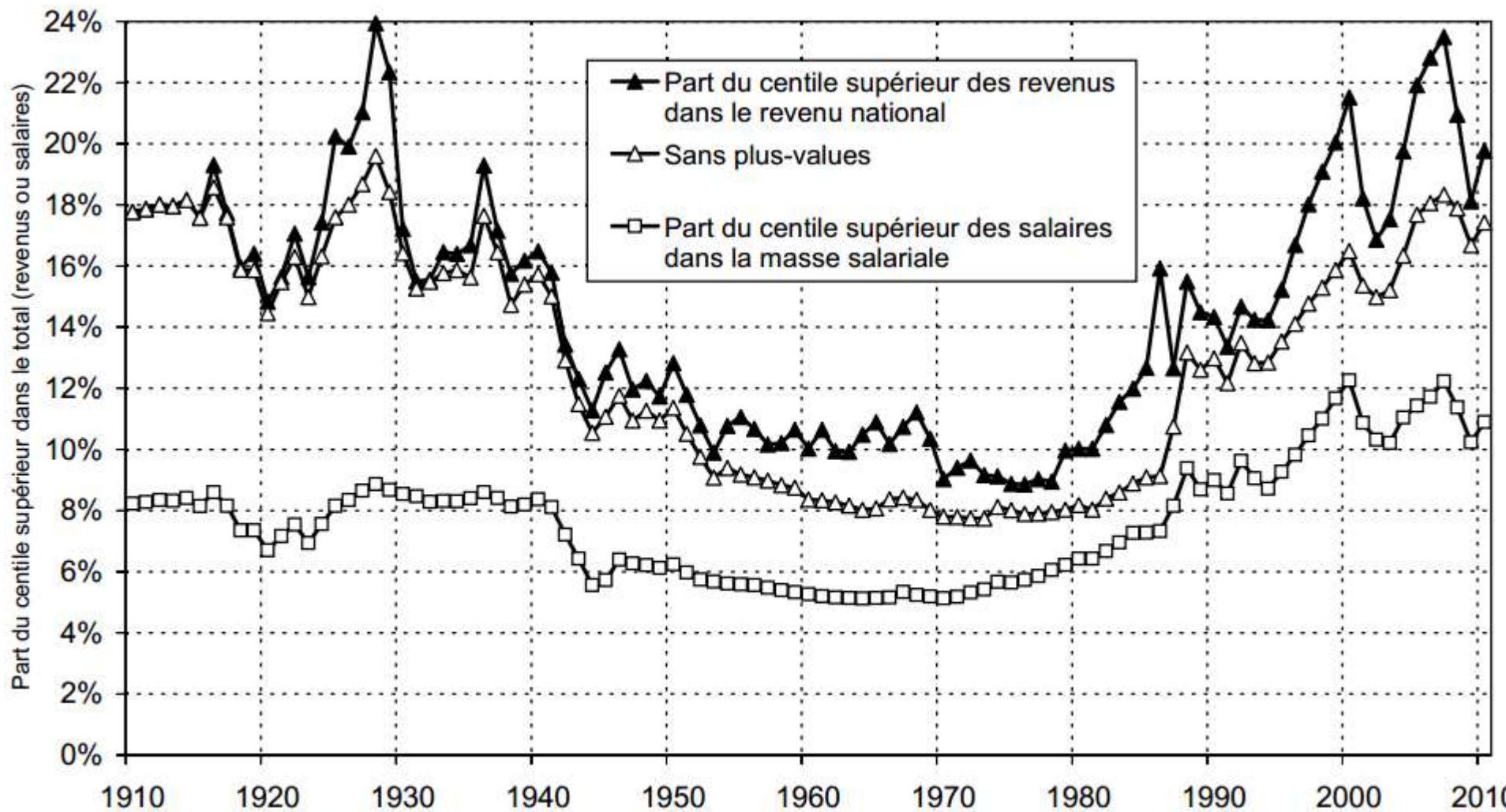
- The book argues that the world today is returning towards "patrimonial capitalism", in which much of the economy is dominated by inherited wealth : the power of this economic class is increasing, threatening to create an oligarchy.
- Piketty cites novels by Honoré de Balzac, Jane Austen and Henry James to describe the rigid class structure based on accumulated capital that existed in England and France in the early 1800s.

Capital in the Twenty-First Century

- Piketty proposes that a progressive annual global wealth tax of up to 2%, combined with a progressive income tax reaching as high as 80%, would reduce inequality, although he says that such a tax "would be politically impossible".
- Without tax adjustment, Piketty predicts a world of low economic growth and extreme inequality. His data show that over long periods of time, the average return on investment outpaces productivity-based income by a wide margin.
- He dismisses the idea that bursts of productivity resulting from technological advances can be relied on to return sustained economic growth; we should not expect "a more just and rational order" to arise based on "caprices of technology", and return on investment can increase when technology can be substituted for people

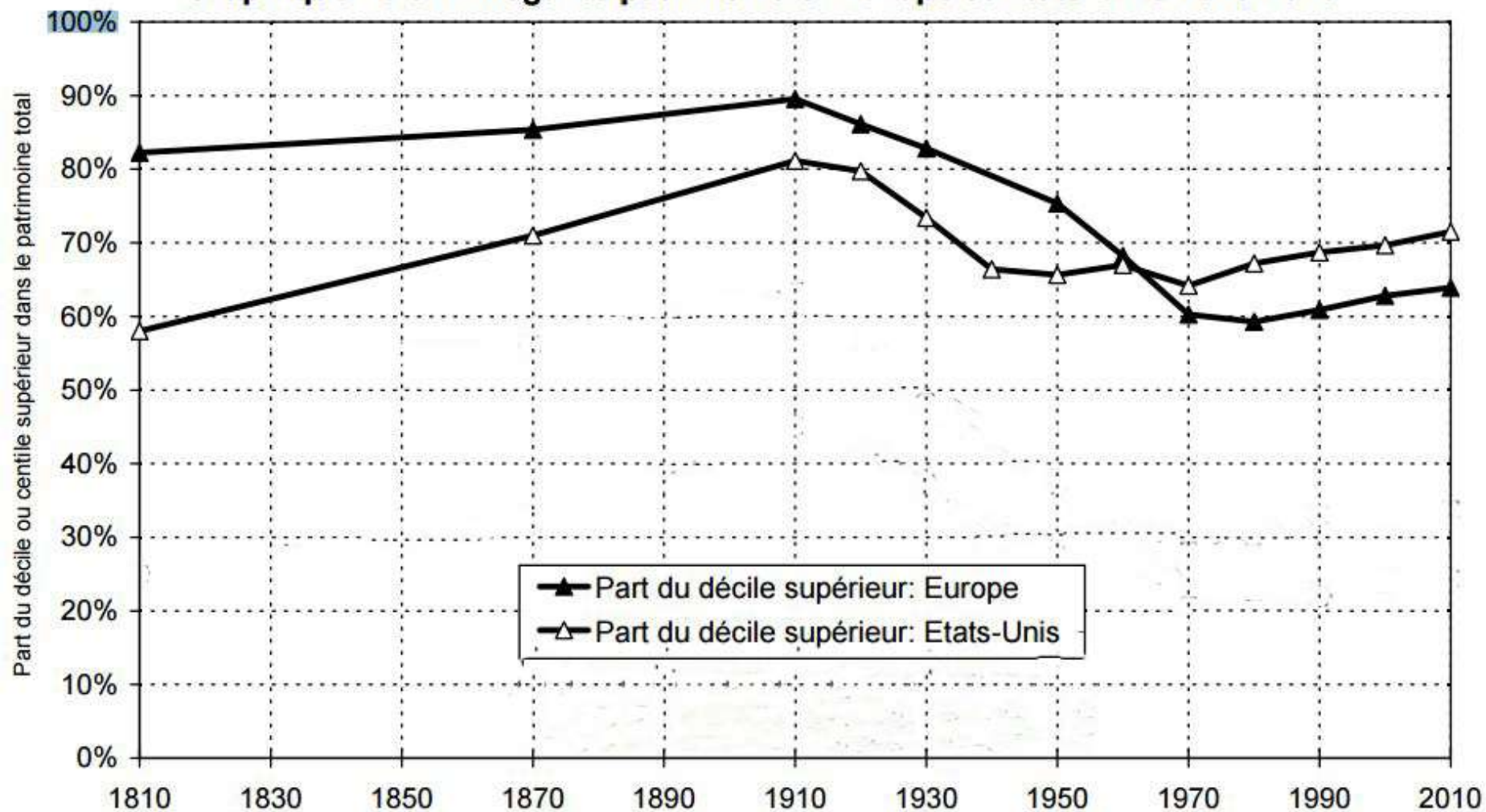


Lecture: le total des patrimoines privés valait entre 6 et 7 années de revenu national en Europe en 1910, entre 2 et 3 années en 1950, et entre 4 et 6 années en 2010.



Lecture: la hausse des 1% des revenus les plus élevés depuis les années 1970 s'explique en grande partie par la hausse des 1% des salaires les plus élevés.

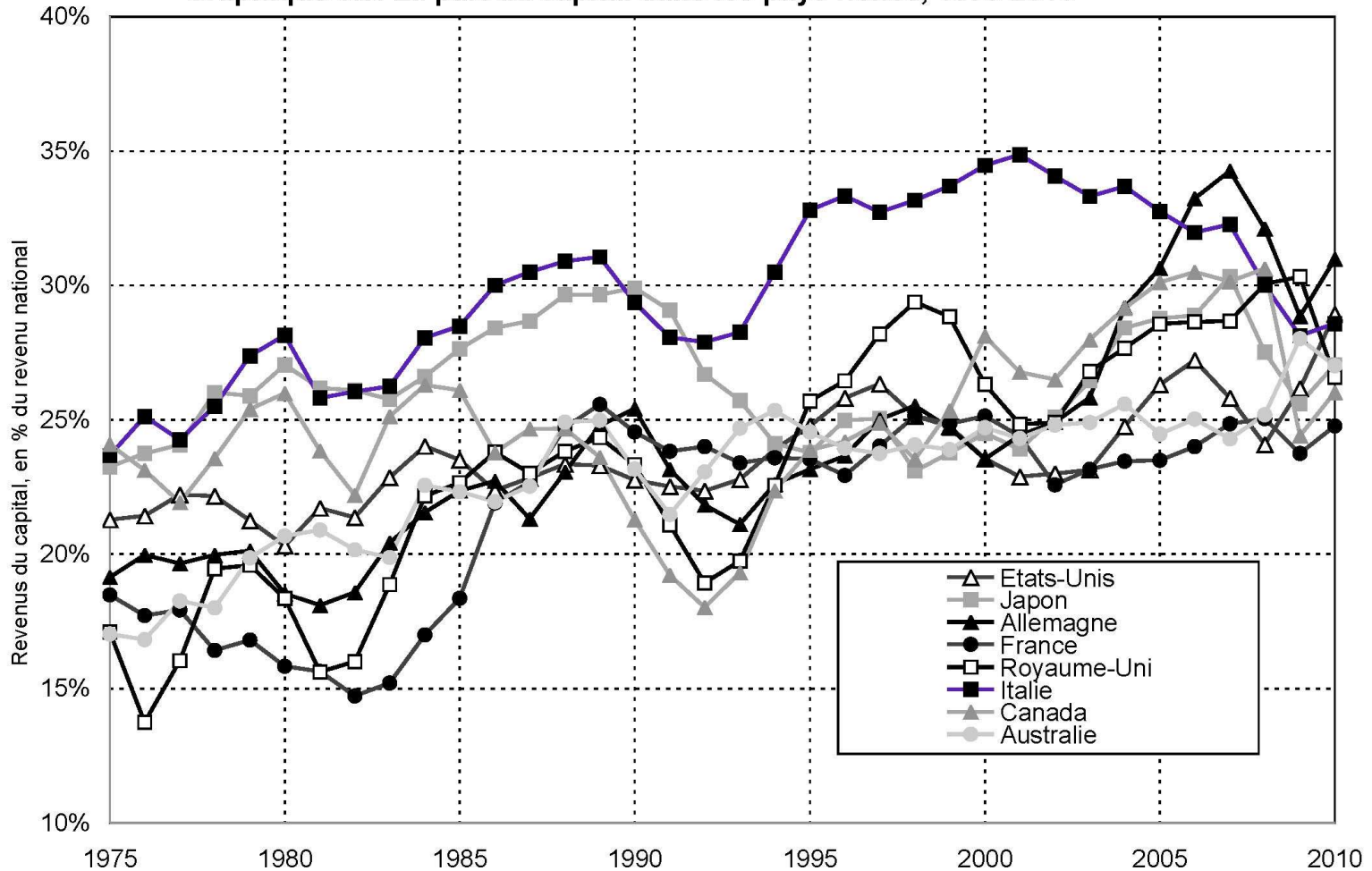
Graphique 10.6. L'inégalité patrimoniale: Europe et Etats-Unis 1810-2010



Lecture: jusqu'au milieu du 20e siècle, les inégalités patrimoniales étaient plus fortes en Europe qu'aux Etats-Unis.

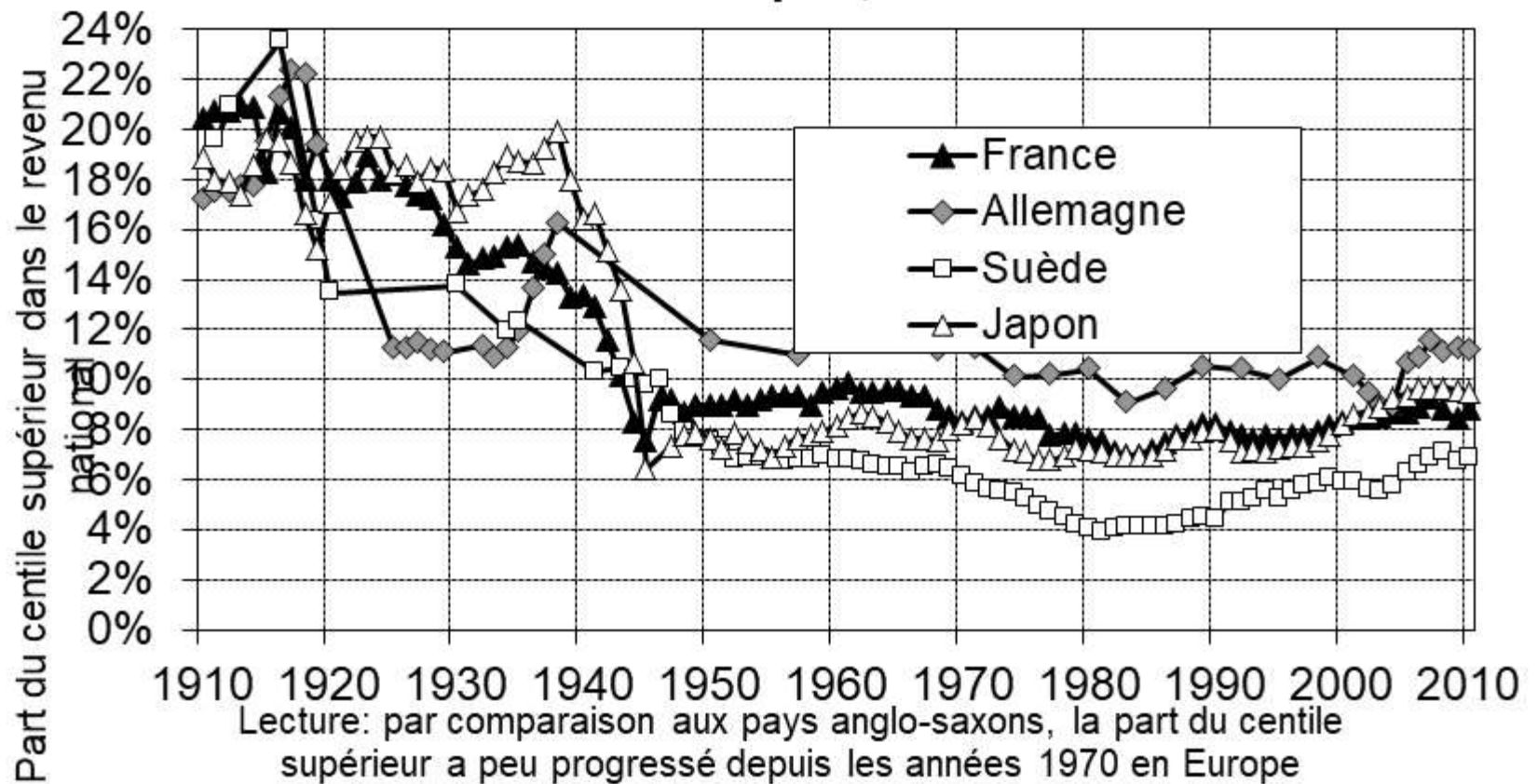
Sources et séries: voir piketty.pse.ens.fr/capital21c.

Graphique 6.5. La part du capital dans les pays riches, 1975-2010



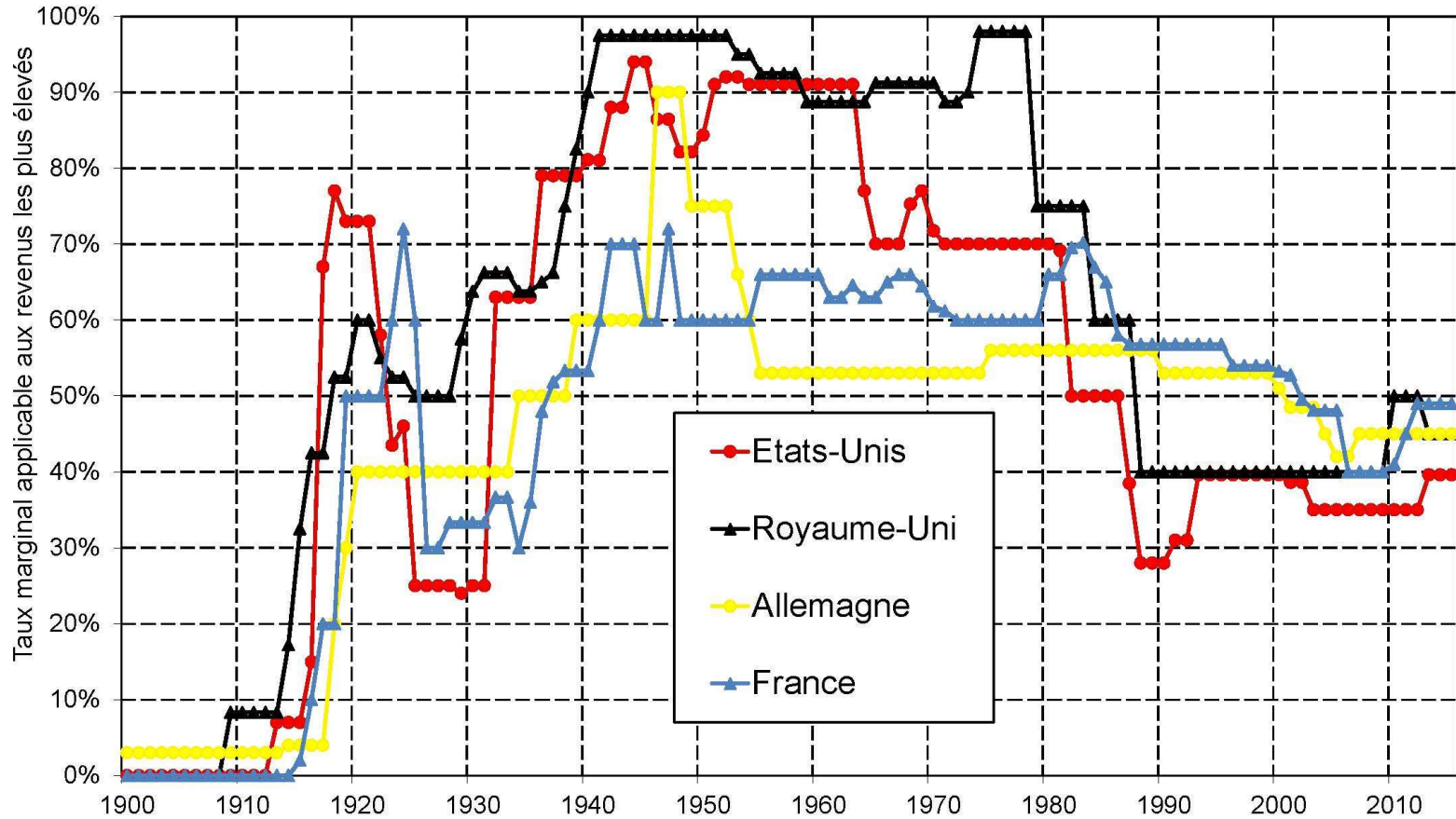
Lecture: les revenus du capital représentaient entre 15% et 25% du revenu national dans les pays riches en 1975, et entre 25% et 35% en 2000-2010. Sources et séries: voir piketty.pse.ens.fr/capital21c

Graphique 9.3. L'inégalité des revenus: Europe continentale et Japon, 1910-2010



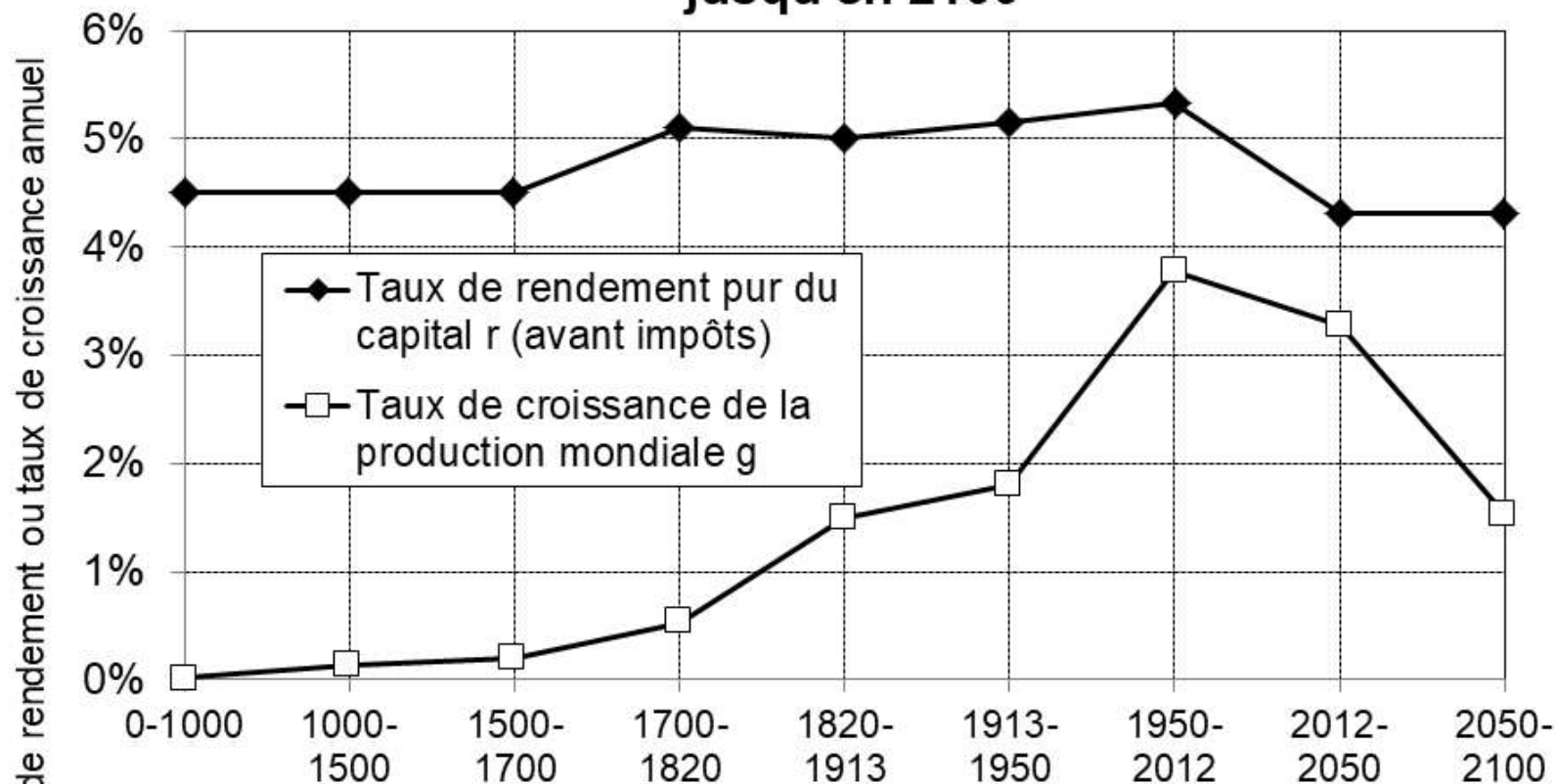
Lecture: par comparaison aux pays anglo-saxons, la part du centile supérieur a peu progressé depuis les années 1970 en Europe continentale et au Japon. Sources et séries: voir piketty.pse.ens.fr/capital21c.

Le taux supérieur de l'impôt sur le revenu 1900-2015



Lecture: le taux marginal supérieur de l'impôt sur le revenu (applicable aux revenus les plus élevés) aux Etats-Unis est passé de 70% en 1980 à 28% en 1988.

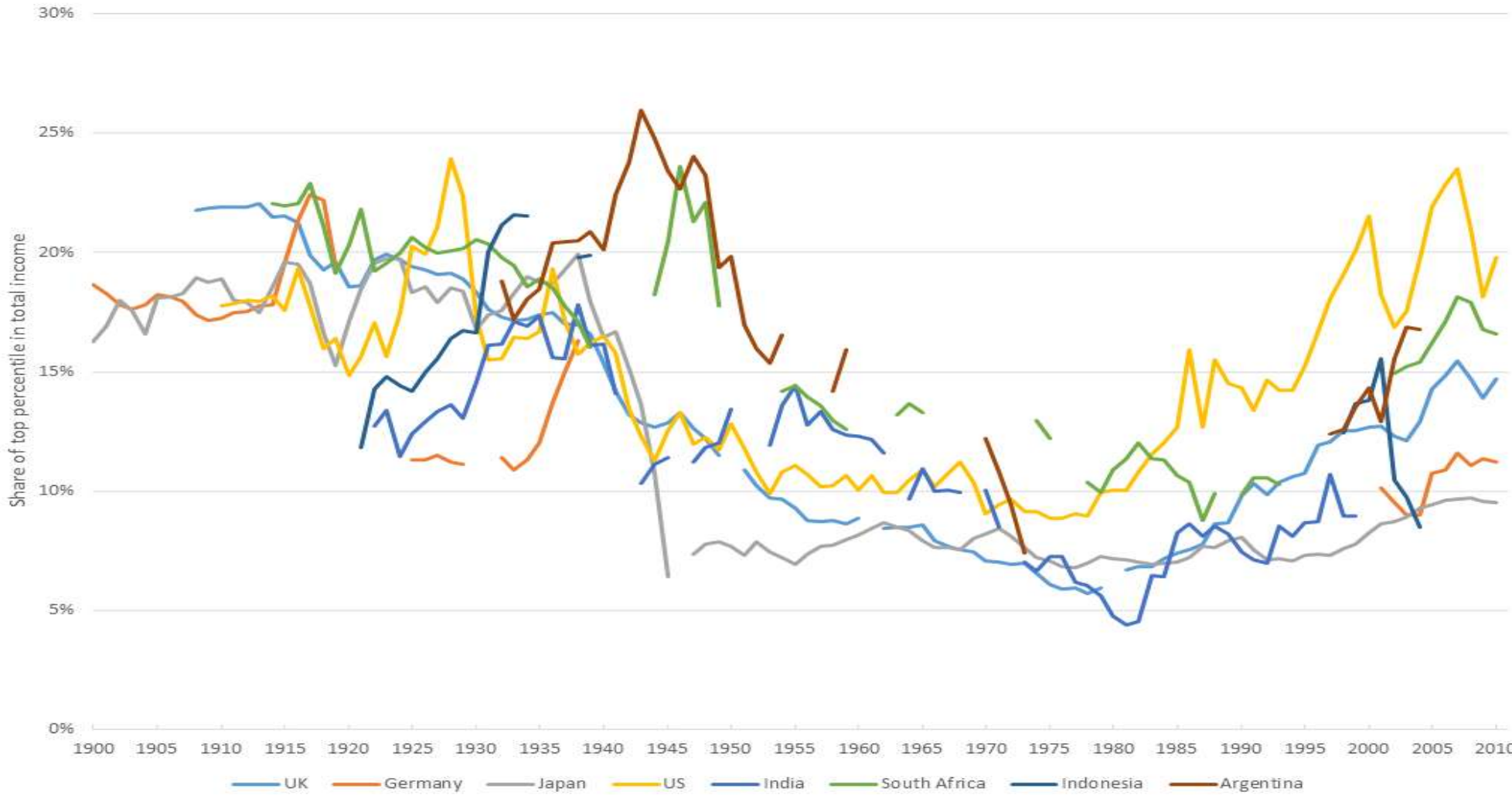
Graphique 10.9. Rendement du capital et taux de croissance au niveau mondial depuis l'Antiquité jusqu'en 2100



Lecture: le taux de rendement du capital (avant impôts) a toujours été supérieur au taux de croissance mondiale, mais l'écart s'est resserré au 20e siècle, et pourrait s'élargir de nouveau au 21e siècle.

Sources et séries: voir piketty.pse.ens.fr/capital21c

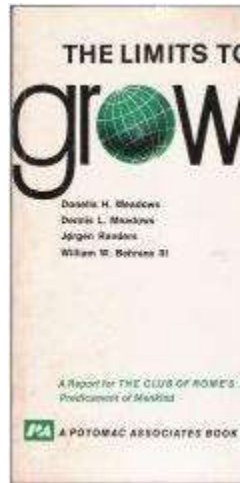
Top 1% Share of Income



After Tax Rate of Return vs. Growth Rate (World)



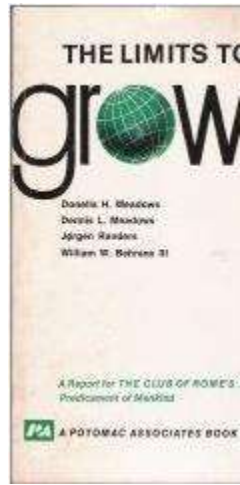
The Limits to Growth



The Limits to Growth (LTG) is a 1972 report on the computer simulation of exponential economic and population growth with a finite supply of resources. Funded by the Volkswagen Foundation and commissioned by the Club of Rome, the findings of the study were first presented at international gatherings in Moscow and Rio de Janeiro in the summer of 1971. The report's authors are Donella H. Meadows, Dennis L. Meadows, Jørgen Randers, and William W. Behrens III, representing a team of 17 researchers.

Since its publication, some 30 million copies of the book in 30 languages have been purchased. It continues to generate debate and has been the subject of several subsequent publications. Recently, *The Limits to Growth: The 30-Year Update* was published in 2004, and in 2012, a 40-year forecast from Jørgen Randers, one of the book's original authors, was published as *2052: A Global Forecast for the Next Forty Years*.

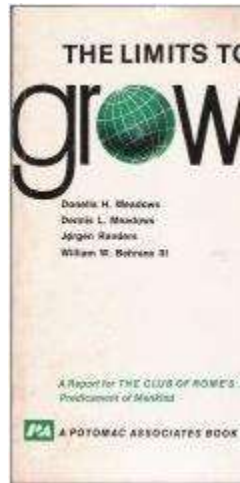
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The Limits to Growth



Extremely controversial book !!!

Completely rejected by the vast majority of economist for nearly 50 years.

Based on an (apparente) evidence : infinite growth in a finite world is impossible.

Fact : one day oil will deplete.

