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Piketty is right: inequality of wealth is a problem. Now what?

Abstract

Piketty claims the inequality of wealth is increasing and that this will cause problems of justice. Even though he might be right in his first claim, he has been criticized that he lacks the proper moral arguments to defend his second claim. Yet, that does not mean he is wrong. To demonstrate why inequality of wealth is unjust, I will first need to determine what justice requires. To do so, I will examine Dworkin's and Anderson's theory of justice. I will argue that following either Dworkin or Anderson, Piketty is right and the current level of wealth inequality is unjust. Therefore, justice requires us to do something to reduce inequality. I will assert that a direct taxation of wealth is the best tool to do so. To examine how this would work out in practice, I will analyse the situation in the Netherlands. I will show that current wealth tax rates are strikingly low, but that merely increasing these rates would not work as a solution as people are poorly informed and use fallacious moral arguments. For that reason, I will follow Prabkahar in my conclusion that as a first step, it is essential to make people aware of the workings of taxation.

I. Introduction

In 2014 Thomas Piketty took the world by storm with his book 'Capital in the 21st century'. With over a thousand pages of thoroughly researched data, Piketty demonstrated to the whole world that in most countries the inequality of wealth is increasing, and asserted that this causes social injustices. His argument essentially consists of three claims. Firstly, capital has a higher yield than the growth of the economy. Secondly, wealth can be freely passed on through inheritance without any natural forces pushing against it, which concentrates most wealth amongst an elite class of people. Thirdly, this raises serious problems for justice as inequality is a moral problem. In this essay, I will examine these claims in relation to the current situation of inequality in the Netherlands and argue that justice requires to reduce inequality by expanding the direct taxation of wealth.

In the first chapter, I will analyse the first two claims that concern the growing inequality- and concentration of wealth. I will shortly explain his economic case in more detail, and go over some of the critiques he received regarding his data and his definition of capital. As most of the critique on his economics can be debunked, I will accept his first two claims, and therefore the notion that inequality of wealth is increasing. However, Piketty has also been criticized for the third claim, concerning the notion that inequality of wealth is of moral importance. This critique is more justified, as Piketty fails to give proper arguments to demonstrate that inequality of wealth is unjust. However, that does not mean he is wrong. To defend Piketty's claim and show the moral importance of inequality of wealth, I first need to define what justice requires. Therefore, in the second chapter, I will consider the question of justice by outlining the theories of justice by Dworkin and Anderson. With the use of their conceptions of justice, I'll go back to Piketty's claim and argue that Piketty is right. Even though inequality of wealth might not be inherently unjust, for Dworkin it is unjust as it causes unequal starting positions, which would make it a matter of brute luck in what position one is born, whereas for Anderson it causes unjust oppressive outcomes in the form of economic segregation. As no natural forces will stop this process and resolve these injustices, something needs to be done by the government. I will argue that the best solution is to use taxation, a direct wealth tax to be more precise. Both Piketty and Daniel Halliday have worked out a tax scheme to reduce the growing inequality of wealth. Piketty by proposing an annual global wealth tax, and Halliday by advocating for a Rignano scheme; a scheme that taxes inheritances progressively depending on the number of times the wealth has been bequeathed. Although both schemes appear to be just and effective methods to battle the growing inequality, they should both be considered as ideal schemes, a reference point to aim for. As currently, both the people and politicians have a different view on what would be a just method of taxation. To demonstrate the complications in resolving this issue, in the last chapter I will examine the current situation in the Netherlands concerning the inequality of wealth and the direct taxation of it. I'll show that the Netherlands experience the problem of growing inequality of wealth as well, but that most people and politicians are still against increasing the wealth tax. This is mainly because of poor information, and fallacious moral arguments against taxation. I will therefore conclude that even though justice requires us to implement higher direct taxation of wealth, it will not be sufficient to simply argue in favour of increasing the rate. It is paramount that people are first more conscious of the working of taxation and how it affects them. If they understand how it can be used to maintain justice, then it is more likely they will accept the necessity of a direct wealth tax, such as an inheritance tax.

II. Inequality of wealth is increasing

Thomas Piketty was definitely not the first economist to write a book about economic inequality. Numerous economists, including Nobel Prize winners Paul Krugman and Joseph Stiglitz, have dedicated much of their career towards studying and publishing about this topic. Nonetheless, none of these economists managed to publish a book that received as much attention as Piketty's book 'Capital in the 21st century', which became a worldwide bestseller[1]. Even though it might be understandable why this book would be interesting to discuss amongst economists, it is difficult to precisely determine why Piketty's book did appeal so much to the general public as well. Especially considering that it is a 700-page book that is tough to read, filled with complex data that most deem challenging to interpret correctly. Was it simply the right book at the right time as the Economist declared[2], or did Piketty write something revolutionary? It was probably a bit of both. Firstly, the topic of inequality was gaining more traction after the economic crisis, which made more people conscious of the workings and flaws of the current economic system. This generated more attention towards economic inequality, as can be observed by noting the popularity of for example the Occupy Movement of 2011, which received worldwide attention causing protests against economic inequality in almost 1000 different cities, spread out over more than 80 countries[3]. Therefore, Piketty published a book that resonated with the feelings of many people during those times, confirming their beliefs that economic inequality was increasing. Secondly, Krugman notes that Piketty was one of the first who assigned a central role to capital, instead of mainly focussing on income. He differed from most other economists in that aspect, as most assumed that income was the leading cause for economic inequality, often ignoring or downplaying the effects capital has on economic inequality (Krugman 2014: 4). Furthermore, Piketty acquired more data than previous studies. Many of his predecessors limited themselves to using data from merely one country over a short period of time, whereas Piketty used a

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1 See: https://www.theguardian.com/commentisfree/2014/apr/27/thomas-piketty-economist-american-dream

2 See: https://www.economist.com/leaders/2014/05/03/a-modern-marx

3 See: https://www.washingtonpost.com/world/europe/occupy-wall-street-protests-go-global/2011/10/15/gIQAp7kimL_story.html

significant longer historical perspective of multiple countries, using advanced computer technology to process enormous amounts of historical data (Piketty 2014: 19). The way Piketty obtained his data is also different compared to the sources that were typically used to measure economic inequality. Normally, most knowledge about income and wealth inequality was acquired by conducting an annual survey of randomly selected households. However, these surveys come with certain limitations as "they tend to undercount or miss entirely the income that accrues to the handful individuals at the very top of the income scale" (Krugman: 3). For this reason, Piketty used a combination of different sources, of which especially the tax records were paramount.

By analysing this enormous amount of data, Piketty claims that without any interference, it is likely that in the 21st century the inequality of wealth will keep on expanding. The main cause of this process is that the return on capital (r)[4] is expected to be larger than the economic growth (g)[5]. This is not inherently negative[6], but could be problematic when the capital/income ratio is high, and at the same time the capital concentrates amongst the richest people that pass on their wealth through inheritance without redistributing. Through examination and extrapolation of the data, Piketty asserts that all these processes have happened in the past, are happening right now, and will most likely become worse in the future, with the consequence that economic inequality will keep increasing. In his book, he often compares the current times with the French period of the belle époque. During that period, the French economy flourished and grew extremely fast. Not only did France excel in technological innovation, Paris was also considered the cultural centre of Europe as well (Palmer, Colton & Kramer 2009: 46). However, Piketty does not just praise the success of the belle époque period, but also points at the negative aspects of it. Even though the economy was growing in leaps and bounds, the available historical data shows that the workers' wages barely increased before the final third of the 19th century (Piketty 2014: 7). On the other hand, "the capital share of national income -industrial profits, land rents, and building rents – insofar as can be estimated with the imperfect sources available today, increased considerably in the first half of the 19th century" (Piketty: 8). In short, the inequality of wealth was rapidly increasing, as the capital/income ratio

[4] Return on capital includes all forms of annual income except labour income, as a percentage of total wealth (Piketty 2014: 571).
[5] The economic growth is the annual growth rate of the national income.
[6] When the capital/income ratio is relatively low, the income of capital is too little and r > g would barely impact inequality.

was extremely high, and the wealth was only possessed by the upper-class. At the beginning of the 20th century, wages finally managed to partly catch up with the economic growth. Nonetheless, this meant that the inequality merely stagnated at an extremely high level; it did not decrease. This period of immense inequality abruptly ended due to the wars, as they wiped out a considerable amount of capital. The effects can clearly be seen when comparing the value of capital to that of the national income. During the 19th century, the amount of private capital in a European country was generally about six to seven times the value of the national income. After the wars, this decreased to only two to three times (Broers 2014: 26). As the economy grew extremely fast, and a great amount of private capital became nationalised, the capital/income ratio remained relatively low for the first few decades after the second world war. This created the image that the role of capital was diminishing and placed the focus of equality on income, as mentioned earlier. Nonetheless, Piketty claims that since the early '80s, the capital/income ratio has slowly started to increase again (Piketty 2014: 195). Due to the rapid growth of income, people have been able to start saving, which has led to the growth of private capital. He states that currently, the value of private capital has returned to four to six times the value of the national income. If the benefits of this additional capital would spread out amongst everyone in society, this would of course be a great development. However, Piketty asserts that this wealth is not spread out evenly, but concentrates at the highest level of society, meaning that the rich only get richer (Piketty: 340). As in most countries the inheritance tax is low or non-existent, and there are no natural forces to stop this process, the wealth is passed on without any difficulties. When looking at the amount that has been bequeathed or gifted as a percentage of the national income, it can be seen that it follows a similar path as the capital/income ratio. The number was high and increasing until the wars, decreased significantly because of the wars, and has been rapidly increasing since (Alvaredo, Garbinti & Piketty 2017: 250).

Piketty's conclusions can also be confirmed when looking at the Gini-coefficient[7]. It is interesting to compare the Gini of income and wealth for most countries. Take for example the Netherlands, a country that is seen as one of the most equal countries worldwide. Due to progressive income taxes, the Gini of income is a decent 0,29. However, the Gini of wealth is 0,79, showing that the wealth is extremely unevenly divided, especially compared to income. The Dutch central bureau of statistics (CBS)

[7] The Gini-coefficient is a number that represents the income or wealth distribution, where 1 expresses complete inequality, and 0 expresses complete equality.

reports that the richest ten percent of the people own sixty-four percent of the wealth and that this number is increasing (CBS 2019: 3). When comparing the wealth Gini of the Netherlands with other countries worldwide, it can be seen that most countries also have a Gini between 0,7 and 0,8, and that this number is mostly growing[8], which coincides with Piketty's findings concerning the growing inequality of wealth.

In brief, Piketty asserts that since the capital/income ratio is increasing, the return on wealth is larger than the growth of the economy, and the wealth is concentrating because it can be freely passed on, we are following the path of the belle époque; meaning that the economic inequality will continue to increase to extreme heights. This conclusion has received critique from different directions. Firstly, in this section I will continue with examining the criticism of the economics Piketty uses, concerning his data, and his definition of capital. Next to that, others have also commented that even if Piketty is right and the inequality of wealth is increasing, he lacks any moral arguments of why this would be unjust. Therefore, in the next section I will consider this comment and examine the moral arguments for and against inequality of wealth in light of two theories of justice.

Economic critique of Piketty

One of the first to object to Piketty's conclusions was Financial Times journalist Chris Giles. In his view, Piketty made some "fat-finger errors of transcription" and misinterpreted the data on several occasions (Giles 2014). Moreover, he states that in some places, Piketty even used the wrong or false data. An example of one of the errors Giles mentions is the wealth division in the United Kingdom. Piketty concludes that the richest ten percent currently own seventy-one percent of the total wealth, whereas Giles states that this number is merely forty-four percent as was measured by the Office for National Statistics; a significant difference. These errors in the data lead Giles to the conclusion that Piketty's central claim is wrong, and that the share of the wealth of the richest people of society is not increasing. Therefore, Giles declares that Piketty's fear of progressing towards a situation similar to the belle époque is unfounded. Piketty's comprehensive reply quickly followed. In an additional online appendix he writes that even though the data might be imperfect, the conclusion about the widening equality does not change: "I have no doubt that my historical data series can be improved on and will be improved on in the future…But I would be very surprised if any substantive conclusions about the long-run evolution of wealth distributions

[8] See 'Global Wealth Databook' by Credit Suisse, published October 2018

were much affected by these improvements" (Piketty 2014b: 10.1). In addition, he asserts that his conclusions are also supported by other more recent studies that use different methods. Nonetheless, he does acknowledge that in certain instances he could have been more explicit in explaining his methods, and therefore published the additional online appendix.

Other critique came regarding Piketty's definition of capital. Specifically, on what exactly should be considered as capital. There are two issues at stake here; the difference between wealth and capital, and the question of whether to include human capital. Firstly, the difference between wealth and capital. Piketty has considered the difference between these terms, but deliberately chooses to ignore them (Piketty 2014: 47). However, he fails to adequately explain why he should be allowed to ignore them. As a result, people have criticized Piketty for doing so (Homburg 2015: 1405). They argue that it is erroneous, as capital is a production tool to create value, whereas wealth could also include unproductive items like paintings. Even though they are right in this matter, the question is whether it is relevant for Piketty's case. Viktor Broers argues that since Piketty studies the growth of wealth and how it distributes, he should be tolerated to use both terms interchangeably, as most people also do in daily life (Broers 2014: 72). He states that Piketty is primarily concerned with the growing inequality of wealth, and how this causes problems of justice. Unproductive items might not play a direct role in economic inequality, but do have an effect on social segregation, something I will explain in more detail in chapter IV.

Secondly, McCloskey argues that one of the significant flaws of Piketty's theory is the exclusion of human capital in his definition of wealth (McCloskey 2015: 21). She claims that human capital is currently one of the principal forms of capital, and that in the rich countries it has developed into the main source of income. Piketty discusses the inclusion of human capital, but declares that there are "many reasons for excluding human capital from our definition of capital" (Piketty: 46). Strangely enough, the only reason he offers is the notion that human capital cannot be owned by other people. McCloskey thinks this is an incredibly weak argument, as capital is owned by the workers themselves and it "accumulates through abstention from consumption, it depreciates, it earns a market-determined rate of return, it can be made obsolete by creative destruction" (McCloskey: 21), similar to how physical capital leads to gains in the future through interests and dividends. She believes that the only reason Piketty excludes it, is to push the conclusion Piketty wants to attain as including human capital to wealth would falsify Piketty's statement of $r > g$ (McCloskey: 22).

McCloskey might be right that Piketty does not convincingly argue that human capital should be excluded, but McCloskey does not do a much better job of demonstrating why it should be included either. To resolve this issue, Steven Pressman has outlined several reasons why human capital should not be included. He argues that Piketty's point that human capital cannot be owned by others or traded on the market is relevant as a skill or degree that has been obtained cannot be sold instantly to use the proceeds to purchase necessities (Pressman 2014: 150). Other forms of wealth can be used to earn money instantly, like selling your car, but human capital cannot be sold in case of emergencies. Secondly, empirical evidence by Piketty also undermines McCloskey's claim. If human capital would be one of the main sources of income, it should be observable by looking at the income/capital ratio. As workers become more skilled and thus possess more human capital, the share of wage income of the national income should grow. However, this cannot be seen when looking at the data, as in most rich countries not the wage income share, but the capital income share has been increasing (Pressman: 153). Lastly and probably the most important reason for this essay is the argument that Piketty is mainly concerned with wealth; how the distribution changes over time and how this influences inequality. This argument is similar to why Piketty does not make a distinction between capital and wealth. Even though human capital might be capital, it should not be considered wealth, as wealth has value because it entitles one to ownership of possessions that have value (Pressman: 151). Human capital on the other hand, merely gives ownership over future earnings, and even though this will increase when accumulating more human capital, it would not provide one with possession of something new that could be distributed or passed on through inheritance. As we will see later in this essay, the primary adverse effect of inequality of wealth is segregation that is maintained through inheritance. Human capital cannot be bequeathed and therefore its role in maintaining inequality is minimal. Moreover, it can also not be redistributed, so it does not play a role in the solution either.

In this section, I have outlined Piketty´s claims about the growing inequality of wealth. He asserts that the capital/income ratio is growing, and that the new capital is concentrating amongst the richest people of a society. Since Piketty expects that the return of capital will be larger than the growth of income in the 21st century, the inequality of wealth will increase. Although Piketty's data might not be completely accurate, his conclusions are plausible. However, even when accepting the data and acknowledging this, one might still not agree with the normative conclusions Piketty draws. McCloskey argues that Piketty does not explain why economic inequality is actually unjust. Therefore, I will continue in the next section with the moral claim and argue that McCloskey is wrong in that aspect as well.

III. What is justice?

McCloskey did not only criticize Piketty for his economic theory to demonstrate the increasing inequality, she also asserts that he lacks any proper arguments to explain why inequality of wealth is of profound moral importance: "the fundamental ethical problem in the book, is that Piketty has not reflected on why inequality itself would be bad" (McCloskey 2015: 28). She asserts that Piketty merely assumes that economic inequality is unjust and therefore to be avoided, but that this assumption is wrong. In her view, we should not strive for equality as equality of material outcome, but follow the ideas of Adam Smith, and ensure that everyone has the equal opportunity to pursue his own interest in his own way (McCloskey: 35). This does not mean she is against any form of redistribution. However, poverty should be seen as an absolute line, where people are seen as poor if their amount of wealth falls beneath a specific number to receive equal opportunities: "It doesn't matter ethically whether the poor have the same number of diamond bracelets…it does indeed matter whether they have the same opportunities to vote or to learn to read or to have a roof over their heads" (McCloskey: 40). To support her claim she mentions Frankfurt's doctrine of sufficiency[9], asserting that he also noted that economic equality is not of particular moral importance (Frankfurt 1987: 2). What is important, is to focus on lifting up the poor, by providing them the opportunity to pursue the good life in their own way. She argues that this is not done by striving for economic equality through redistribution, but by increasing the size of the pie through innovation.

McCloskey seems to misunderstand Piketty in this aspect. She is debating the question of whether we should strive for complete economic equality, and whether we should be allowed to take people's money and redistribute it. Nonetheless, this is not what Piketty is trying to defend. Piketty is not interested in redistributing wealth, but purely focused on the problem of rising inequality and the unjust effects that it might have on society. McCloskey is right that Piketty does not really explain why these effects are unjust, but that does not mean he is wrong. To demonstrate why too much inequality of wealth is unjust, I will give a brief sketch of two of the most influential

[9] 'Sufficiency' is not the same as 'equal opportunity', as equal opportunities can also be achieved through other methods than wealth distribution. However, when trying to achieve equal opportunities trough wealth distribution, it becomes very similar to Frankfurt's idea, since both focus on providing enough wealth to give people the opportunity to pursue your own idea of the good life.

theories within the field of justice – distributive justice and social justice – and show how they characterize the injustice of the inequality of wealth.

Distributive Justice

Distributive justice deals with the problem of distributional equality. This problem entails the choice between different schemes for distributing goods to individuals. The choice is a difficult one, because "Equality is a popular but mysterious ideal. People can become equal (or at least more equal) in one way with the consequence that they become unequal (or more unequal) in others" (Dworkin 1981: 185). The question is thus, what form of equality is actually crucial for justice? Different theories seek different forms of equality. This could be equal opportunity for welfare (Arneson 1989), maximin real freedom (Van Parijs 1996), equal access to advantage (Cohen 1989, Nagel 1992), or equality of resources (Dworkin 1981). In this section I will focus on Dworkin's theory of equality of resources, as it is one of the most influential theories of distributive justice.

Dworkin was not the first person to argue for equality of resources, as he followed Rawls in this aspect. In his book 'A Theory of Justice', Rawls's answer to the question of distributive justice contains one central idea, which asserts that all primary goods[10] are to be distributed equally unless an unequal distribution is to the advantage of the less well off (Rawls 1971: 303). He worked out this idea in the form of a principle called the difference principle[11], which states that "social and economic inequalities are to be arranged so that they are both to the greatest benefit of the least advantaged" (Rawls 1971: 302). For Rawls then, justice requires us to strive for an equal distribution of resources in the form of social primary goods, however, inequalities can be just if they are to the benefit of the least well-off. This principle comes with two problems. Firstly, Rawls only looks at social primary goods, but does not take into account the differences in natural primary goods. Therefore, people born with a natural handicap are denied any additional social benefits and lack a claim to compensation because of it (Kymlicka 2002: 72). Handicapped people would then still be at a disadvantage, as they require more goods to have equal opportunities than people who are not

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[10] Rawls defines primary goods as goods that every rational man is presumed to want. This includes rights and liberties, powers and opportunities, income and wealth, and the social bases of self-respect (Rawls 1971: 58).

[11] Rawls theory also includes the greatest liberty principle and the principle of fair equality of opportunity. It is an extensive theory that not only focusses on equality of resources, but also focusses on social equality. However, as Dworkin is mainly critical of his theory of equality of resources and thus the difference principle, I will only examine this principle in this essay.

handicapped. Secondly, the principle is not sensitive to people's choices. Imagine for example the scenario where we have equalized people's social and natural primary goods. Now imagine two persons. One just wants to fish all day. He only works enough to sustain his cheap lifestyle and fish as much as possible. The other person starts a company to produce goods and sell these. After a while, both persons will have a significantly different amount of goods. Following the difference principle, this inequality would only be just if it would be in the benefit of the least well-off, which would not be the case in this situation. Recall that both persons started with the same amount of resources and talents, so the difference is merely based on choice. Using taxation to redistribute this would be unfair as the rich person "has to give up part of what makes her life valuable in order that the poor person can have more of what he finds valuable. They are treated unequally in this sense, for no legitimate reason" (Kymlicka: 73). Dworkin thinks that it is problematic that the person that works only a little would receive money from the person that works hard, even though they both have exactly the same skills and starting position. For this reason, Dworkin argues it is important to include the effect of one's choices in a theory of justice. To do so, Dworkin outlined a new distributive scheme, one that also aims for equality of resources. He asserts that this scheme takes into account the effect of one's choices, and also solves the problem of the arbitrariness of natural abilities. Therefore, Dworkin declares that the scheme is 'endowment-insensitive' and 'ambition-sensitive'.

Dworkin defines equality of resources as "a matter of equality in whatever resources are owned privately by individuals'' (Dworkin 1981: 283). Nonetheless, Dworkin recognizes that people have different preferences and therefore simply dividing everything equally will not lead to equality. Equality is not realized when everyone has exactly the same resources, but when everyone is satisfied with their bundle of resources and does not prefer the bundle of anyone else to their own. If so, the 'envy test' will be met, as no one will envy the bundle of another person. A method Dworkin proposes to meet the envy test is by using an auction. In his example, he asks us to imagine a situation where a large group of people strand on an island with plenty of resources. In the beginning, everyone receives the same amount of purchasing power[12], a large number of clamshells[13], that they can use to bid on all of society's resources that best suit their preferences. The auction will rerun until the point that

[12] Dworkin asserts that the auction would not avoid envy if everyone would participate with different amounts of money. It is thus essential that people enter the auction on equal terms (Dworkin 1981: 289).
[13] It is irrelevant what item is used and what amount is given. It simply needs to be sufficient in number and valued by no one (Dworkin 1981: 286).

everyone is satisfied with their bundle of goods and does not envy the bundle of someone else. At this point, the envy test has been met and "no one will envy another's set of purchases because, by hypothesis, he could have purchased that bundle with his clamshells instead of his own bundle" (Dworkin: 287). This is endowment-insensitive, as everybody has the same opportunity to get their bundle, since everybody had the same amount of purchasing power. It is also 'ambition-sensitive', as it depends on people's own choices what bundle they obtain and how their wealth develops.

This simple auction would work if all people would have the same natural abilities. However, in the real world everyone is born with a different set of skills. Therefore, since people would envy the abilities of people that manage to be more successful, the envy test would fail. Dworkin acknowledges this and asserts that people should not end up worse only because they had bad luck in the natural lottery (Dworkin: 311). Dworkin makes a distinction between option luck, which is how conscious and calculated gambles turn out, and brute luck, which concerns the outcomes that are not in your control. He thinks that inequalities that are caused by brute luck are unjust, as people have no influence on them. Inequalities that are caused by option luck on the other hand should be tolerated, as they are the effect of the choices people make themselves. Going back to the simple auction; it comes with two problems of bad brute luck: people with natural disadvantages, and people that have less natural ability that causes them to make bad choices. If people with a natural disadvantage would receive the same number of clamshells, they would probably not be able to obtain a bundle of goods of equal value to them, as they have special needs. This would cause them to end up with fewer opportunities than able-bodied people, and the envy test would fail. This is similar for people that lack natural talents, which might cause them to make bad choices and lose all their resources quickly. To solve this problem, Dworkin proposes to add an insurance scheme[14]. His idea is for everyone to imagine themselves behind an altered veil of ignorance[15]. Behind this veil, one does not know what natural talents they will possess, and they need to presume they are equally vulnerable for being born with a natural handicap. They will then be asked how many clamshells

[14] Dworkin actually proposes two insurances schemes, one for natural disabilities and one for differences in natural ability. For the purpose of simplification, I will only talk about one scheme. For more details see Dworkin (1981: 292-304).

[15] The idea of the veil of ignorance came from Rawls. In his theory people have to imagine themselves behind it to "ensure that no one is advantaged or disadvantaged in the choice of principles by the outcome of natural chance or the contingency of social circumstances" (Rawls 1971: 12). This is thus about choosing a starting point, whereas Dworkin uses it for people to decide on an insurance against the outcome.

they would be willing to spend on insurance against being handicapped or a lack of natural talents. Thus, the more they would spend on insurance, the better level of coverage they will have for the different disadvantages they might suffer. In this way, his theory is also 'endowment-insensitive'. Dworkin asserts this is just, as natural advantages are only the result of brute luck, and not something we have control over.

How does this theory relate to Piketty's claim of the injustices of the raising inequality? Dworkin clearly argues that advantages that are the result of brute luck are unjust. Therefore, inequalities that form due to option luck should be tolerated, but inequalities that are formed through brute luck not. Unregulated inheritances would then be unjust, as they cause unequal starting positions and make it a matter of brute luck in what position one will be born. However, I will continue with this discussion in the next chapter. First, I will discuss a critique of Dworkin as formulated by Elisabeth Anderson. I will use Anderson's critique because she has an entirely different view on justice. She thinks that luck egalitarians focus too much on the notion of brute luck. Instead, we should focus on social justice, by eliminating oppression and concentrating on the quality of human relationships.

Social Justice

Luck egalitarians hold the view that in certain aspects people should receive the same, or be accorded to the same treatment. Anderson disagrees with this view. She thinks equality should not be measured in terms of resources, but in quality of human relationships. Therefore, she proposes a different form of equality that she calls 'democratic equality' (Anderson 1999: 289). In her article, Anderson argues that "recent egalitarian writing has come to be dominated by the view that the fundamental aim of equality is to compensate people for undeserved bad luck…the proper negative aim of egalitarian justice is not to eliminate the impact of brute luck of human affairs, but to end oppression, which by definition is socially imposed" (Anderson: 288). She claims that luck egalitarians such as Dworkin have focused too narrowly on the distribution of goods and compensation for bad brute luck. By doing so, they seem oblivious to the limits of state power, as they permit the use of coercion of others for private ends (Anderson: 287). For Anderson, this is not what justice entails. Instead, justice requires us to focus on ending oppression, by creating a society in which people have an equal relationship with one and other.

Anderson asserts that theories within the field of distributive justice, like that of Dworkin, fail the most fundamental test of any egalitarian theory; to express equal respect and concern for all people. She lists three ways of how these theories fail this test (Anderson: 289). Firstly, it excludes certain citizens from various forms of freedom on the spurious reason that it's their own fault, which can only be solved with paternalistic measures. She explains this by using an example of a woman who due to her own negligence makes an illegal turn, and as a result causes an accident. The woman is heavily injured, but when she arrives at the hospital the doctors find out she does not have insurance. According to Anderson, luck egalitarians would think it not to be unjust for the doctors to simply let her die. Since people can decide themselves how much they would spend on insurance, society should hold these people responsible for the outcome. Thus, in the case that one would not purchase any insurance and end up in an accident, one would not receive any help. Dworkin would have to consider this option luck, as it is an outcome of choices, and one should only be compensated for bad brute luck. Yet, most luck egalitarians shudder at the thought of simply letting this person die. Therefore, many of them, including Dworkin, advocate for a mandatory insurance. However, Anderson objects the idea of a mandatory insurance for the reasons they give, as she states that this would be objectionably paternalistic: "In adopting mandatory social insurance schemes for the reasons they offer, luck egalitarians are effectively telling citizens that they are too stupid to run their life, so Big Brother will have to tell them what to do. It is hard to see how citizens could be expected to accept such reasoning and still retain their self-respect" (Anderson: 301). Dworkin has replied to this critique and argued that a mandatory minimum insurance is warranted and gives two reasons why. Firstly, he asserts that when someone would fail to obtain medical insurance, and therefore not receive medical care after a car accident and die, costs would be borne by the rest of the community, his family and colleges. These costs are not internal the decision of the person that does not buy insurance, as his daughter was not able to insure herself against losing her dad, or his employer against losing his employee of the month (Dworkin 2002: 114). It would thus be unjust to only take the person that had the accident into account when making the decision whether health insurance should be mandatory, as one's life also has value for other people. Secondly, he simply admits that he is openly paternalistic. Nonetheless, he contends that a respectable society should strive to protect its people from doing things they most likely will regret. In certain instances, it is necessary for the government to be paternalistic and tell citizens they are too stupid to run their lives. An example Dworkin gives is the mandatory wearing of a seatbelt, which should then also be seen as oppressive. As few people would think wearing a seatbelt is oppressive, it should be accepted that certain forms of paternalism do not offend liberty, and that mandatory insurance is one of these forms.

The second reason Anderson gives for failing the test is that it creates the idea that some people are inferior to others, as it builds on contemptuous pity by the fortunate. Anderson argues that by looking at the reasons given for distributing resources to the untalented, it can be seen that in each case it is based on some "relative deficiency or defect in their persons or their lives" (Anderson: 306). Therefore, the reasons for distributing are based on pity and develop an idea of inferiority. However, this is an insignificant objection (Brown 2005: 333). Even when it would be accurate, Anderson did not demonstrate why her theory would not face the same problem. To end oppression, it must first be recognized who are oppressed and exploited, which would also be out of pity. The notion of pity seems hard to escape when discussing theories of justice.

Thirdly, Anderson contends that "in attempting to ensure people take responsibility for their choices, it makes demeaning and intrusive judgements of people's capacities and effectively dictates to them the appropriate uses their freedom" (Anderson: 289). With this statement, Anderson is arguing that by defining brute luck, it is necessary to harshly judge people on the worth of their natural endowments. One instance this can be noticed is when considering the notion of beauty and how one's appearance could have an impact on one's success in life. Anderson asserts that being ugly is also bad brute luck, and that luck egalitarians therefore could argue that they should be compensated for it. However, Anderson declares it unjust to judge people on their appearance by the standards of social norms, as the norms the judgement is based on are oppressive (Anderson: 335). Take for example someone who has a birth defect that only affects his appearance, but which is regarded as gross by our social norms, causing this person to not be able to fully participate in society. Anderson contends that some luck egalitarians would perhaps solve this by subsidizing plastic surgery for people that suffer this fate. For Anderson, this would not be a just solution as it imposes on them the correct use of their freedom. Instead, it would be better to sway people to take on new social norms that do not treat people with birth defects as social outcasts but considers them as equals.

The question is again whether Anderson's theory would be a better way to solve this issue. Luck egalitarians also condemn the oppressive social norms that force people to change, but think it is necessary to take care of people immediately. Would it therefore not be better to compensate these people for their bad brute luck, while at the same time actively try and change these norms? Anderson does not think so, as she thinks that by focussing on redistribution for bad brute luck, the liberal state will not be able to do much to change the social norms without breaching the boundaries of liberalism. Therefore, she proposes and defends the theory of 'democratic equality', because "...focusing on equality as a social relationship, rather than simply as a pattern of distribution, at least enables us to see that we have a choice between redistributing material resources and changing other aspects of society to meet the demands of equality" (Anderson 1999: 336). By focussing on the equality of social relationships, liberal states would not need to rely on social movements to change the norms. Rather, it would enable people to observe the different ways to meet the demands of equality and give them a choice on how to proceed.

The main aim of the theory is that all forms of oppression should be abolished. Oppression can come in different forms such as status hierarchy, exploitation or cultural imperialism. Anderson asserts that unequal social relationships such as these "generate, and were thought to justify, inequalities in the distribution of freedoms, resources and welfare" (Anderson: 312). These forms of oppression are the essence of many inegalitarian ideologies such as racism, sexism and class systems. For Anderson, egalitarian politics is about opposing these, to assure the equal moral value of every person. She writes that historically, the inegalitarian systems that were opposed were systems that had a hierarchy that people ranked on their intrinsic worth. Those at the top of the ladder thought it was warranted to impose violence on those below them, forcing them to segregate themselves and abandon their own culture (Anderson: 312). In other words, the superior classes were oppressing the lower classes. Such political systems need to be eradicated. Instead, egalitarians should strive for a society with a social order in which people stand in relations of equality, meaning that everyone has an equal status to develop moral responsibility and form their conception of the good. This theory differs from theories of equality of goods, as it aims to abolish oppression created by the structures of society, whereas luck egalitarians try to compensate for the injustices that are created by bad brute luck. Anderson describes democratic egalitarians as "fundamentally concerned with the relationships within which goods are distributed, not only with the distribution of goods themselves" (Anderson: 314). The reasons for distributing goods should not be based on pity and envy but should be on the basis of respect and concern. This would be a sign of a relationship that is based on equality, not on inferiority. However, Anderson does recognize that merely aiming for respect would probably fail in reality, leaving people poor, and lacking many freedoms. Therefore, Anderson wants to secure for everyone the social conditions of their freedoms. She wants to do so by making use of the capabilities approach as outlined by Amartya Sen: "following Sen, I say that egalitarians should seek equality of all space in capabilities" (Anderson: 316, Sen 1985). With capabilities is meant a particular set of functions that one should be able to achieve with the resources available. It is thus not necessary for the function to be achieved; one should merely have the possibility to do so. Martha Nussbaum has created a list of these capabilities that should be aimed for by all democracies (Nussbaum 2011: 17). Andersons' central claim is that democratic equality requires that people have adequate access to sufficient resources to escape oppression, have equal relationships, and achieve these capabilities.

The next question is then, how these theories relate to the rising inequality of wealth, and whether Piketty is right that it has unjust effects. In the next section I will consider this question. I will argue that following either luck egalitarians such as Dworkin, or relational egalitarians[16] such as Anderson, Piketty is right that too much inequality will have unjust effects, as it leads to economic segregation, which causes unequal starting positions and oppression. Afterwards I will continue with the solutions that have been proposed to tackle this problem and reduce the inequality of wealth.

IV. Inequality of wealth is unjust

Both Dworkin and Anderson would not maintain that inequality of wealth is inherently unjust. Nonetheless, following either Dworkin or Anderson's theory, unequal distributions of wealth can have many effects that they would consider to be unjust. Although Anderson's theory is a critique on Dworkin, both theories take a similar approach regarding inequality of wealth. For luck egalitarians such as Dworkin, inequalities are only tolerated when they are the product of equal starting position and the result of choice, not brute luck. Dworkin asserts that inequality of wealth causes social classes through unregulated bequeathing. Since it would then be a matter of luck in which position one is born, it leads to injustices. Social egalitarians such as Anderson, generally reject the idea that equality involves equality of any distributed thing (Young 2011: 30). Inequalities are allowed if people have equal social relationships. Nonetheless, Daniel Halliday argues that the inequality of wealth causes economic segregation, which leads to unequal relationships as it gives certain groups the possibility to monopolize superior life prospects (Halliday 2018: 5) For that reason,

[16] In the text Anderson calls her theory 'democratic equality', however, nowadays it is generally called 'relational equality', see https://plato.stanford.edu/entries/egalitarianism/#RelEqu

social egalitarians recognize material distribution does have indirect impact, and that measures to distribute wealth are just and might be necessary to ensure social equality. I will now continue explaining both of these arguments. Afterwards, I will continue with evaluating two ideal solutions that have been proposed to reduce the inequality of wealth.

Dworkin

Recall the auction and the insurance scheme. After the auction has run and people have paid for their insurance, they will be equal in their ex-ante risk of bad luck but will be unequal once live commences and bad luck strikes (Dworkin 2002: 346). The insurance scheme will lessen the effects of bad luck, but as time goes by, some people will simply be able to grow their wealth faster than others. As this is the result of their own choices, option luck, this is not unjust. However, Dworkin also understands that this might have unjust effects in the long run, as unregulated bequeathing will generate economic stratification, meaning that social relations become strikingly similar to a class system: "if they are free to pass on their greater wealth to children, either by gift during their lives or by bequest, the differences will tend to increase and take on the familiar character of a class system" (Dworkin: 346). Thus, without any policies to prevent the act of passing on wealth, social classes will emerge. It would then only be a matter of brute luck in which position in life one is born, which could cause grave injustices and fail the envy test.

A plausible solution would be to impose a capital transfer tax on gifts and bequeaths. However, for Dworkin the solution is not this simple, as it is a dilemma between ambition-sensitivity and endowment-insensitivity. On the one hand, there is the act of bequest. People earn their money as a result of their ambition and should be allowed to spend their money however they want. Since all of them have started from an equal position after the auction, they should also be free to decide to give it away, instead of consuming all of it during their lifetime. On the other hand, unregulated inheritance will ensure that certain individuals of the next generation will be disadvantaged due to their parents failing to provide for them. It would be a matter of brute luck whether one is born in a rich or poor family: "the situation and properties of one's parents or relatives are as much a matter of luck, in that sense, as one's own physical powers" (Dworkin: 347). Inheritances then, should clearly be considered as a matter of brute luck. Yet, that also forces luck egalitarians to condemn all inheritances since any direct transfer would be a matter of brute luck. This is a problem, as prohibiting all inheritances just feels intuitively wrong. People should be rewarded for their ambition, and the impact of small inheritances do not seem like much cause for concern (Halliday 2018: 77). It is therefore a difficult dilemma for Dworkin; it is wrong to allow the act of bequest as it would cause the envy test to fail, but it is also wrong to condemn it, as it violates the notion of ambition-sensitivity.

Dworkin wants to solve this dilemma with the use of another insurance scheme. An insurance would be able to protect one against the harms one would suffer when occupying a low position in the class system. Moreover, as people would decide themselves how much insurance they would want, they would also retain the option of bequeathing. For Dworkin, an inheritance tax might represent the amount people would be willing to pay, to finance the pay-outs for people that sustain bad inheritance luck: "Inheritance insurance would make sense, therefore, to guarantee not a higher standard of living in absolute terms, but against the different and distinct harm of occupying a low tier in a class system – against that is, life in a community where others have much more money, and consequently more status and power, than they do and their children will" (Dworkin: 348). In this way, people are protected against the bad brute luck of no inheritance but maintain the possibility to still leave wealth to their children. With the use of this insurance scheme, Dworkin tries to follow the intuition that bequeathing should be allowed, while at the same time follow his own theory of compensating for bad brute luck.

However, it is doubtful whether this solution actually works, as Dworkin still leaves some ambiguities in his argument (Halliday 2018: 98). Most importantly, he does not make a clear distinction between inheritance luck and class luck. The only time Dworkin talks about inheritance luck, is when he talks about the insurance choices. When he speaks of the harm that these choices are presumed to protect, he continuously refers to class luck as can be seen in the quote above. It thus seems as if Dworkin treats both forms as identical. This is understandable, as it seems to be the only way to retain inheritances and not oppose them completely. Yet, as the class position is established at the beginning of one's life, often a long time before inheriting any wealth, it might be necessary to make a clear distinction between both forms of luck. Halliday asserts that "this suggests that seeking protection against bad inheritance luck may be neither necessary nor sufficient for seeking protection against class luck" (Halliday 2018: 220). Halliday is not saying the inheritances and class position are not connected, only that it is difficult to determine their relationship. Therefore, it is uncertain whether Dworkin is right that inheritances are the sole cause of class stratification, and it is also uncertain whether insuring people through an inheritance tax would actually protect people from bad class luck. As a result, his argument for the insurance scheme fails.

All in all, luck egalitarians do not consider inequality of wealth intrinsically unjust. People should have the freedom to follow their ambition and cultivate their wealth. The problems begin when deciding what a just way to pass on this wealth is. For luck egalitarians, it is evidently difficult to follow the natural intuition that parents should be allowed to leave children some wealth. Dworkin clearly wants to allow for small inheritances while preventing the forming of classes, but it is debatable whether his insurance scheme is the right answer to compensate for class luck. Anderson's critique of luck egalitarianism might play a role here as well. By adding more insurance schemes, people will be compensated for the inequalities they suffer. Yet, this would not abolish the problem of inequality, but only make up for the unjust position they start in. For these reasons, Anderson's theory might be a better fit to justify why inequality of wealth is unjust. Even though both follow a similar line of reasoning by condemning the injustices of social segregation, Anderson's arguments of why segregation is unjust are coherent, without the need to repeal all inheritances.

Anderson

For Anderson, the main requirement of justice is not to compensate for bad brute luck, but to eliminate oppressive social hierarchies. These need to be replaced by structures that promote interpersonal relationships between citizens, to create a society of equal people. The question is thus, whether inequality of wealth leads to any form of oppression due to unequal social relationships. Halliday argues that it does; he contends that inequality of wealth causes social segregation, which leads to oppression. Typically, social segregation deals with the problem of racial and religious differences that cause certain institutional environments to be mostly cut off to these groups. An example of this is the underrepresentation of non-whites and women in certain professions. However, aside from race and gender, Halliday argues that economic inequalities are also one of the main causes of social segregation, called economic segregation. He defines it as "a type of social segregation that occurs when groups have their boundaries defined by economic difference rather than by (e.g.) racial or religious difference" (Halliday 2018: 102*)*. This results in an unequal division of life prospects, and unequal social relationships. Therefore, the fact that inequality of wealth causes economic segregation would definitely be unjust in the view of Anderson.

Halliday outlines two ways of how economic segregation generates unjust outcomes. Firstly, it creates and maintains cultural- and social capital that slowly clusters around wealth and is usually only shared internally while concealing it from non-members. Cultural capital includes things as knowledge of how to interact with members from your social group. Halliday asserts that "Displays of cultural capital help group members to identify each other and often shape default modes of interaction between members and non-members" (Halliday: 107). This would give them the advantage of being able to communicate and dress in the proper way and therefore they would be taken seriously more quickly. As a result, they often have more success with their university application or job interviews as they receive help from their environment.

Social capital mainly includes the opportunities one receives by knowing the right people. People in a wealthy environment often have high-paying jobs and tend to hire people that are similar to them. In this way, they hoard opportunities for themselves and other members of their group. Halliday declares that "unemployed members of low-income groups often perform poorly in the labour market because they lack connections...this may lead to them to be stereotyped as lazy or stupid by members of other groups, who possess superior social capital" (Halliday: 108). Thus, both cultural- and social capital clearly cause social segregation that is formed by the inequality of wealth. Justice would therefore require for this capital to be redistributed. However, the problem is that both forms of capital cannot be distributed directly. The state cannot force all parents to raise their children in a certain way, or force companies to hire certain people. To stop the concentration of cultural and social capital Halliday sees two possible options; the use of taxation, or institutional reform that strips these forms of capital of their value. I will discuss both options in the next chapter.

The second unjust effect of economic segregation can already be seen in the quote above; poor people are often unjustly stereotyped as lazy or stupid. Economic segregation makes people ignorant about the problems people face at lower economic levels, leading to unjustified different treatments of poor and rich people. Halliday describes the process of demonization of poor people as one of the essential symptoms of economic segregation. With demonization he means "extreme forms of stereotyping whereby poor people are variously portrayed as stupid, lazy, or otherwise immoral" (Halliday: 113). An example of demonization is the different judgements on the behaviour of people from different classes. Stay-at-home mothers in rich families are often applauded and seen as caring, whereas mothers that come from a poor background are perceived as lazy and work-shy. Moreover, poor people that commit a felony are often punished much more severely than people from higher income levels that commit something similar (Halliday: 115). This is definitely problematic when combined with the first unjust effect of economic segregation. Members of the elite group will only hand out the important jobs in business, politics and media, to other members of the elite groups. If it then also turns that they have no empathy for the lower classes and simply consider them lazy and stupid, the elite will overlook many of the actual causes that put these people in the lower class. People are thus treated unequally, depending on their economic position. Since treating people equally is the main concern of Anderson's theory, inequality of wealth is clearly unjust because it causes economic segregation.

As we have seen in the first chapter, economic segregation is currently growing in many countries, and the negative effects will only grow stronger over time. Even though both Dworkin's and Anderson's theories of justice differ significantly, these theories condemn inequality of wealth as it generates economic segregation. For Dworkin, it creates unequal starting positions that are only decided by brute luck, whereas for Anderson it creates unequal social relationships through the forming of classes. Therefore, justice requires us to do something about this problem as quickly as possible. The question is what this solution needs to be: institutional reforms or taxation. In the next section I will argue that taxation seems to be a just, effective and efficient method, and then specifically the direct taxation of wealth. First, I will explain why taxation is a suitable method, then I will continue with examining two ideal forms of direct taxation of wealth as presented by Piketty and Halliday.

V. Taxing to reduce the inequality of wealth

So far, I have started with analysing Piketty's claim of the rising inequality of wealth. I have argued that Piketty's argument seems convincing, and therefore accepted his assertion that the inequality of wealth will probably increase. However, as Piketty lacks the proper moral argument to demonstrate why inequality of wealth would be unjust, I have continued with evaluating two of the main theories of justice and argued that too much inequality of wealth would indeed violate the requirements of justice. The next step in the process, is to ask how this problem could be solved. The best way to do so is by taxation, more specifically: a direct taxation of wealth. I will first explain why taxation is the best solution, and why a direct wealth tax would be best suited. I will then continue with discussing two ideal theories of the two main forms of direct wealth tax which are an annual wealth tax and an inheritance tax. The first theory is by Piketty himself, who thinks an annual global wealth tax would be the best solution.

The second theory is by Daniel Halliday, who proposes a progressive inheritance tax depending on the number of times the wealth has already been bequeathed, following a scheme that was devised by Eugenio Rignano (Rignano 1925).

Afterwards, I will continue with the last chapter where I will consider these ideas in relation to the current situation in the Netherlands regarding taxation of wealth. I will argue that even though these ideas might appeal to people that want to solve the problem of inequality of wealth, none of these solutions might actually be realistically attainable in the near future. However, that does not mean the current situation is extremely unjust and could not be improved on.

Taxing Wealth

Murphy and Nagel describe taxes as "the most important instrument by which the political system puts into practice a conception of economic or distributive justice" (Murphy and Nagel 2002: 3). However, it is of course not the only instrument the state can use, and some economists wonder if taxation is actually the right tool to pursue equality with. Take for example Frank Taussig. He writes that taxation only takes care of outcomes but does not deal with causes. Instead, we should start at the root of the cause and focus on changing the institutions, to make sure they are accessible for everyone: "Much the more effective and promising way of reform is to promote the mitigation of equality in other ways-by equalization of opportunity through widespread facilities for rational education, by the control of monopoly industries..." (Taussig 1921: 514). It might sound like a more attractive idea than raising taxes, but institutional reforms come with drawbacks as well. Sociological evidence suggests that even when everyone has equal access to public institutions, internal economic segregation often remains a problem. An example of an institution that has been researched extensively is universities. After examining various universities that admit students from many different economic levels, it was seen that there are many situations of internal economic segregation (Armstrong & Hamilton 2013: 4). Even though access to the university is relatively equal, within the university there are still many different ways that segregate the rich from the poor. For example, many campuses offer housing in different price ranges, which ensures that students tend to live with other students from the same economic level. Moreover, rich students often do not have to take a job next to their studies, and instead can do unpaid internships which are generally more valuable for a future career (Halliday 2018: 118). Evidence even shows that one is more likely to be selected for a graduate profession when wearing an expensive suit to the interview.

Many other examples can be presented of institutions that try to offer equal access, but where the differences in economic level still play an important role internally. As a solution it might be possible to keep on reforming the institutions, but it would probably take away much freedom in the process. In the examples above, differences in housing prices and unpaid internships would probably need to be banned. This would be a slippery slope to go down, as it unsure how far you need to go to completely get rid of all things that promote economic segregation. Furthermore, it is also uncertain whether integration through legislation would actually have the intended effect as it could also impact differently and severely backfire (Halliday: 120). Halliday thinks that institutional reforms are mainly useful for specific injustices: "institutional reform may be a much better way than taxation when there is an opportunity to target relatively specific injustice, such as finding ways to help higher-income women report domestic abuse" (Halliday: 120). Reforms are thus useful for certain problems that cannot be tackled with the use of taxation. However, for the problem of economic segregation in general, the tool of taxation is necessary because wealth always seems to find a way around all forms of legislation that try to prevent economic segregation. Taxation seems therefore a more effective tool to tackle the problem as a whole.

Be that as it may, taxation is an immensely complicated subject as it involves large empirical uncertainties about the effects it will have on the economy and society. There are many different ways of taxing people, all with different purposes. Generally, income tax, wealth tax and consumption[17] tax are considered the main types of taxation[18]. These forms can also be found in different variations throughout nearly all periods in history (Piketty 2014: 494). For this essay I will ignore consumption tax, as it is less relevant for the inequality of wealth[19]. This leaves me with income and wealth tax, which at times might be difficult to properly separate from each other. Take for example capital income; in many countries this is part of the income tax, not the wealth tax. For most countries, the wealth tax for individuals is often merely the inheritance tax, whereas income tax is generally seen as the main form of taxing individuals directly. This is also the main difference between Piketty's and Halliday's ideas. Piketty thinks that merely an income tax and an inheritance tax is not enough to stop

[17] Consumption tax includes value-added taxes, imported goods and any other form of consumption (Piketty 2014: 494).

[18] See Von der Pfordten (2015: 55) for a discussion on this topic, also Piketty (2014: 494).

[19] See Mawe & Bufacchi (2015) for an example of a consumption tax in the form of a global luxuries tax. However, this is idea is focused on alleviating the worst cases of poverty, the impact on inequality would be significantly less.

the increasing inequality of wealth. He asserts that income is difficult to determine for extremely wealthy people[20], meaning that an income tax will never be an effective tool to tax wealth. This would leave only an inheritance tax, but Piketty deems only an inheritance tax not fast enough. He fears that not enough redistribution can be achieved through inheritance to have an impact on reducing inequality, as the rates of the annual returns are too high. This will have the effect that the growth of the wealth will simply be too much and will undo the impact of the inheritance tax (Piketty 2014: 474). For that reason, he proposes an annual global tax on wealth. Halliday disagrees with this argument and thinks properly reforming the inheritance tax would be enough. Especially considering the fact the implementing a global tax is extremely difficult. It is relatively easier to reform the inheritance tax, as people only have to go through the legal apparatus of the country of the deceased, as well as the apparatus of the country they are inheriting in. It is at least possible to modify the legal apparatus of one or two countries, instead of setting up an apparatus that applies to the whole world. Therefore, Halliday thinks that changing the inheritance tax might be a better option, especially for the present times (Halliday 2018: 203)

Wealth Tax

For Piketty, updating the current fiscal policies is essential as well but it is not enough. He declares that "if democracy is to regain control over the globalized financial capitalism of this century, it must also invent new tools, adapted to today's challenges" (Piketty 2014: 515). The optimal instrument to do so for Piketty, would be a progressive global tax on wealth combined with a high amount of international financial transparency. These would prevent the world from going down an endless inegalitarian spiral and would regulate the current negative trend of concentration of wealth.

One might object to Piketty and claim that wealth tax is not a new tool. Several countries have implemented a wealth tax in the past, and some are still using it. However, in practice it is mostly useless as it contains so many exemptions and flaws that barely any wealth is taxed. As a result, most countries have eliminated such taxes (Piketty: 517). To prevent people from using the system, Piketty wants to take a new approach and asserts wealth should include all assets: real estate, business assets and financial assets, with no exceptions. It is also essential that all countries worldwide

[20] See Piketty (2014: 525): wealthy people often legally declare a significantly lower income than they actually receive, meaning they barely pay any tax on their wealth. He claims that only a direct tax on wealth is able to correctly measure the contributive capacity of the rich.

participate, as otherwise countries will simply start a race to the bottom of tax rates to store all wealth. Moreover, the tax scheme needs to be a progressive scheme. Piketty has shown that larger fortunes are able to earn higher returns. Therefore, to stop the wealthiest individuals from growing their wealth too fast and increase inequality, it is justified to implement a scheme that taxes progressively. To give an idea of what he thinks would be a fair rate, he proposes 0% for net assets below 1 million euros, 1% for assets between 1 and 5 million, 2% for above 5, and 5-10% for people that possess over 1 billion worth of net assets (Piketty: 517).

If we would live in an ideal world, this might have been a suitable method to reduce inequality[21]. In reality, it seems more like an impossibility. This is also acknowledged by Piketty as he states that a global tax is a utopian idea (Piketty 2015: 515). Currently, countries are not able to work together well enough to implement a global taxation, meaning that there will always be ways to hide wealth and disperse around the world to avoid paying taxes. For that reason, Halliday thinks that reforming the inheritance tax might be a more realistic option.

Inheritance Tax

Another method of taxation to reduce inequality of wealth is by taxing the wealth when it is passed on through inheritance with the use of an inheritance tax. One of the main problems of implementing a simple inheritance tax is deciding what rate people should be taxed at. As I have argued, inequality of wealth causes many injustices, and inheritance tax is the best way to stop it. It would thus seem natural to argue that inheritance tax rates should be high. However, Halliday thinks the solution is not that easy in practice as two opposing effects might occur that impact productivity (Halliday 2018: 58). On the one hand, the rate should be low enough to grant the prospect of passing on one's wealth, as this is one of the vital reasons to produce wealth, which causes the size of the pie to increase. On the other hand, the rates should be high as low rates would make the next generation idle, which would have a negative impact on productivity. To solve this dilemma, Halliday wants to use the Rignano scheme, which makes a distinction within the wealth that is transferred. It does so by separating the inheritance into wealth that has been produced by the donor, and wealth that the donor has inherited himself. Wealth that has been accumulated by the donor will be taxed only a little, whereas wealth that has been passed on more than

[21] Halliday argues that there is no reason to pick a winner between Piketty's and his idea, as he thinks that both ideas are able to achieve the goal of reducing inequality in compatible ways. See Halliday (2018: 203).

once will be taxed at a higher rate, which progresses with the generations that receive the wealth. This would ensure that wealth cannot simply stay with the same people for many generations. People would still have to be motivated and productive if they want to bequest anything to their family, and would have the chance to do so (Halliday: 59).

In short: the main idea of the Rignano scheme is that the rate of the inheritance tax should depend on the age of the fortune, instead of the amount that is bequeathed. The first time wealth is passed on, the rate should be low, the second time it should be somewhere in the middle, while the third time the rates should almost reach a hundred percent[22]. Halliday thinks that this would be the best way to structure inheritance taxation because new wealth is good for redistribution, whereas old wealth often concentrates with the same people: "new flows of inheritance may help disperse wealth around the population, whereas older flows of inheritance may work more to concentrate wealth within a smaller subset of the population" (Halliday 2018: 7). In this way, wealth would not simply stay with the same people as they would need to be productive to increase their wealth, without taking away the whole notion of bequeathing wealth completely.

Halliday discusses other subtle advantages of the Rignano scheme over a normal progressive inheritance tax. However, just as Piketty's global wealth tax, the Rignano scheme seems still utopian. In the next chapter I will explain that currently most people are against increasing the inheritance tax, and it is therefore unlikely they would accept a scheme as drastic as the Rignano scheme. Therefore, both schemes merely serve as a helpful reference point to work towards. For the remaining part of the essay I am going to focus on the non-ideal situation of the Netherlands. I will argue that even though it might be currently impossible to implement one of these schemes, that does not mean the present situation cannot be improved on.

VI. The Netherlands need to increase the inheritance tax

In the previous chapter I have examined two proposals of taxation that might be the ideal way to achieve what justice requires. However, in practice it is often not possible to implement ideal solutions, as not all people tend to agree with them. Therefore, in this last chapter I want to leave these proposals for what they are, ideal solutions, and focus on what is actually achievable in the near future in the Netherlands to slowly

[22] See Halliday (2018: 62), where he gives an example of possible rates. However, the rates can vary as the scheme is merely a framework that can be adapted to ensure that it is politically feasible.

move towards the ideal solution. This is also what Piketty suggests would be the best way to move forward as he asserts that "it is perfectly possible to move toward this ideal solution step by step, first at the continental or regional level and then by arranging for closer cooperation among regions" (Piketty 2014: 516). Firstly, I will examine the current inheritance tax system and show that the current rates are extremely low. Afterwards, I will analyse why these rates are this low, and discuss several objections that are generally offered by people and politicians that oppose inheritance tax. I will debunk these arguments and assert that most objections are based on flawed reasoning. Lastly, I will shortly discuss what in my opinion would be a realistic first step towards a just and efficient inheritance tax system to reduce the growing inequality of wealth.

Wealth tax in the Netherlands

Before evaluating the current wealth tax in the Netherlands, I first want to go back to the first part of this essay concerning the growing inequality of wealth. One might object that Piketty might have shown that the inequality of wealth is increasing in France, the United Kingdom and the United States, but never mentioned any numbers for the Netherlands. The question is then, whether the same trend can actually be observed in the Netherlands. The answer is a crystal clear 'yes'. The independent Central Bureau of Statistics (CBS) publishes an annual report of the trends within economic inequality. They make a distinction between the inequality of income, and the inequality of wealth. It can clearly be noticed that tools such as a progressive income tax are able to successfully reduce the inequality of income. In 2017, the Gini-coefficient of the pre-tax income was 0,55, whereas the Gini-coefficient of the net income was only 0,29, a reduction of income inequality of almost 48% (CBS 2019: 6). However, the same cannot be said for the inequality of wealth. CBS reports that the Gini-coefficient for wealth is an astonishing 0,79, and that it is increasing. In practice this means that the richest ten percent of the people own almost seventy percent of the wealth. This is a consequence of the wealth tax laws that currently apply in the Netherlands.

The Netherlands uses both an annual wealth tax, and an inheritance tax. Nonetheless, neither comes close to the ideal proposals I have outlined above. The annual wealth tax is not a direct taxation of all possessions, but merely a small percentage of max 1.2% on the annual yield of some aspects of their wealth[23]. The inheritance tax is not too impressive either. It contains several different rates depending on how the person inheriting is related to the deceased, and on how much money is bequeathed. The highest rate of taxation for inheritances is for amounts above 125 thousand euros and is set at a flat rate of twenty percent, it does not increase anymore above that. After all kinds of different exclusions, the effective average rate over inheritances is even significantly lower: twelve percent (Frederik 2019). Moreover, there is one other exclusion outside of this rate entirely that is especially interesting as well, which is when one will inherit a business. If that is the case, the first million will simply be untaxed, whereas anything on top of that will be taxed at the astonishingly low rate of five percent[24]. Implementing these exclusions for business owners would be a helpful way to decrease inequality if businesses would be owned by the less wealthy people. However, in reality it is exactly the opposite, as the four percent wealthiest people own over ninety percent of the business wealth. Therefore, these special exclusions for business owners are only making inequality worse.

Though the Netherlands is often considered to be a relatively just country[25], it is surprising to see that they maintain these low rates on wealth tax, as these rates lead to social injustices. The reason seems to be that most people and politicians heavily oppose an inheritance tax[26]. In the constitution of the Netherlands it is written that it is the responsibility of the government to make sure that the difference between poor and rich people is not too vast. It is of course difficult to precisely determine what should be considered as too much inequality, but it seems clear that the current levels are starting to cause problems with justice, and the inequality will only keep on increasing. One would therefore expect that politicians would try and do something about it, but in reality, it seems more like they are aiming for the opposite. This could be a consequence of how most people think about inheritance tax. In his article about inheritance tax, Helmuth Cremer states that in most countries it is often the case that

[23] This percentage is the highest number and only for people that possess over one million euros of wealth. It is thus merely a fraction of what Piketty is aiming for, see https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/prive/vermogen_en_aanmerkelijk_belang/vermogen/belasting_betalen_over_uw_vermogen/grondslag_sparen_en_beleggen/berekening2020/berekening-belasting-overinkomen-uit-vermogen-over-2020
[24] It is not five percent exactly, but 83% is exempted from taxation. The other 17% will be taxed at a set rate of 30%. Since the first million is tax free, people pay effectively only three percent on average.
[25] For more information see: https://www.goodcountry.org/index/results/
[26] I have also mentioned the annual wealth tax in the Netherlands. However, I will ignore this from this point onwards. As I have explained earlier, it is difficult to sustain high rates as people will simply move their wealth to a country without a wealth tax, meaning that it needs to be a global tax.

inheritance taxes are especially unpopular with the people: “taxes are rarely popular, but wealth transfer taxes appear to be particularly and increasingly unpopular” (Cremer 2010: 815). The dislike seems to be caused by two factors: poor information and moral objections that are flawed.

Poor information

It is certainly surprising that so many people oppose an inheritance tax as it could raise a significant amount of public income, while mainly targeting the wealthiest. Especially because most of these people would not even have to deal with any of the higher rates, as they do not receive enough wealth through bequest. Rajiv Prabhakar has investigated why the public opposes inheritance tax. He explains that the opposition to inheritance taxation is the result of a combination of different causes (Prabkhakar 2018: 164). Firstly, people act out of self-interest, as they do not want to pay taxes, and leave the wealth to their family. However, in this scenario it should be that only a few people would oppose the inheritance tax, as only a few are wealthy enough to be affected by it. This would suggest that most people that oppose inheritance tax are simply irrational, as they act against their own economic interest by opposing it. Nonetheless, Prabhakar does not think people are irrational. He attributes the resistance to the fact that people are poorly informed, leading them to misunderstand the details of the inheritance tax scheme. For example, one survey shows that over two-thirds of the American public did not fathom the most obvious fact about inheritance tax: that only the wealthiest people pay it (Prabhakar: 155). Poor people tend to think that the small amount of wealth they would leave to their family would be taxed heavily when inheritance tax rates would be increased. Even though this is far from the truth, because generally all schemes, even nowadays, are progressive and exempt the lower amounts.

Not only the public seem to struggle with comprehending information, politicians are ignorant as well. In the previous sector I shortly outlined the inheritance tax scheme in the Netherlands, where I mentioned the special exclusion for inheriting a business. This exclusion seems also only upheld by politicians due to poor information. The first time the exclusion was introduced was in 1996. It was decided that 25% of the capital wealth would not be taxed when passed on through inheritance. Only the remaining 75% would be taxed at a set rate of 30%, thus ending up with a rate of 22,5%. The reason that was given was that businesses would get in trouble when they would be passed on[27]. It was therefore mainly to protect the small businesses that would not be able to continue to exist if they needed to pay a sum this large instantly. This was a strange argument, as it was never proven to be necessary to protect these small firms. In fact, quite the opposite seems to be the case. In 1981 politicians also argued that these firms needed protection from ceasing to exist due to the new owner needing to pay inheritance tax, and therefore introduced an interest-free postponement of payment. They expected 2000 businesses to use it every year, but six years later they concluded that it was not necessary as it ended up being only sixteen per year on average[28]. This did not discourage politicians from continuing to use this argument for the next 30 years. After implementing the 25% exclusion rate, the rate continued to increase every couple of years until the minister of finance Jan Kees de Jager finally raised it to the current level in 2008, still claiming that it is necessary to save small family businesses[29]. What is even stranger, is that documents of the ministry show that government officials strongly recommended to not increase it, but significantly lower it as it is unnecessary, unjust and expensive[30]. In 2014, the new minister of finance Eric Wiebes finally seemed to accept these recommendations by his ministry as he stated that in over at least 70% of the cases the businesses would not have any problems without this exclusion[31]. However, after strong reactions of the representatives of business owners, he quickly let go of this plan, and it has not been touched since[32].

These examples suggest that poor information plays an important role in forming a negative opinion about inheritance tax. Yet, it is difficult to change this negative opinion as politicians generally do what the people want, while the people simply seem ignorant of the facts. In the last section I will discuss Prabhakar's response to this

[27] See 'Kamerstukken II 1997/1998, 25688, nr.3, p.7' at https://zoek.officielebekendmakingen.nl/kst-25688-3.html
[28] See 'Kamerstukken II 1987-1988, 20588, nr.3, p.4' at https://zoek.officielebekendmakingen.nl/00001 05373
[29] See 'Kamerstukken I 2009-2010, 31930, nr. D, p.33' at https://zoek.officielebekendmakingen.nl/kst-20092010-31930-D.html
[30] See 'Kamerstukken II 2008-2009, 31930, nr.4' at https://zoek.officielebekendmakingen.nl/kst-31930-4.html
[31] See 'Kamerstukken II 2013-2014, 33750 IX, nr.25' at https://zoek.officielebekendmakingen.nl/kst-33750-IX-25.html
[32] In the end, it might not have been a problem of poor information for the government anymore, but it was for the business owners as they argued that they needed it to not perish when passed on through an inheritance, see: https://www.telegraaf.nl/nieuws/971859/verzet-tegen-meer-erfbelasting-familiebedrijf

problem, and what would be the best approach to solve it. First I want to continue with the objections that people have for moral reasons.

Moral objections inheritance tax

One of the most frequent moral argument that is mentioned against the inheritance tax is the notion of double taxation (White 2018: 172). This argument was also used by Dutch prime-minister Mark Rutte when he described the inheritance tax as the most unjust tax there is because of double taxation[33]. He asserts that one already pays taxes his whole life, and when you then have something left when you die, you have to pay taxes again. However, this argument is fallacious. Rutte sees the inheritance tax from the viewpoint of the person that passes on their wealth, not the person that receives it. To explain why this is wrong, Stuart White gives the example of a plumber case. If I would use my income, on which I pay taxes, to pay a plumber to fix my pipe, the plumber would have to pay taxes as well. Should this be considered a double taxation? He asserts that it seems unreasonable to do so, and therefore that this argument would not apply to the inheritance tax either (White: 174). It should be considered as income for the receiver of the inheritance, and just as any other form of income, one needs to pay taxes on it. Moreover, even if you disagree with this line of reasoning, it is still not a good argument against bequeathing, as taxing an asset multiple times should not be of any concern: "taxes are not like punishments, which may not be imposed twice for the same crime" (Murphy and Nagel 2002: 143). Murphy and Nagel assert that there are several moments when an asset is taxed twice[34]. However, what is important is not the amount an asset is taxed, but the cumulative effect of these taxes together.

Another popular objection is what White calls 'the virtue objection', meaning that an inheritance tax punishes virtuous behaviour and encourages selfish behaviour. Imagine a scenario with two persons. One person consumes all his wealth leaving nothing for his children, whereas the other person saves up and bequeaths everything. The argument is that the person who spends all his money is selfish and is therefore justly 'punished' by paying consumption taxes, whereas the one saving up to bequeath wealth out of love for his children is virtuous and should therefore be rewarded. This argument is wrong as well. Why would it be more virtuous to give your wealth to

[33] See https://www.volkskrant.nl/economie/erfbelasting-is-helemaal-niet-doodzonde-en-past-bij-het-liberale-idee-van-gelijke-startkansen

[34] See Nagel & Murphy (2002: 143). It depends of course on the country and the laws of taxation, but they give the example of "property tax that is collected on an asset that was bought with income subject to tax".

your children without paying taxes, than to spend it which redistributes the wealth over society? It all depends on the circumstances of the specific case whether something should be considered virtuous or not. If someone inheritances such a large sum of money that he never has to work again, and thus barely pay taxes, it is unlikely that many people would consider that virtuous. However, if a hard-working single mother manages to save up a small amount of wealth to bequeath to her children, it is definitely virtuous. Still, it should be questioned whether love for one's children is a good reason to be allowed to give them everything, if this also increases inequality. Brighouse & Swift argue that only certain goods have an essential contribution to human flourishing and should be allowed to be passed on even though they increase inequality (Brighouse & Swift 2009: 53). However, they are talking about unique goods that can only be obtained through the family such as reading a bedtime story. They assert that these types of activities help both parties develop and enjoy a tight relationship that greatly improves the development of the children (Brighouse & Swift: 57). Large inheritances do not meet these requirements. They are merely intended to give one's children a big advantage over others, which should thus not be seen as virtuous behaviour. It would be more virtuous to only bequeath a relatively small amount and leave everything else to help others.

The next step

It is difficult to decide on what would be a fair rate to tax inheritances. If one would follow the requirements of justice as outlined by Dworkin or Anderson in the strictest sense, one would probably end up with something close to the ideal proposals of Piketty and Rignano. However, as Piketty said, these are utopian solutions; it is essential to take things step by step. As we have seen in the previous sector, many people have a different opinion about what is just regarding inheritance tax. It is therefore difficult to simply state that the Netherlands should raise the inheritance tax rates because the current rates are unjust. This is exemplified by how difficult it is to get rid of the exclusion for inheriting a business, even though all ministers clearly seem to understand how unjust the exclusion is. Would simply informing the people better solve this? Prabhakar does not think so. He writes that "the problem is not that the public fails to respond properly to more information or better moral arguments, but that research fails to understand the nature of public opinion. Opposition to inheritance tax is a local instance of wider unhappiness with all taxes" (Prabhakar 2015: 164). Prabhakar argues that taxes should be considered not by themselves, but as a whole. Even if people would be better informed, not everyone would instantly change their opinion about this topic. Instead, people should be made more conscious of the workings and use of taxation. This could be done by linking taxation to government spending or by attributing certain taxes to certain purposes (Prabkahar: 162). Moreover, more awareness should be given to how taxes correspond with each other, as part of a bigger system. People should be offered the choice between what kind of tax they would prefer: they could for example choose to lower the income tax and increase inheritance tax. Prabhakar asserts that this might be difficult and could lead to long debates, but that it could help people understand taxation and put an end to most opposition towards inheritance tax.

VII. Conclusion

In this essay I have started with defending Piketty's claim that inequality of wealth is increasing. He argues that wealth is growing faster than the economy, and since there are no natural forces to stop this process, wealth is concentrating amongst an elite group of people. I have accepted this claim, as the argument Piketty makes is extensive and convincing. However, I have also asserted that Piketty lacks the proper arguments to defend his second claim, which is that inequality of wealth causes injustices. For that reason, I have examined two prominent theories of justice by Dworkin and Anderson. I have argued that for both Dworkin and Anderson, inequality of wealth has unjust effects. For Dworkin, inequality of wealth in combination with unregulated bequeathing leads to unequal starting positions. It would then only be a matter of brute luck whether one would be born in a family that is well-off. Yet, I have also shown that luck egalitarians struggle with solving this problem while retaining inheritances. For that reason, Anderson might have more substantial and more specific arguments against the inequality of wealth. For her, justice is about abolishing oppressive relationships. Halliday argues that inequality of wealth causes economic segregation, which causes oppression. Therefore, justice requires us to reduce inequality of wealth, to eradicate economic segregation. I have argued that taxation seems the best tool to solve this problem, as institutional reforms should be used to target specific problems of equality, whereas taxation is likely to more effective for the problem as a whole. Nonetheless, it is difficult to determine what would be the best method of taxation. Halliday and Piketty have both proposed an ideal method, but both methods are unrealistic for the current times. Therefore, in the last chapter I have examined the current situation in the Netherlands to see what would be realistic at present. I have considered the question of whether simply increasing the inheritance tax would not work to reduce the inequality of wealth. However, as many people and politicians have formed an opinion that is based on poor information or fallacious moral arguments, the solution is not that straightforward. Even though the current rates might seem extremely unjust, it does not work to try to convince people, as people oppose inheritance tax because they are unhappy with taxation as a whole. Instead, the first step should be to make people conscious of the working of taxation, to make them aware of how different taxes respond with each other.

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