

Funding the Future

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A quiet revolution is going on in economics. It's down to one man in particular. His name is Thomas Piketty. His new book is called 'Capital in the 21st Century'.

I'm not claiming to have read it all as yet, but it seems pretty clear that in his enormous work there is one central idea, ultimately summarised in one graph, reproduced in [Paul Krugman's review in the New York Review of Books](#). This is it:

In this graph 'r' is the rate of return to capital and 'g' is the rate of growth in the economy.

If r is greater than g, and you'll note that expect for the period in the last century it has been, then the return to capital accumulates faster than the growth in the economy as a whole. The result has to be increased inequality because that increased accumulation of capital has to arise as a result of a reduced return to labour.

That, Piketty compellingly argues is the situation we now face. The 1% (or less) are, very literally, taking the rewards due to the rest of us.

What I like is that Piketty is brave enough to say there is a solution. It comes, as I often think solutions come, in the form of tax. He says we have to tax wealth inequalities out of the system out of the economy and we have to tax high incomes because they are not earned. I agree. Quite literally, future prosperity demands that we do so.

Now all we have to agree upon is how to do it.

And then we have to do it, soon.