

BACK TO THE FUTURE? THE AWAITED TANGIBLE ROADMAP FOR REDUCING INEQUALITY

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Review of *Inequality. What can be done?*, by Anthony B. Atkinson (Harvard University Press, Cambridge, 2015, 400 pp., ISBN 9780674504769, hardcover).

Obviously, inequality is a strong concern today, nationally and globally, among academics, politicians and citizens. While there is more and more awareness, if not consensus, that the current levels of inequality have detrimental consequences (Wilkinson and Pickett, 2009; OECD, 2015), the public discussion on effective ways to reduce inequality is still in the fledging stages. To invigorate such a debate is the aim of Sir Anthony B. Atkinson's book *Inequality—What can be done?* (hereafter *Inequality*), published recently by Harvard University Press. Atkinson goes back to past episodes, where inequality has declined and from which he draws policy lessons for the future. The present book provides—and this the distinctive momentum of the book—a roadmap with 15 concrete policy proposals in five areas for reducing the current high levels of inequality in developed countries: technological change, employment and pay, capital shared, taxation, and social security.

This book arrives timely and will certainly carry on the public debate Piketty has spurred with his book *Capital in the Twenty-First Century*. Atkinson himself published an earlier exposé of this book named *After Piketty?* in 2014, in which he thinks one step ahead by asking: “But what next?” While other scholars have argued to invest in educational and skills for a more equal future (e.g. OECD, 2011), such fine-tuning is not enough for Atkinson. We need to make more radical changes, he argues, namely “to rethink fundamental aspects of our modern society and to cast off political ideas that have dominated recent decades” (p. 4). Atkinson disentangles in *Inequality* the mechanisms that have led to the current high levels of inequality with a much more encompassing view—looking at household income in addition to wealth and at the whole distribution rather than the top 1 percent (to which Piketty's analysis is confined) as well as investigating the interconnection of the five areas mentioned, while most economists have focused on skill-biased technological change (SBTC). This broader perspective together with the menu of concrete policy reforms considering explicitly their feasibility and implementation will clearly advance the current debate.

Not only has Atkinson the expertise and boldness to put forward a comprehensive set of daring policy proposals, he moreover has the credibility. More than 40 years ago, Atkinson started his pioneering work in the field of economic inequality. His early books *Unequal Shares: Wealth in Britain* (1972) and *The Economics of Inequality* (1975) are part of his groundbreaking work, although still two decades ago distributional issues had largely been ignored by economists as he pointed out in his Presidential Address to the Royal Economic Society entitled *Bringing Income Distribution in From the Cold* in 1996. He has developed his own measure of income inequality, the Atkinson Index, has created—together with Piketty—a historical database on top incomes and published many standard references in economics with other internationally renowned scholars, advised important government bodies and institutions and has become the doyen in the field of poverty and economic inequality.

It is probably not by coincidence that Atkinson restrains from asking “what *should* be done” with his book. He does not aspire to redefine social justice and who deserves how much. Rather, he argues from a Rawlsian and pragmatic perspective starting from a premise everyone would agree to, namely that “no one should be left behind”. Already Hume asserted that we cannot infer conclusions about what should (not) be based on grounds of what is (not). In asking the right question, “what *can* be done,” Atkinson avoids two traps: namely the objection that his proposals cannot be realized and, maybe more importantly, being shrugged off as moralizer (although it is difficult to avoid being attached to an ideological position). Instead, he manages ingeniously to bridge the gap between academics on the one hand and policy makers and a general readership on the other one.

“Today’s high level of inequality can be effectively reduced only by tackling inequality in the marketplace” (p. 113). The assumption behind Atkinson’s argumentation that we can influence inequality is that political and economic actors make decisions that policies can influence. Many other social scientists take a similar standpoint to Atkinson: Piketty (2013) focusing on the mechanisms that lead to the accumulation of capital predicts unseen levels of inequality for the future owing to market failure. States need to act, best concertedly, to be more effective. A broader perspective takes the prominent FP7 funded GINI project that investigates inequalities in income, wealth and education in 29 developed countries: “Inequalities in income, wealth, and education reflect the broad nature of the economic system but are not simply determined by it: the particular institutions and policies in place in an individual country at a particular point in time have a profound impact on the extent and nature of those inequalities and their societal significance” (Salverda *et al.*, 2014, p. 3). Rather than aligning simultaneous trends, Atkinson’s analytical strategy is to identify the locus of political and economic decision-making process and investigate episodes of inequality in multiple countries through a historical analysis.

This is the subject of the first part *Diagnosis*, whose the main references are the periods of low-income inequality in post-war Europe (1950s) and to a lesser extent in today’s Latin America. For those, who know the richness and depth of Atkinson’s (and co-authors’) works, this empirical part is, however, only an appetizer of his

scholarly work. But it takes the reader efficiently to the first stopover: where we stand today and which lessons we can take from the past to the future.

The key of the success of these examples sees Atkinson in the combination of reduced inequality of market incomes and more effective redistribution. However, inequality started to rise in the 1980s in many European countries. This “inequality turn,” how Atkinson calls it, came about due to common underlying trends: the dispersion of wages, higher unemployment and larger population shares out of the labor force, the decreasing share of wages in national income, the concentration of capital income (i.e. profits and rents), the declining effectiveness, coverage and benefits of the social security system, the effect of tax reforms away from a progressive tax system. While countries have faced similar constraints, they had different outcomes in terms of post-tax, post-transfer incomes. Atkinson attributes this fact convincingly to the different policy context: firms choose from a set of opportunities that governments propose under given economic constraints. In other words, political and economic *decisions* rather than abstract, exogenous forces (e.g. “globalization”) lie behind the rise in inequality and emphasize the redistributive power of the welfare state.

These are the basis for the second part *Proposals for Action*, which contains five core chapters relating to the five areas mentioned earlier: technological change, employment and pay, capital shared, taxation, and social security. I will not attempt to review the 15 proposals but focus on a few in each of these fields. Most of them are thought for developed countries, whereas a few of them are particularly designed for the UK. The proposals *per se* are not novel as they originate in the past; yet, their presentation in this concrete, condensed form is surprisingly radical.

With respect to *technological change*, Atkinson starts from the textbook story how technological progress has increased the demand for skilled workers and led to an excess of skilled wage over unskilled wage (i.e. wage premium), or, in other words, to higher earnings inequality. Atkinson argues that this is, however, not necessarily the case as it depends on how easily skilled workers can be substituted by others. The approach by Stiglitz and Atkinson presented here, as an alternative, is therefore not based on increasing the productive capacity of particular workers but on techniques of production. The employability of workers and the human dimension of service provision need to be valued and stimulated accordingly. It is noted that with market driven investment strategies of the past there is a focus on productivity that led to a switch in income from workers to capital. Technical progress is localized to particular techniques or production activities, behind which stand social and economic decisions, through which technological change can and must be channeled (i.e. science policy).

Atkinson also discusses the shift of bargaining power between workers (unions) and employers towards the latter, which created the need for “countervailing power” to market forces over the last decades. In order to rebalance these powers in industrial organization, he suggests introducing an explicitly distributional component into competition policy, ensuring an institutional context in which unions can bargain on equal terms with employers, and establishing a Social and Economic Council involving the social partners and other nongovernmental bodies. It is this institution that plays a key role in Atkinson’s set of

policies and is maybe the most easily achievable proposal, risking yet a watering down of the Council's jurisdiction.

Another strand of reasoning why inequality has been rising in the past focuses on the growth of non-standard work in the last decades (part-time work, fixed-term contracts, temp-agency work, etc.) and sees its remedy in reformed *employment and pay* policies. A methodological but also political problem that arises with these new forms of employment is the use of the current indicators, which mirror the traditional standard employment relation but fail today to capture new inequalities. Using work intensity (instead of using headcount measures) and underemployment (instead of unemployment which ignores the distinction between voluntary and involuntary non-employment) will allow for the setting of targets adequate to the new situation. However, the core proposition, which will be received controversially, is to guarantee public employment at the minimum wage to those who seek it. Anticipating the question, "Will these jobs would be productive?," Atkinson answers to focus on the value of public services instead on their productivity.

Yet, one could argue that this promotes inclusion but not necessarily equality, which is why Atkinson insists on ethical pay policies, i.e. a legally binding minimum wage set at a living wage and a code of practice regulating pay above the minimum level in which the Social and Economic Council plays again a key role. In addition to more transparency through compulsory public reporting of pay multiples, the state's demand and thus market power could be used to create a pay code compulsory for its suppliers.

Similar to Piketty, Atkinson also investigates the role of *capital* in the production of inequality. He, however, insists on distinguishing wealth (and benefits from it) and capital, as only the latter exerts power over economic decisions and broadens Piketty's perspective (" $r > g$ ") by distinguishing different rates of returns. Concretely, he suggests a positive real rate of interests for small savers guaranteed by national saving bonds and a minimum inheritance for everyone paid at adulthood. But is this really a more efficient strategy to reduce inequality compared to ensuring equal access to essential public commodities such as education, health care, etc.?

Tax and social policies are the distributive tools through which governments can most directly influence inequality. It is therefore not surprising that the majority of the proposals and more general ideas Atkinson brings forward concern *taxation*. Atkinson links historical episodes of high inequality to policies cutting top tax rates. His logical consequence is therefore to return to a more progressive arrangement for personal income tax, with marginal rates increasing with taxable income up to (an audacious) 65 percent as well as an expansion of the tax base, through, for instance, family benefits.

A major cornerstone of his roadmap is the introduction of an Earned Income Discount into the personal income tax scheme—similar to the Earned Income Tax Credit in the US and the Earned Income Relief in the UK. A total tax-free amount equal to an individual allowance plus an earned income discount of 20 percent of earnings, this Earned Income Discount should "ensure that the introduction of a progressive tax structure would not raise the tax rate on low levels of earnings (and pensions). In other words, this benefit would not be extended to all levels of earnings. It provides modest help to low earners without conveying the benefits to those with investment income" (p. 192). In addition, governments

should tax inheritance and gifts *inter vivos*, turn to a proportional or progressive property tax and examine the possibility to introduce an annual wealth tax. The proposal of a simplified tax system could certainly even find support among those favoring a minimalistic state.

Similar to Piketty, he also brings forward the idea of a global tax regime for individual taxpayers (based on wealth) and a minimum tax for corporations. To be realistic, high international financial transparency and international cooperation are necessary pre-conditions. Yet, the snag here is that Atkinson bets on voluntary action to eliminate the well-known negative externalities. Indeed, such norms can be an adequate means to accomplish social welfare (Akerlof, 1976) or avoid market failures (Coleman, 1989); but the conditions, under which norms will be obeyed, remain unuttered in this book. Preference for conformity needs to coincide with the conviction that other people will obey, in addition, to lead to a *behavior* that corresponds to the norm (Bicchieri, 2006). To speak from a rational choice theory view, how can an equilibrium of games of strategies be achieved and cooperative behavior become rational?

Social security is the last area of intervention Atkinson discusses. The shift of the balance in the mix of labor-market dependent social insurance, means-tested social assistance, and universal basic income towards more income testing experienced in the last decades is counterproductive regarding inequality, and “the wrong direction for the future”. Means-testing has, reminds Atkinson, two major flaws. First, the combination of income-tested benefits, income tax, and social contributions create poverty traps, i.e. situations where there is little room to increase people’s gross earnings. Second, the take-up rate among the eligible varies greatly over countries and the types of benefits; but, take-up tends to be low where stigma and/or complexity of the means testing is high.

Given these drawbacks of current social security systems, a reduction in inequality, according to Atkinson, can only be achieved by increased social spending. He takes issue with fears of a bloated welfare state, noting that the financing of increased social spending could come from the additional tax revenue based on the proposed policies. But a mere increase in benefits is not enough to reduce inequality. More fundamentally, we need to reconsider the structure of the welfare state, says Atkinson, adapt it to the new forms of employment, and enlarge eligibility and coverage. These changes have been considered and implemented in recent decades in a few European countries.

The probably most radical of the proposals Atkinson puts forward is his plea for a participation income, similar to the basic income proposed by Tobin in the early 1970s. This individually paid participation income would neither be related to labor market status, social security contributions, nor income. The participation income would differ by the proposal made by Tobin as complementing social transfers rather than replacing them. It would be linked to the condition of participation, i.e. “making a social contribution,” such as (self-) employment, education, active job search, home care, or voluntary work in a recognized institution; those who are unable to participate due to disabilities or illness would also be considered as making a social contribution.

Similar concepts of basic incomes have already been discussed under different labels for decades by economists, social scientists, and political philosophers

(Atkinson, 1989 and 1993; Mückenberger *et al.*, 1989; Ferry, 1995; Scharpf, 2000; van Parijs, 2005). Critics counterargue that a participation income cannot be financed, that it demoralizes workers, that it slows down economic growth, etc. The assumption is that the goals of a participation income (i.e. prevention of poverty, reduction of inequality) can only be reached if it is set sufficiently high, which implies, in return, higher taxed earnings. Related issues, such as how to ensure investments in education and skills if returns are lower, are not discussed in the book. Briefly, the crux of the matter, to which Atkinson does not and cannot give an answer, is the level of the participation income, as this level would depend on national circumstances (van Parijs, 2005).

In counterbalance of the boldness of this proposal, Atkinson seems to be urged to remind the reader of Beveridge's philosophical idea legitimating the welfare state that seems to be sinking in oblivion in the last decades, namely that social protection constitutes a *right*. Definitely, a realistic first step towards a more universal, not-means-tested social security system could be an EU-wide child basic income, paid at a substantial rate and taxed as income, which would also be an ideal tool to combat child poverty in addition. Here Atkinson appeals explicitly to the EU, as in earlier publications. Whereas it should be difficult to find a political majority supporting the participation income (at the moment), the idea to focus on children is a smart way of finding a larger consensus.

Some of these proposals—such as more progressive taxation, more inheritance tax, and a higher minimum wage—have a somewhat left-wing flavor, and may therefore be predestined to be prejudged. But Atkinson is well aware of opponents: “I can already hear critics dismissing them as either boringly familiar or wildly utopian” (p. 113). In the third part *Can It Be Done?*, Atkinson defends the policies proposed against common objections for not taking any action, namely that these measures would hamper the economy, that globalization makes progressive reforms impossible, that such policies cannot be afforded.

Can inequality only be reduced at the expense of decreasing economic output or growth? Atkinson's answer is “that there is no smoking gun” (p. 262). The fact that an inevitable conflict between equity and efficiency is (wrongly) assumed lies in ignoring the potential positive contribution of the welfare state to economic performance. Moreover, we may simply ask the wrong question(s). Economic output and growth have to be seen in conjunction with distribution: “a smaller cake more fairly distributed may be preferable to a larger one with present levels of inequality” (p. 243).

Does globalization prevent action? Atkinson argues that the common challenges posed by globalization leave nonetheless space for action. In the end, the level of inequality depends on how nation states cope. But joint efforts, explicitly appealing to the EU, can make national policies more effective in a globalized economy.

Even for those who agree to his proposals, the most urgent question may be if we can afford the political change. Atkinson shows for the UK, as an example, that the political arithmetic works out and that a skimmed, revenue neutral version of the roadmap could achieve a salient reduction in inequality (as well as in poverty and child poverty). Now it is up to accountants to refine the proposed options and adapt it to national contexts.

In sum, Atkinson convinces his readers that learning from the past is a first step to a future with more equality. He contests economist textbook ideas that have

long prevailed. But while the rather vague policy recommendations of previous publications leave policy makers with more open question than answers, Atkinson takes the difficult road of designing concrete policy responses, which will—no doubt—easily feed critics. He disentangles supposedly abstract mechanisms of markets, technological advances, and globalization by analyzing the locus of economic and political decision-making; he is the first to derive such tangible policy responses to combat inequality. Atkinson opens the “black box” of policies that can reduce inequality and could bring the prevailing deficient laissez-faire approach to a halt.

The controversial nature of the proposals does not deplete their value. On the contrary, the contribution of *Inequality: What Can Be Done?* is clearly the set of elaborate and authentic propositions, through which Atkinson manages to bridge the cleavage between academia and policy making. It is in this sense one of the currently, most needed books to advance the public discussion and to take action for more equality in the future.

In the end, the difficulty for “going back to the future” that remains is to find broader political backing. But this is where Atkinson’s book finishes. In other words, it is up to the reader to decide to see these proposals as castles in the air or to adopt Atkinson’s optimistic and responsible perspective. Hopefully, his appeal that the “reduction of inequality should be a priority for everyone” (p. 3) will not fall on deaf ears. As once Albert Einstein said: “The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking.”

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