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Inequality: What Can Be Done?

by **Anthony B. Atkinson**

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Anthony Atkinson is an expert when it comes to explicating inequality in economic theory. If we wish to think about inequality within the field economics, considering his work is unavoidable. Further, since his numerous books and articles, which have continually addressed the problem of inequality for several decades, have left a mark on economic theory they cannot be ignored if we wish to obtain pertinent information about the state of inequality or to interpret its meaning.

Certainly, if we analyze current work in economic theory, it is clear that the study of inequality is “*in*”, as is shown by how it is increasingly analyzed within disparate economic disciplines. Every economist who tries to reflect on current situation of the world will, sooner or later, be faced with the problem of inequality. This is despite the fact that inequality is open to being interpreted differently. Nevertheless, Atkinson’s book, which I herein present, is typical in being oriented towards proposing concrete economic-political measures to address inequality. The author of the book offers practical suggestions, which should have corrective effects on the current situation, and argues that policymakers should take all these suggestions into consideration. This book also offers some theoretical outlines that I will present here so that it could be clear from the very beginning which theoretical assumptions Atkinson argumentation is based on. Furthermore, the author himself clearly emphasizes that despite the fact that his topic is inequality, he intends to reflect on current situation in economic science which means that the book can be interpreted as *theoretical intervention*. However, we believe that it should also be noted that the essence of the book is its clear ambition to change the unfavorable *status quo* of the economic-political situation.

Atkinson has no ambition to find a final solution (what he calls a “transcendental solution”), but is rather more focused on the “pragmatic concern” that the present situation of inequality is alarming. Here, we should also take into consideration the fact that Atkinson was a student of the Nobel Prize winning economist James Meade. As such, in looking at the basic economic orientation of Atkinson’s thinking, we will see clear reflection of his famous predecessor’s approach. It is of particular importance to take into consideration Mead’s book *Efficiency, Equality and the*

Ownership of Property (James E. Meade 1964), which contains those elements that are important for understanding Atkinson's own thinking. While in his book Atkinson does not allude to Mead very much, he does do so at several significant points. For example, on page 98, the author of the book conspicuously alludes to opinion and attitudes of "my teacher". It is at this point, where he discusses the macroeconomic theories of Solow and Samuelson and the benefits of growth, that Atkinson firmly declares that Meade has already revealed some prominent dilemmas: technological "automation" obviously intensifies the inequality. Meade has, in fact, predicted a future dystopian state ("Brave New Capitalists Paradise", as he called it) where in the continuously advancing technological dynamic will increase the productivity of capital with respect to work, just as it will increase the inequality between large and small capital, resulting in various effects on inequality. Further, Meade anticipates certain thoughts of Thomas Piketty about the relationship between saving and inequality, and generally about intensification of inequality.

Let us consider a possible scenario where in Mead's capitalist dystopia is realized in the now theoretically rich country of Mauritius. Suppose that automation should drastically reduce q , where q is the proportion of the national income that accrues to wages. As such, there would be a limited number of exceedingly wealthy property owners. This would cause the proportion of the working population required to man the extremely profitable automated industries to be small, and thus wage rates would be depressed. As a result there would be a large expansion of the production of the labor-intensive goods and services that are now in high demand by the few super wealthy individuals. This would send the country back to the old world of the impoverished proletariat, and of butlers, footmen, kitchenmaids, and other hangers-on¹. It should be noted that there is clearly overlap in the thinking Atkinson and Piketty, as shown in how Piketty also alludes to Meade at some significant points (Nick Pearce and Martin O'Neill 2014, p. 9).

The above-mentioned thought experiment, which Atkinson cites in his book several times, demonstrates the general emphasis of Atkinson's approach: it is necessary to proactively intervene in order to address inequality, as spontaneous mechanisms of the market will not do so satisfactorily. Effective solutions will only be realized by instituting carefully considered measures of public policy in order to influence the unfavorable future course of events.

Meade is more than just a forerunner in the analysis of inequality but developed egalitarian economic models, and his property-based democracy is recognizable in Atkinson's work. Meade emphasizes that the public policy cannot be focused only on income dynamics, but also on the configuration and control of wealth if it intends to correct the inherent dystopian tendencies in capitalism. This is an idea also present in Atkinson's work. The desire for an Egalitarian property-based democracy is an indication that clearly reveals Meade and Atkinson's purposes: they are concerned with the effects of wealth on the very stability of modern society².

¹ Meade *ibid.*, p. 33. Let me mention that q is the proportion of the national income that accrues to wages.

² Naturally, wealth effects could be treated from the different perspectives. Recently, Bas Bakker and Joshua Felman (2014) have emphasized the volatility of the wealth effects of rich as the crucial factor in the explaining of the recession.

With regards to addressing the stability of society given wealth distribution, Meade has coined the term “predistribution” to indicate that egalitarian redistribution has both *ex ante* and *ex post* aspects and that it is the combination of those two which enable successful public policy, that is, “central public management” (O’Neill 2015). He goes even further by considering the “socialization of net property”, and the “desired rate of gradual socialization of property ownership”. In fact, it seems that he is, in many aspects, more radical than many notorious and at the same time more popular authors who attract attention of the media. Atkinson does not make merely resolute statements, but develops his argumentation gradually, patiently, and with certainty, he acts as a quiet interpreter of inequality. This is why it will be difficult for him to garner attention from outside the professional community, even though he deserves it. Ultimately though, his effort to change the current situation of inequality cannot be understood without the influence of Meade.

Although Atkinson discusses inequality at international levels, the main focus of his attention is on the phenomena of inequality at national level. It is all the more interesting because he intentionally separates his analysis of inequality from methodological individualism, such that the locus of his analysis is *not* the individual but the entire household (even though he is aware of the limits when it comes to focusing on the household; there are economic subjects who do not live in households). Naturally, Atkinson also discusses income inequality. When does so, he argues that the period from 1910 to 1950 is characterized by a slight reduction in income inequality. Next, the period that begins in the 1980s is highlighted. However, he contends that the major transformation started after this period. Atkinson does subscribe to the interpretations that are found in the mainstream: he does not believe that intensification of inequality can be attributed to expanded globalization because his assessment indicates something completely different: that the intensification of inequality had started before the wide expansion of globalization. Atkinson specifically tries to demonstrate that the “fall of direct income tax for top income earners” and “rise of capital income” began during the eighties. However, Mead’s thinking still influences Atkinson in how he thinks we should not analytically limit ourselves to income inequality but rather move forward towards an analysis of the dynamics of wealth itself. In this way, there are certain radical tendencies latent in Atkinson’s thinking. This is also why Atkinson does not accept even the thinking one such as Martin Feldstein who invites economists to focus on poverty and not inequality: his orientation would not allow this.

Atkinson also alludes to John Rawls and his book *Theory of Justice* when arguing for a “participation income”, and while he explicitly supports some of Rawls claims (though it should be noted that on page 13 Plateau is claimed to be more consequential in egalitarianism than Rawls), as well as, alluding to the capabilities approach of Amartya Sen, Meade’s influence is still the most central and important figure for Atkinson. The other mentioned theoreticians are important, but it is Meade’s thought that can help us understand the core argument of Atkinson’s book, especially when it comes to the inequality of consumption.

Regarding the theoretical aspect of Atkinson’s work, it should also be noted that there is the remaining question of whether inequality can be thought of as the

cause of crises. Edward Glaeser denied this by using Atkinson's arguments: that there is no strong relationship between dynamics of inequality and crisis; those relations are so contingent that only general statement on causality can be made (Edward L. Glaeser 2010). Indeed, we can confirm this as well. This is a conclusion that deserves attention and, without any doubt, is critical of those heterodox attitudes according to which crisis is caused by and escalation of inequality. Atkinson has shown that different dynamics of inequality occurred throughout the 20th century, preventing us from seeing inequality as a general cause of crisis.

Actually, the first chapter of Atkinson's book covers the meanings of inequality and its different interpretations. As such, it is here that we can find an analysis of "Inequality of Whom" or "Inequality of What" and similar theoretical approaches. I would draw particular attention to the analysis of the relationship between inequality of opportunity and inequality of outcome that represents a theoretical introduction to the development of the instrumental and intrinsic understanding of inequality. Atkinson gradually prepares the reader for understanding the distributive problems in modern society and offers abundant evidence. Even when he delves into theoretical issue for the purpose of criticizing modern economic outlooks, he finds it appropriate to support his theories with empirical data. Finally, Atkinson finds flaws in distributive statistics that, for example, lack the value of public services. Although the book contains a lot of information about the entire world, Atkinson believes that comparison provides significant insights, especially data comparing the USA and Great Britain.

Based on the nuanced combination of theoretical reflections and empirical data, we reach the conclusion we have already mentioned in the discussion about unequal intensification of inequality. It is not a coincidence that Atkinson wishes to tell the story which is "more nuanced than simply rising inequality" (p. 27), but rather considers the differences between various periods. Furthermore, the dynamics of inequality are taken into consideration with respect to gender, time and generations.

Atkinson pleads for "learning from history" by explaining the importance of historical considerations. Particular emphasis is put on the fact that, in the past, there was a time when the adjustment of and "salient reduction" in inequality occurred. It is also worth mentioning that inequality was reduced in the post-war period, which demonstrates that there is no real possibility for the mere gradual correction of inequality. Although it is just one representative case, the top income share in the UK went down after WWI. Moreover, it can be shown that the situation was completely different after WWII with respect to the situation of post WWI: reduction was much more drastic. Tax rates also increased and they continued to increase until 1979. Furthermore, certain corrections were made to inequality in the USA while massive corrections were made in Europe. Certainly, government transfers played a crucial role in this. This means that the importance of the welfare state cannot be ignored as a mechanism of correction.

However, the welfare state was "unable to keep up" (p. 77), though the consequences of this varied. For example, in the UK, inequality in market income increased but the contributions, based on taxes and transfers, also diverged, thus establishing the fact that post-tax income inequality also increased. In fact, in the period starting in mid-nineties, redistribution welfare state power began to wane.

However, the reduction in inequality after the WWII cannot be attributed only to its redistribution effects. Atkinson insists on the following: (a) the share of wages in income increased; (b) capital income became less unequally distributed; (c) wage income became less unequally distributed. The share of wages in total income also increased in underdeveloped countries. Naturally, if we take into consideration the logic of classical economics, then with increases in shares of wage in income there is also a reduction in inequality. That is, a reduction in inequality with respect to income. In this way an increase of 1 percent of wage reduces the Gini coefficient by 1 percent.

This is also the answer the question of why inequality intensified in the last decades. Atkinson particularly emphasizes the problem of unemployment. The USA was confronted with the problem of unemployment in the sixties, but warns us to be careful though, because the relationships between unemployment and inequality are nonlinear and complicated.

With regard to “economics of inequality”, the following factors, with adequate analysis, are particularly emphasized: (i) globalization; (ii) technological change; (iii) growth of financial services; (iv) changing pay norms; (v) reduced role of trade unions; (vi) the scaling back of the redistributive tax- and- transfer policy (p. 82). Here, we also read about different subtle problems (ones which are absent from standard considerations) such as relationship between technological dynamics and demand for skilled labor. Irrespective of Atkinson, we can point out that which deserves attention: during the crisis, the people with qualifications defined as “top” qualifications experienced high job loss, and during the recovery (in the USA) there was much more of a dynamic in low-wage jobs. To be precise, 44% of jobs with lower wage compared to 30% of the jobs with higher wages (Maria N. Ivanova 2015). In addition, another two issues should be emphasized:

(1) Atkinson tends to emphasize the “entitlement rules”: this implies socio-economic patterns that regulate modes of acceptance of outputs; it is a type of “filter” between production and distribution;

(2) Reduction in inequality is the result of combination between the reduction of inequality of the market incomes and mechanisms of more effective redistribution.

A specific attitude to technology is prevalent in the part that discusses Atkinson’s proposals, and we have already seen that it is a view indebted to Mead. Better to say that in the part where Atkinson considers “the state as investor of technological change” and the relationships between “public employment and technological change” we see a certain combination of Meade and John Kenneth Galbraith. The term “countervailing power” in the context of technology was borrowed from Galbraith, although an American economist in some other contexts uses the same term. In this, we insist on legal mechanisms to be used that can change the current status of trade unions that have been considerably weakened, as has been proven by numerous studies. This is completely in compliance with Atkinson’s conviction about the fact that well thought out actions can change the existing arrangement. There is also the suggestion directed to the consideration of the nature of unemployment. Besides defining numerous categories of non-standard works, Atkinson suggests the following: the focus should be on the “minimizing of involuntary unemployment”. Among simi-

lar proposals, we believe that those individuals seeking employment should be guaranteed a position for a minimum number of hours per week. Additionally, he speaks to the question of what amount the minimum wage should be (the minimum wage itself is not considered; its status being special, it is the amount of minimum wage that is taken into consideration). Atkinson seems to believe in having a “national conversation” with respect to distribution of income in order to improve the balance of the aforementioned combination of correction of market income and a redistribution mechanism. Mead was eloquent in emphasizing capital income and the balancing of ownership. Atkinson’s social sensitivity is reliant on Mead who is again cited at one significant point: “if the rich had more children than the poor, the large properties would fall in relative size as they become more and more widely dispersed and the smaller would grow in relative size as they become more and more concentrated on a smaller number of children” (p. 159). Atkinson draws numerous conclusions from this.

Meade is also mentioned in the case of financial assets because he is an economist who demonstrates the difference in the rate of return on property between small and large owners. Thus, we have to respect the lesson from history: reduction in the share of top earners did not occur due to different forms of taxes but because of the expansion of popular holdings. Atkinson uses the category of “popular wealth” (later he uses the category of “national wealth” or “sovereign wealth fund”) for the benefits of future generation, demonstrating concern for different forms of collective wealth. Meade insisted on capital income with certain interferences derived from Piketty with regard to the governing of the distribution of income, while Atkinson takes into account the importance of divergence between rate of return and rate of growth. This happens when the author of the book analyzes housing wealth, which is not as unequally distributed as general wealth. However, the return with respect to this asset does not improve the position of those who are not owner-occupiers. In this respect, Atkinson (who draws more attention to the British case than to the diagnosis of inequality in general) discusses in detail how local taxation has become regressive, which means that the local tax was reduced for the higher-value properties. Atkinson claims that we should recognize a close relationship between state pension and the housing market. In addition, besides the accepting the macroeconomic implications of debt, we should also accept its distributive implications. Based on this, the possibility of households getting into the credit markets without secured housing can also be taken into account. It is not a coincidence that we recall Thomas Paine and his thoughts about justice and that we search for opportunities to apply Paine’s thoughts in today’s circumstances. Atkinson suggests a “minimum inheritance to all at adulthood”. He develops this argument in order to bring about a basic income that would be independent of status in the labor-market; it is one of the most powerful chapters in the book with numerous technical details, that is, considerations that reach specific domains. Demonstratively, Atkinson clearly states that in his opinion, the instituting of Child Benefit programs as a form of basic income has been a central moment in the correction of inequalities. Allocation of such benefits is the basis for different forms of future returns. This is a criticism against countries such as the USA where there is no universal Child Benefit program as well as a high rate of child poverty. In

addition, numerous countries are currently faced with the intensification of child poverty. Atkinson is strict when it comes to these measures: Child Benefits have to be allocated independent of family income (here, I only incidentally mention that Child Benefit is projected to be taxed as income).

However, this does not mean that the author of this book is satisfied with having only a Child Benefit; he rather turns to in-depth analysis of basic income. What are the actual specific proposals from Atkinson with respect to other suggestions (considering the fact that we know other economists have also focused on basic income)? *Firstly*, basic income should not replace the existing social transfers but it should supplement them. *Secondly*, here, we encounter the concept of participation income because transfers suggested here are not based on citizenship but participation. However, what is indicated by “participation”? If we want to define it in the simplest way, then we should discuss the modes of social contribution as the basis for participation income. Atkinson is careful in comparing citizenship and participation as the basis for unconditional income and he prefers “participation”.

What can be done to ensure the changing of the present situation? The presented ideas are supported by the concern for the promotion of a “more progressive structure of the personal income tax; of the preferential treatment of earned income; radical reform of inheritance taxation; the modernization of property taxation” (p. 179). Atkinson is devoted to the return of progressive taxation alongside a broadening of the tax base, an introduction of an income tax, and an Earned Income Discount connected to the first set of earnings. He finds it necessary to propose the lifetime capital receipts tax instead of inheritance tax, a suggestion that one will be able to recognize in John Stuart Mill’s work. A lifetime receipts tax should be allocated with the aim of already mentioned minimum inheritance for all. A problem concerning how taxes ought to be levied occurs when considering how to do up-to-date property assessments. Here, the alternative is proportional or progressive taxing. Furthermore, an annual wealth tax should be taken into consideration. Atkinson extends his reflection on taxing at global levels as well: thus, the problem of global taxation, i.e. a global tax regime, occurs as well as the problem of a minimum tax for corporations.

The following chapter focuses on the reconstruction of welfare state. Unlike some other theoreticians who believe that welfare state is doomed to becoming increasingly debilitated, Atkinson believes in the possibility of transformation. Thus, we should not forget that Atkinson has appealed several times for transnational initiatives. He expects the EU to take initiative in the case of Child Benefit program (in this respect, we should mention that there are other economists who have already considered the EU activities in this field). To be more precise, Atkinson suggests participation income at a national level, but in case of Child Benefit program, he expects the EU to undertake special action. Therefore, the proposed rehabilitation of the welfare state can be achieved only with active involvement of the EU. The return of social insurance which, as we already know, played crucial role in development of Beveridge plan is also proposed. This implies the increasing of insurance benefit rates and the benefit coverage. Atkinson denies the possibility that income tax can be substituted for social insurance: here, we can see some postulates of behavioral economics: although, from quantitative aspect, income tax can be of the same size as social insurance with respect to household budget, it is still perceived in a different way.

A step towards global considerations are made again at this point. Development aid has been exposed to criticism many times because of the problems it creates in realization of global justice. Atkinson has a precise projection: rich countries should improve Official Development Assistance by 1% GNI.

Now, we can summarize all the proposals:

- it is desirable for policy-makers to monitor technological change;
- public policy should be oriented towards balancing the power between stakeholders;
- the explicit objective of preventing and reducing the unemployment as the task for government is to be introduced;
- a national pay policy is needed;
- there should be a task force in the government to guarantee a positive real rate of interest rate on savings;
- capital endowment is needed;
- a public investment authority is to be created;
- more progressive taxation is to be introduced;
- both a personal income tax and an Earned Income Discount is needed;
- receipts of inheritance and gifts *inter vivos* should be taxed;
- a property tax is to be created;
- a child benefit program for all should be introduced;
- participation income should be endorsed;
- the renewal of an insurance principle is desirable;
- increasing the development aid by rich countries is desirable.

Finally, let us postulate the inevitable question: can it be achieved? Isn't it an unfounded optimism of Atkinson to believe in the possible implementation and efficacy of the aforementioned proposals? Atkinson criticizes opinions according to which the combination of redistribution and egalitarianism of market income leads to reduction in volume of output: here, we can allude to Rawls in order to show that the decrease in output ("cake would become smaller") does not have to be *a priori* rejected if it leads to greater egalitarianism. In addition, Atkinson believes that there are at least some segments in which there is a convergence/trade-off between efficiency and equity. Conversely, we can refer to studies that show that there are equity-enhancing interventions that promote growth. Atkinson is reliant on welfare economics and he criticizes it when he analyzes the relationship between efficiency and the minimum wage. Actually, Atkinson's statement that he wishes to reflect on present situation within economic theory is realized here in total. It is in this way that he shows that criticism directed towards unemployment insurance because of assumed disincentive effects was premature and inappropriate. Finally, by taking into account the aforementioned lesson from history, we can see different periods in the dynamics of inequality: thus, it should be noted that the period of increasing inequality was not followed by greater economic effects that critically affected tendencies over the last decades.

In fact, we cannot draw a general conclusion as to whether the proposed measures will certainly decrease the volume of total output, we can surely adopt the measures that have incentive effects such as an increase of minimum wage. In that

event, we can finalize the presentation of this book with clear reformist intentions as an *economic* justification and affirmation of greater egalitarianism with respect to the current situation.

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