Inequality: What Can Be Done?

Rubil, Ivica

Croatian Economic Survey : Vol. 17 : No. 2 : December 2015 : pp. 113-118

Inequality: What Can Be Done?

Anthony B. Atkinson

Harvard University Press, 2015, 384 pages
ISBN 9780674504769

doi:10.15179/ces.17.2.4

The last few years have seen a surge in the public interest in economic inequality. Part of it should surely be attributed to the fact that many countries have been hit by the adversities caused directly by the recent financial crisis and the resulting Great Recession. This is hardly surprising: when the economy suffers a major downturn, bringing about a salient shrinkage of the total size of the economic "cake", and when the prospects for a recovery seem highly uncertain, it is natural that many are concerned with how the now smaller cake will be shared. Indeed, given the tendency of people to be more averse to incur losses than to forgo gains, distributional concerns seem more important when the economy is receding than when it is expanding. The growing public concern for distributional issues has also affected the political discourse and agendas of governments and international organizations. Exemplars of the new discourse are the statements of Christine Lagarde of the IMF and Barack Obama, according to which the causes and consequences of the rising inequality trends should be among the priorities to deal with. Provided one takes the statements of such prominent figures in the contemporary world order as not merely declarative but genuine, a number of natural questions arise as to how to translate the new discourse into concrete political action. The questions can be effectively summarised in just one: What can be done?

In his latest book, *Inequality: What Can Be Done?*, Anthony Atkinson takes Lagarde and Obama (and the likes) seriously; that is, he starts from the premise that the level and trend of economic inequality are worrisome and that something should be done to bring about more equality. It should be stressed at the outset that although the title may suggest that Atkinson deals only with what *can* be done, he in fact speaks as well of what *should* be done. The book offers a "menu" of proposals for concrete political action. It should also be emphasised that the proposals are not meant to be guidelines for bringing inequality down to a *specific* lower level. Rather, the proposed courses of action concern only the direction of change in inequality.

Now, probably anyone concerned with economic inequality in the contemporary world has reflected sometimes on the two questions. And of those who have, probably anyone could come up with a menu of what can and should be done. However, although anyone could do that, it is questionable whether the proposed menu would be of sufficient quality to be used for the creation of effective inequality-reducing policy measures. For a menu of policy proposals to qualify as useful in this sense, it should meet the following criterion. The menu should be comprehensive enough in scope; that is, it should include proposals touching upon all aspects of the social structure relevant for the societal outcome in terms of economic inequality. The importance of comprehensiveness understood in this sense stems from economic inequality being embedded in the very structure of the contemporary societies, in which a large part of social relations is realised in different markets. Thus, the proposals should include measures affecting inequality through the operation of the labor, capital and product markets. To be able to assemble such a menu of proposals, one has to command a great deal of both factual and conceptual knowledge on the matters.

Croatian Economic Survey : Vol. 17 : No. 2 : December 2015 : pp. 113-118

As a scholar who has spent his career making major theoretical and empirical contributions to the field of economic inequality, Atkinson surely *a priori* qualifies for the demanding task. The book contains exactly what one would ideally expect of a book written by a leading scholar in the field of economic inequality. Indeed, it contains exactly what anyone professionally interested in the field of economic inequality and thus aware of Atkinson's major contributions would probably want him to write about.

There are broadly two sources from which Atkinson derives his menu of proposals: learning from history and going beyond textbook economic theory. Some of the proposals and ideas worth pursuing were derived from a sole source, some from combining the two sources. Some proposals are old and well-known, while others have never been utilised before. Particularly interesting is Atkinson's willingness and capability to think outside the box. A touch of such thinking is, of course, present mainly in the proposals which have not been seen before, but also in some of those well-known. It should also be said that the old proposals have been adapted, where appropriate, to acknowledge the circumstances in today's world.

First, he looks at history to find out when during the 20th century inequality was falling, when it was rising, and why. In doing so, he applies a "salience" criterion for the size of a change in inequality: a period would qualify as one with a "salient" inequality change if there was a 3-percentage point change in the Gini coefficient. According to this criterion, the period from the end of World War 2 to the end of 1970s saw a major inequality reduction in a number of countries in continental Europe. The question is how this "salient" reduction was brought about. It turns out the reasons were manifold. First, after World War 2, many of these countries developed extensive welfare state programmes financed by progressive taxation. Another equalising factor was that capital income became more equally shared as a consequence of a decline in the share of capital in national income and less inequality in the personal distribution of capital income. Finally, reductions in labor earnings inequality also played a role, though not in all countries and mainly since the late 1960s. What is important is that earnings inequality was lowered through minimum wages and other direct labor regulations, such as income policy, which significantly reduced earnings differentials, both vertically and horizontally, as well as through strengthening the bargaining power of labor versus capital. By the end of the 1970s, these equalizing forces came to an end. Redistribution through progressive taxes and transfers was scaled back, the share of capital in national income as well as the distribution of capital income among individuals started to rise, labor markets became increasingly deregulated and unionisation started to weaken. All these developments marked an "inequality turn", after which inequality has been rising to the present times.

A second source of proposals on which Atkinson relies is to go beyond standard economic theory found in textbooks. "Going beyond" should here be understood as relying on useful extensions/modifications or giving new interpretations. In either case, the aim is to equip oneself with a tool more suitable for making policy recommendations concerning inequality reduction. One example is a modification of the standard Solow model of economic growth. In the standard model, national output depends on labor and capital as independent production factors, whereas in the modified model capital is allowed to have both a direct, independent effect, as well as an indirect effect, through supplementing labor. So conceived, the model can help us understand the implications of the robotization phenomenon – where robots or other forms of automation increasingly replace human labor – for inequality. While in the standard Solow model capital accumulation leads, *ceteris paribus*, to an increase in the capital/labor ratio, thus increasing wages and reducing the rate of return on capital, the extension allows for a situation where the wage/rate of return to capital ratio increases to the level at which it pays to substitute robots for human labor, with the turning point depending on technology. The share of capital in national income can thus increase independently of the elasticity of substitution between capital and labor. Another example is the standard Tinbergen's supply-and-demand-based model of the "race" between education and technology, where education is the main determinant of the relative supply of skilled labor and technology the main determinant of the relative demand for it (relative to unskilled). The standard interpretation is that the skilled-labor wage premium will increase if education does not provide additional supply when technological advance increases demand for it, and *vice versa*. One may, however, think of an intermediate case, where the speed of supply adjustment depends on the difference between the wage premium and the cost of higher education. Thus, the effect on wage inequality will depend on these two factors.

Atkinson's menu consists of fifteen proposals, as well as five "ideas to pursue". Here I give a brief summary of a selection of these proposals, just to give a bit of the menu's "flavour". I group the selected proposals under four titles:

- Labor, wages and technology: Policy-makers should steer technological change towards innovations that increase employability of human labor (proposal 1), guaranteed public employment should be offered to anyone willing to take it (proposal 3), and a national pay policy should be introduced, consisting of a minimum wage and a code of practice limiting wage differentials (proposal 4).
- Capital and wealth: There should be national saving bonds with guaranteed positive real interest rate (proposal 5), and on reaching adulthood everyone should get a minimum inheritance (proposal 6).
- Taxation: Personal income taxation should be more progressive (as it was earlier in the 20th century) (proposal 8), bequests and *inter vivos* gifts should be progressively taxed (10), and property should be taxed either proportionally or progressively (proposal 11).
- Welfare state: For every child a substantial, but taxable, child benefit should be paid (proposal 12), and every adult person should be paid a

“participation income” conditional on participating in the society via engagement in a validated socially valuable activity (proposal 13).

It is clear from the above selection of proposals that Atkinson’s menu has a strongly leftish “flavour”. Indeed, even Atkinson himself is aware that his proposals may seem quite radical and outlandish. Take, for example, the proposal that everyone willing to take a guaranteed public employment should be offered one. One can imagine this sounds radical even to moderately conservative readers, those who would not completely dismiss any attempt at reducing inequality. The state as an “employer of last resort” – that would probably be their first association, and it would indeed be the right one, as Atkinson himself explicitly uses this syntagm.

Now that Thomas Piketty has famously managed with his *Capital in the 21st Century* to bring the analysis of income distribution into mainstream economics, Atkinson’s book comes as one that will hopefully solidify the newly acquired position of income distribution. There are good grounds to believe so. First, Atkinson gives a broader picture of inequality, one that incorporates as one part Piketty’s focus on the evolution of top income shares and the capital/output ratio, but also goes beyond it. Second, unlike Piketty, whose policy recommendations are limited to a proposal about international coordination of capital taxation, policy recommendations constitute the main part of Atkinson’s book, and besides there being many more of them, these are much broader in scope. In terms of the breadth of the content and richness of the underlying economics, this book is similar to Francois Bourguignon’s *The Globalization of Inequality*. However, Bourguignon deals with global inequality, of which national inequalities in developed European countries are only one part, and his policy recommendations are far less numerous and specific than Atkinson’s.

Ivica Rubil