

## Tony Atkinson and What Can Be Done About Inequality

Book Review of “Inequality: What Can Be Done?” by Tony Atkinson, Harvard University Press, 2015\*

Ravi Kanbur

[www.kanbur.dyson.cornell.edu](http://www.kanbur.dyson.cornell.edu)

3 April, 2017

I was asked to do this book review in September 2016. I hesitated because the book had been out for more than a year and had already been reviewed prominently. But in the end I could not resist reacting to a book which Tony Atkinson said “is the result of research on the economics of inequality carried out since I graduated as an economist in 1966.” I agreed to deliver the review by April of 2017. I was not to know that in January of 2017 we would lose the leading inequality analyst of our times. I wish now that I had done the review in time to show to Tony how much I admired the book and its author.

The book is in three parts—“Diagnosis”, “Proposals for Action” and “Can it be Done”. Of these by far the most striking is the second part, Tony’s proposals for action. The first part is a review of work which Tony himself led, and which is now familiar not only to analysts but the public more generally. The famous charts showing the “Inequality Turn” in the US, UK and Europe from the 1980s onwards, the discussion of the role of globalization, technology and progressivity of tax and transfer policies in explaining these trends—these are now well ingrained in students and scholars of inequality. The third part also takes up on a number of themes in Tony’s writings—the tradeoff between equity and efficiency, the constraint that mobility of capital and labor pose on progressive taxation, and fiscal constraints to redistributive policy. But it is in the second part that we see a Tony Atkinson we have not seen before, at least not with such clarity. Here we see a list of bold and far reaching proposals—the “What Can Be Done” portion of the argument. My review will focus on these proposals.

The 15 Proposals and 5 “Ideas to Pursue”, gathered together on pp 302-305 of the book, constitute an Atkinsonian manifesto, challenging us to confront the issue of inequality head on, and not as an add on:

“Crucially, I do not accept that rising inequality is inevitable: it is not solely the product of market forces, outside our control.” (p. 302).

The “ideas to pursue” are more in the way of analytical projects, for example, “a thoroughgoing review of the access of households to the credit market for borrowing not secured on housing” or “a re-examination of the case for an annual wealth tax and the prerequisites for its successful introduction.” The proposals themselves seem to fall into three categories—a revisit of conventional debates, but with a new twist; a strong objection and proposed reversal of a policy trend over the last thirty years; and proposals which go outside the current framework of analytical and policy discourse, at least in economics.

---

\* Book review for Journal of Economic Inequality.

The proposals which revisit conventional debates are nevertheless radical. For example, Proposal 15, that “Rich Countries should raise their target of Official Development Assistance to 1 % of Gross National Income” builds on Tony’s earlier work and fits into the latest developments on Sustainable Development Goals. Proposal 13, “A participation income should be introduced at a national level...” fits into the broader Basic Income movement that has gathered momentum in recent years, thanks again to Tony’s own efforts. Proposal 10, “Recipients of inheritance and gifts inter-vivos should be taxed under a progressive lifetime capital receipts tax” in turn fits into the conventional debate on inheritance taxation, an issue which Tony worked on since his pioneering empirical research on wealth inequality in Britain.

The best and strongest example of a proposal which goes against the tide is Proposal 8: “We should return to a more progressive rate structure for the personal income tax, with marginal rates of tax increasing by ranges of taxable income, up to a top rate of 65 per cent, accompanied by a broadening of the tax base.” The proposal is discussed and defended specifically in the context of Britain, but has wider applicability, especially in rich countries. In proposing this top marginal tax rate, Tony goes against not just the ruling Conservative government, but the prevailing calculations from mainstream economists who would otherwise be known as egalitarian in their leanings. A revenue maximizing tax rate of 40% emerged out of the “influential review of UK taxation carried out by the institute for Fiscal Studies and chaired by Sir James Mirrlees. The conclusions of the Mirrlees Review in turn influenced the UK Chancellor of the Exchequer George Osborne, when he announced that the top income tax rate in the UK would be cut from 50 per cent to 45 per cent beginning in 2013.” (pp 184-185).

“Why, though, am I flying in the face of evidence that the revenue maximizing top tax rate is 40 per cent?” (p. 185) Tony gives a characteristically well-structured and analytical response to the question he poses for himself. First, “there is considerable uncertainty surrounding the estimate of taxable elasticity.” (p. 185). The second reason is that “the assumptions all go in the direction of maximizing other taxes paid and hence minimising the room for income tax changes.” The third reason is that “the increase in income of the top 1 per cent resulting from the tax cut comes at the expense of other taxpayers. In terms of entrepreneurial activities, they may be fishing in the same pool, and the increased income at the top means less opportunity for others.” (p. 186). The final reason given is that the tax schedule should not simply aim to maximize revenue, but should have equity objectives as well. My own research with Matti Tuomala suggests other arguments which support greater progressivity—when the revenue requirement is higher, when underlying inequality is higher, and when with “behavioral” considerations an individual’s well-being depends also on the difference between individual income and the average consumption of a peer group. In general, though, Tony’s defense of his proposal highlights the extent which the case has to be made against the grain of normal mainstream economic thinking.

However, the most radical of Tony’s proposals go beyond tax and transfer policies and move to the realm of making market incomes themselves more equal. And he further takes us beyond the usual bromides of education and training, which all can accept: “...I have not discussed investment in education and training, which I regard as important and complementary to the measures proposed here. I have focused on proposals that have been less widely canvassed and that are more radical.” (p. 303). Two of these proposals, in particular, highlight the radical turn in Tony’s thinking.

In the Diagnosis part of the book Tony alludes to the natural tendency among economists to fall into “competitive” modes of thinking, to use as a base model of the world one where no agent has economic power over another. In reality, of course, we see economic (allied to political and social) power everywhere. Tony makes the link between the economic structures which give market power especially to corporations and those who own and manage them. He then thinks through methods of taming this power, through competition policy for example, and countervailing the power, through support of trade unions. He documents how trade unions have been emasculated in Britain through legal constraints over the last thirty years, and relates this to rising inequality. All of this argumentation leads to his Proposal 2: “Public Policy should aim at a proper balance of power among stakeholder, and to this end should (a) introduce an explicitly distributional element into competition policy; (b) ensure a legal framework that allows trade unions to represent workers on level terms; and (c) establish, where it does not already exist, a Social and Economic Council involving social partners and other non-governmental bodies.”

Radical as it is, Proposal 2 may still be thought to pertain to conventional debates on the power of corporations and so on. But Atkinson’s Proposal 1 is something which is well out of the box of conventional discourse: “The direction of technological change should be an explicit concern of policy-makers, encouraging innovation in a form that increases the employability of workers, emphasizing the human dimension of service provision.” In the Diagnosis part of the book Tony highlights the extent to which we economists take the pace and nature of technological change as exogenous. Thus in the current policy and analytical discourse we accept that technical change is displacing labor in favor of capital and unskilled labor in favor of skilled labor. We then work out the wage, employment and inequality consequences and propose remedial tax and transfer measures. But why should we take technical change as being exogenous? Surely policy can influence it? Given the nature of technical change and the strong network effects, a body of economic theory going back at least to Arrow, and including the early work of Atkinson and Stiglitz, suggests that intervention may be called for even for efficiency reasons. And there are examples galore of state intervention which has made possible technologies of today like the internet.

If this is the case, what is to stop us thinking of policies which could encourage technical change in a labor friendly and equity favoring direction? “In this context, when making decisions supporting innovation...the government should explicitly consider the distributional implications. It is not evident that this happens at present.” (p. 120). The radical and far reaching nature of this proposal should not be underestimated. It sets out an analytical agenda—we need to build on innovation models of the past to explicitly work out the distributional consequences and explore policies which would advance equity. In a policy context, however, it takes us much further: “It is not enough to say that rising inequality is due to technological forces outside our control. The government can influence the path taken. What is more, this influence is exercised by departments of the government that are not typically associated with issues of social justice. A government that is seeking to reduce inequality has to involve the whole cabinet of ministers.” (p. 119). Other proposals on the Atkinson list, for example on full employment and guaranteed minimum employment (Proposal 3), a capital endowment paid to all at adulthood (Proposal 6) the creation of a Public Investment Authority (proposal 7), are all radical. But perhaps none more so than Proposal 1, to take charge of the tide of technical change and make sure it benefits the many and not just the few.

“Inequality: What Can Be Done?” will be the lasting legacy of Tony Atkinson. Tony was a brilliant economist, and he was a man of modesty, kindness and integrity, with a passion for social justice.

I first came across Tony’s work when, as a student, I read two of his works. The first was “Poverty in Britain and the Reform of Social Security”, which had been published in 1969. The conceptual clarity combined with empirical detail, motivated by and leading to passionate policy advocacy for social justice, has been a model that many of us try to emulate. It is amazing how much I find myself repeating the basic arguments in that analysis in the current policy discourse on universalism, targeting, and transfer policies.

The second work, which had been published in 1970, also hit me like a bolt and created a channel for my own work in the years to come. This was the classic theoretical piece “On the Measurement of Inequality.” Technical and mathematical virtuosity were put to the service of answering a question whose historical roots were traced back to Hugh Dalton and before—what do we mean when we say “inequality has gone up?” Tony argued that the question is deeply normative and requires a specification of value judgements. He showed a way in which such specification could lead to interpretations of standard inequality measures, and indeed developed a measure now known as the Atkinson Index of Inequality.

Frank Cowell and I organized a conference at Cornell University to mark the 40<sup>th</sup> anniversary of the inequality paper, and the presentations were sufficiently distinguished and sufficiently numerous to warrant a symposium covering two issues of the Journal of Economic Inequality in 2011. Tony himself contributed a characteristically searching piece entitled “On Lateral Thinking”, asking how insights from one area of analysis (for example income inequality) did or did not translate to other areas (such as health inequality).

Tony’s analytical interest in inequality and poverty was always in the broad frame of public economics. He was a founding editor of the Journal of Public Economics and like many others, I learnt my public economics from his book with Joseph Stiglitz, Lectures in Public Economics. I see it as essentially advancing the analytical agenda of the great Cambridge economist Arthur Pigou, who argued that equity had to be treated on par with efficiency in public policy. The public economics frame, with rigorous weighing up of social cost and social benefit with equity concerns to the fore, provided a structure to thinking and analysis which Tony demonstrated in his theoretical excursions, but also in his empirical and policy contributions.

My most recent interaction with Tony was on one of his final projects. Tony chaired the World Bank’s Commission on Global Poverty, of which I was a member and whose report was published in September, 2016. While commission members gave their advice, Tony was the sole author of the report, Monitoring Global Poverty. The report is already recognized to be a landmark document which will frame the work of the World Bank and other agencies in the years to come. Characteristically, while Tony presented detailed technical critiques and recommendations on income based measures of poverty, he also highlighted and emphasized that poverty was multidimensional and that monitoring non-income deprivation was a central task for international agencies.

Tony wore his stellar professional achievements lightly. He was Sir Tony Atkinson, a Knight; a Chevalier de la Légion d’Honneur; Fellow of the British Academy; former President of the Econometric Society, Royal Economic Society, European Economic Association, International Economic Association,

Society for the Study of Economic Inequality, Human Development and Capability Association, among many other honors and accolades. But we were all struck by his modest and soft spoken manner. And he listened more than he spoke.

I mourn Tony's passing even as I am inspired by his analytical and policy contributions to fighting inequality and poverty, and even as I am guided by his example of how to bring rigorous thinking to the service of social justice.