Inequality: What Can Be Done?

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The subject of income inequality has gained increased attention in recent years. There are many reasons for this. In the United States, President Barack Obama has placed greater emphasis on the topic than did his predecessor, and his attention has been accompanied by that of other public officials and entities such as the World Economic Forum. But attention to the subject is not limited to the political and economic sphere. Pope Francis has joined the chorus of leaders sounding the alarm about growing income inequality in both his prepared addresses and extemporaneously, even going so far as to declare in Evangelii Gaudium that “Inequality is the root of social ills” (Francis, 2013, p. 202).

Years of scholarly attention to the mounting empirical evidence of growing income inequality, coupled with political and religious leaders’ calls to action, have left many to wonder: Can anything be done about it? Enter British economist Anthony B. Atkinson. His book, Inequality: What Can Be Done? proposes exactly what its title suggests—a series of recommendations for reducing income inequality. Atkinson is eminently qualified to address the topic: His scholarly life has been dedicated to studying questions of income inequality and public policy. His intent is to write for “the general reader with an interest in economics and politics” (pp. 6–7) but certainly professional economists will benefit from examining Atkinson’s ideas and proposals as well.

The book is structured in three parts. Part One focuses on the historical evidence for and theoretical causes of growing income inequality. By examining history—to include eras in which income inequality actually declined—Atkinson hopes to set the context for his concrete proposals. Those fifteen proposals (and five “ideas to pursue”) are outlined in detail in Part Two. Knowing that fifteen policy proposals will raise more than a few skeptical eyebrows, Atkinson devotes Part Three to addressing several likely objections to his proposals. On the one hand, Atkinson is to be praised for accomplishing the task in a digestible 308 pages of text (plus appendices)—but this is simultaneously a weakness. All the serious objections to his fifteen policy proposals cannot be adequately addressed in such a concise manner. But, of course, the book is not so much intended
to build an airtight defense of each proposal as it is instead to offer action steps and “explain the way in which economists assess the feasibility of policy proposals . . .” (p. 5). To that more general end, Atkinson’s book succeeds.

At the outset of Part One, Atkinson makes it clear that, while he does not intend to eradicate inequality, he is convinced that the levels of inequality today must be reduced. Chapter 1 addresses the prolegomena of income inequality: its sources, its relationship to various notions of justice, the debate within the economics profession of its relevance (vis-a-vis efficiency or absolute measures of poverty), and the prima facie evidence for its intensification. He focuses primarily on the experience of the United Kingdom and United States (a focus which continues throughout the book) but does not limit the analysis to these two countries; Atkinson marshals evidence from across the globe. Atkinson elaborates here (and in the next chapter) on the limitations economists face when analyzing income data—for example, what is to be done about household size and structure? Or non-responses? Or public transfer payments? Perhaps most importantly, he addresses up front the crucial distinction between income inequality and consumption inequality—and justifies focusing on the former because of its connection to resource control and therefore power. Atkinson’s selection of income inequality as a measure superior to consumption inequality will disabuse readers of any notion that positive economic analysis and choice of data can easily separate themselves from normative economics. In spite of these analytical challenges, the first chapter succeeds in illustrating how income inequality has risen across the globe.

In Chapter 2 Atkinson dives into the historical evidence and demonstrates that, while income inequality fell during the mid-twentieth century in the United States and Europe, this was followed by “an upward turn in inequality since 1980” (p. 74). Similar trends exist for Latin America. He summarizes: “The short answer is that in many, although not all, OECD countries income inequality is higher today than in 1980” (p. 80).

Atkinson then shifts gears to address the causes of this rising inequality. Among the topics addressed in Chapter 3 are globalization and skill-biased technological change. In the midst of the discussion, Atkinson emphasizes the uniqueness of labor as a factor of production—pointing out that labor cannot be treated as a mere commodity and that therefore labor markets are unique relative to other kinds of markets.
Undoubtedly such a perspective aligns with a Christian anthropology. Corresponding to labor’s uniqueness as a factor of production, Atkinson highlights the evolution of institutions and public policies, and changes in unionization and collective bargaining. Furthermore, he criticizes the practice of analyzing labor markets within a perfectly competitive framework, insisting instead on a monopolistically competitive one. For those unfamiliar with the causes and context of growing income inequality, Atkinson’s overview is quite valuable.

Part Two contains both the most practical and controversial elements of the book. His first two policy proposals in Chapter 4 address the areas of technology and market power. Consider the first area. Atkinson deems technological progress as too powerful and untamed to permit it to operate without more purposeful public policy steering. In one sense Atkinson is right: Public policy already has substantial impact on the progress and spillover of new technologies into the private sector, which may suggest that “the government should explicitly consider the distributional implications” of its policies (p. 120).

Chapter Five offers policy ideas that respond to the evolving nature of work, and addresses how those changes may exacerbate income inequality. His two corresponding proposals tackle unemployment (by guaranteeing public employment at minimum wage—p. 140) and low wages (by establishing a minimum “living wage” coupled with a “code of practice” for pay levels above the minimum—p. 148). Chapter Six continues with an analysis of capital and labor. His proposals in this area include savings bond policies, a minimum universal inheritance at adulthood, and the creation of a public investment authority.

In some respects, the next two chapters contain both the most creative and controversial proposals. Under the rubrics of taxation and universal social insurance, Atkinson examines the history of income tax structures and, unsurprisingly, proposes higher marginal tax rates and more generous earned income credits for low income households. He also recommends that inheritance be taxed from the vantage of “the amount received rather than the amount left”—that is, inheritance would be taxed cumulatively as one receives such bequests throughout life (p. 196). Chapter 7 includes one of his “ideas to pursue,” a global tax regime for the wealthiest citizens. If compulsory, such a regime (necessitating a world tax authority) would undoubtedly require a herculean effort to coordinate internationally. No matter—Atkinson suggests that partic-
ipation might actually be voluntary. He is optimistic that the wealthiest would participate not only because they would have to “deal with only one tax authority” (global in lieu of national/subnational) but also because being on such a global tax list—à la the Fortune 500—“carries with it a certain prestige” (p. 202)! The reader is left wondering whether the latter remark was meant to elicit laughter. Finally, in Chapter 8 Atkinson initiates proposals aimed at benefiting children, providing citizens so-called participation income, improving social insurance, and raising targets for international aid.

Atkinson recognizes that his proposals will generate some skepticism. The aim of Part 3 is to tackle head-on several anticipated objections. The first: Such policies will inhibit growth and/or shrink the economy. To address this objection, Atkinson re-engages the efficiency/equity debate and seeks to persuade the reader that these two concepts can actually complement each other. Although he does not posit the absence of a trade-off between reducing inequality and facilitating growth, he does assert that we cannot presume an inherent conflict between the two.

The second objection he engages is based on globalization. He summarizes this argument: “. . . Today a fairer distribution of income is a luxury that we cannot afford in a globalised economy, since any country going down that route will cease to be competitive in world markets” (p. 263). His counterargument is primarily a historical one: The first wave of globalization of the late 19th century was actually accompanied by the successful introduction of safety net programs across the developed world. Globalization and policies to reduce inequality are thus not inherently incompatible. Furthermore, he argues, the development of various multilateral organizations in recent decades (e.g., the European Union) has demonstrated that international coordination on economic policy matters (including inequality) is possible.

The third and final objection is perhaps the most severe, and his policy defense least convincing. That objection is the question of policy affordability. Although he insightfully discusses the fiscal policy models used by economists to evaluate such proposals, and offers tangible examples as they apply to the United Kingdom, not enough space is devoted to examining the potential costs of the policies he proposes—either individually or collectively. This is the clearest instance in which brevity comes at the expense of thoroughness.
Atkinson has done a terrific job initiating a discussion on how to reduce income inequality. Undoubtedly some of his ideas are worthy of further consideration. He endeavors to answer objections and conveys a sense of optimism. Unfortunately, he doesn’t engage what is perhaps the most severe problem faced by those advocating a centralized, state-determined solution: the knowledge problem elucidated by F.A. Hayek. Insofar as unintended consequences arise when the state intervenes and disrupts the market pricing mechanism, similar problems will undoubtedly manifest themselves in a grand effort to use centralized government programs to mitigate income inequality. As Hayek notes, the challenge inherent in the dispersion of knowledge is

...that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate ‘given’ resources ... it is a problem of the utilization of knowledge not given to anyone in its totality. (1945, pp. 519–520)

And this knowledge problem returns us to Atkinson’s fundamental choice: using income inequality as the preferred metric—not consumption inequality (or an absolute poverty measure). Focusing on the latter rather than income inequality may point to solutions more compatible with biblical exhortations for individuals to engage in corporal works of mercy (rather than defer that responsibility to a bureaucracy) and also be more amenable to the principle of subsidiarity found in Catholic social teaching. Simultaneously, the consumption inequality or poverty level approach may also promote decentralized solutions that largely avoid Hayek’s knowledge problem.

Atkinson is to be commended for his concrete proposals arising from decades of research on the subject. For Atkinson, merely talking about reducing income inequality is not enough. But framing solutions strictly through the lens of the centralized welfare state isn’t enough either.

**References**