
The economist Anthony Atkinson has studied the issues of poverty and inequality for over four decades; an index of inequality is named after him. In his most recent work, Atkinson offers a fascinating, encouraging guide to what could be done to reduce monetary inequality. The importance of equal opportunity should not lead us to ignore inequality in outcomes, he explains, not only because the same efforts do not always produce the same results but also because inequality of outcome for one generation can become inequality of opportunity for the next: “today’s ex-post outcomes shape tomorrow’s ex-ante playing field” (p. 11). And though income is only one dimension, it is a major source of inequality. The book is divided into three parts: diagnosis; 15 proposals for action that, if implemented, would reduce inequality; and answers to the main objections to taking those actions.

While monetary inequality has increased sharply since 1980, there have been non-war periods – primarily the post-WWII decades in Europe and the 2000s decade in Latin America – that have seen falls in inequality. The phenomena at work are clearly and simply explained by means of a diagram detailing the stages through which a household’s primary income becomes its disposable income: labour and/or capital income, social transfers, taxation. This in turn enables us to determine at what stage the level of inequality changed in a given country at a given period. While less unequal pay and increases in social transfers and women’s labour market participation reduced the extent of overall inequality in post-war Europe, this was not the case in the United States, where the last two factors only worked to compensate for rising pay inequality.

Generally speaking, equalizing forces “went into reverse” in the 1980s in most western countries. Workers and consumers lost power to employers, which, combined with reduced social protection and less progressive taxation, greatly increased inequality. Many of Atkinson’s proposals are not new; some, such as the minimum wage, have already been applied. Others are quite radical and so raise the question of feasibility and collateral effects. But they all fit together into a highly consistent whole that forcefully conveys Atkinson’s now familiar message: states, and through them citizens (though this is never said explicitly), do have the power to act. Above all, the direction of technological progress is not entirely beyond our control: the state can orient it through investments and stakeholding, and this need not mean increased control over business.

Inequality-reducing actions can be taken at three levels: household primary income (labour and/or capital income), taxation policy, and social transfers. These correspond directly to the state’s three missions: regulation, redistribution.
and protection. Atkinson’s first set of proposals – minimum wage, a national pay policy, guaranteed public employment, ensuring that technological change and innovation are human-centred – are aimed at reducing pay inequality and containing unemployment. The second set of measures would ensure that every adult receives a minimum inheritance in the form of a capital endowment or state bonds with a guaranteed return.

In addition to measures that would work to reduce primary income inequality, Atkinson proposes an ambitious fiscal reform that would make income tax more progressive while widening the fiscal base, easing conditions for low earners, taxing inheritance and gifts during life, and increasing property tax progressiveness.

The third raft of proposals is aimed at reforming social protection systems; reductions in this area are one source of recent increases in inequality. The general idea is to replace means-tested benefits, which create poverty traps by generating high implicit tax on labour income, by universal, flat rate allowances.

Rather than respond to objections to each proposal, Atkinson sets out to answer the three more general objections that naturally come to mind: Would the proposal sacrifice efficiency to equity? Wouldn’t the globalization process keep it from working? Can we afford it (budget cost)? He recalls that any potential loss of efficiency pertains only to an inaccessible first-choice optimum that does not reflect the current situation (there is no conclusive evidence that it could be obtained). Finding the balance between equity and efficiency is therefore a complex matter of comparing two second-bests; some measures may indeed reduce the size of the “cake” while others increase it. Furthermore, equity and efficiency may be complementary. Paying a wage higher than initial productivity may enable workers to increase productivity above the minimum wage and obtain greater loyalty for the employer, thereby reducing monitoring costs. Similarly, analyses showing the demotivating effect of unemployment benefits often fail to consider the real conditions in which those benefits are paid out. For example, job seekers are not always at liberty to refuse an offer.

In his second set of responses, Atkinson recalls that the context in which the welfare state developed at the turn of the twentieth century was already one of globalization, and that states participated, though international cooperation was necessary. Globalization should therefore not be thought of as an obstacle to inequality reduction. Simulations for the United Kingdom show that the budget cost of Atkinson’s proposals is sustainable and that they could reduce financial inequality (the Gini coefficient) by as much 4 points, a substantial reduction. The main flaw in the model is that it does not integrate behaviours – that is, responses to incentives – but Atkinson’s effort to make the effects of his proposals measurable is to be commended.

It is unfortunate that so little is said about inequality within the household, or between men and women. Atkinson’s call to restore the power balance between parties could well be applied to decisions within the household. In another connection, though his proposals remain fairly general and set a direction rather
than offering detailed instructions, the analysis is primarily centred on European countries and the United States. The issue of inequality is obviously a wider one, and the book may seem to suggest that reducing it is a problem for western countries. Last, Atkinson analyses what is primarily a working-age population, saying little about how to pay for an ageing population’s retirement and healthcare.

*Inequality – What Can Be Done?* is decidedly a fascinating book in that it rigorously combines empirical facts, practical proposals and economic theory while critically probing underlying assumptions. It is also an encouraging book, in that the reader is convinced at the end that action is possible. However, Atkinson’s optimism – to explain it he cites increasing international cooperation, enabling countries to set genuine objectives for reducing inequality, and progress in such countries as the United Kingdom, which showed extremely high levels of inequality – should not induce us to forget recent trends in countries that used to be characterized by lower inequality. Reading some of Atkinson’s proposals, French readers may be struck by the fact that in the last decade in France the situation has been developing in exactly the opposite direction.

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