Engaging the Powers

PART 5. TOWARDS A DIFFERENT FUTURE

The Atkinson Papers

Inequality-What Can Be Done?
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Introduction

The late Sir Tony Atkinson was a very highly regarded professional economist. He became a professor at the age of 26 and went on to hold professorships at Oxford, Cambridge and the London School of Economics, amongst other institutions. His whole career focused on the problems of inequality. In the late 1970s he was a member of the Royal Commission on the Distribution of Income and Wealth. It was closed down by Mrs Thatcher within the first few months of her premiership.

Atkinson, as already observed, was a hands-on economist. He didn't do utopia, he said. He was not enthused by the visions of nirvana held by either the right or the left in politics. His modest aim was simply to help bring about a reduction in the increasing levels of inequality which many countries were experiencing. His book is addressed to the general reader with an interest in economics and politics, and he plainly takes considerable trouble to write in a style which the lay-person can comprehend. There are a few graphs and tables but, he says, 'I have been mindful of the dictum of Stephen Hawking that 'every equation halves the number of readers'. There are no equations in the main text!

Part 1. Diagnosis

To put his study in context, he indicates that inequality in wealth and income was the norm in the period before World War II, Roosevelt's New Deal' notwithstanding. From the end of the war up until the middle 70s, inequality declined in both the US and the UK, but thereafter, it has risen steadily in what he calls 'the inequality turn'. For instance, in the US:

> **At the top of the distribution, the share in total gross income of the top 1 per cent increased by one-half between 1979 and 1992 and by 2012 it was more than double its 1979 share…Today the share of the top 1 per cent has returned to the value of 100 years ago. The top 1 per cent in the US now receives close on one-fifth of total gross income…**

But note that:

> **Within the top 1 per cent, too, there is considerable inequality; the share of the top 1 percent within the top 1 percent** (that is, the top 0.01 per cent) **is also around one fifth of the total income of this group. This means that 1/10,000 of the population receives 1/25 of the total income.**

The position in the UK is somewhat similar. The share of the top 1 per cent is lower than that in the US, but this grouping still receives one-eighth of total gross income.

One of Atkinson's most prominent themes is what he describes as 'distribution of income and its strange avoidance in the deliberations of mainstream economists'. This feature is not an oversight. Professor Robert Lucas of the University of Chicago, for instance, wrote:

> **Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution…The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production.** (From the 2003 Annual Report of the Federal Reserve Bank of Minneapolis)

However, Atkinson is at pains to emphasise that the scale of the problem is such that direct action by governments to redistribute income will not be sufficient; the effects of the massive increases in taxation which would be needed would be unacceptably destabilising. It is necessary, therefore, to focus on making the distribution of market incomes (ie.incomes yielded by the market before any government intervention takes place) less unequal.

A prominent feature of Atkinson's approach is the way he questions standard assumptions, often remarking how orthodox economists rely too heavily on theory which is insufficiently embedded in current realities. For example, on the minimum wage:

> **Why, opponents will ask, should employers retain workers whose productivity is less than the wage cost? The answer given here…is that productivity is not fixed. The productivity of workers can be increased…In effect, employees who are better paid may be more highly motivated and loyal to their organisations.**

And on unemployment insurance:

> **In general…social insurance increases the attractiveness of working in the market economy, rather than in the informal or domestic economy, and helps bind people into participation…**

On another topic, Atkinson relates that many people who have read Thomas Picketty's influential *Capital in the 21st Century* can't understand why their own small savings are very flat whilst in general, according to Picketty, the underlying trend in wealth procurement favours capital investment over rewards for labour. The reason, says Atkinson, is that there are various intervening agencies which lie between the original generation of wealth and the distribution of funds to individual savers. Government taxation, of course, is one of these, but prominent among them is the big industry of financial services. He suggests that it pays to be vigilant since the financial services which the small saver employs may be taking an unduly large slice of the cake.

Intervening agencies are not the only causes of created wealth failing to find its way into the pockets of small savers. Atkinson also identifies what he calls 'market power'. That is to say, that the basic principle of price being dictated by supply and demand is frequently circumvented by large firms getting themselves into a near-monopolistic position which allows them to set prices in their own favour. 'If I were writing an economics text book - which I am not - I would start with with monopolistically competitive firms with market power', says Atkinson.

Part 2. Setting the Scene.

In part 2 Atkinson presents his fifteen proposals for reducing inequality under the heading *Proposals for Action*. Eight of these feature in our present version of his text together with the reasoning behind each proposal. Looking at the proposals as a list divorced from the reasoning behind them, some of them appear quite bland or inconsequential to the casual reader, but the thinking which lies behind them is sometimes very radical. Proposal 1 is a case in point. It reads: 'The direction of technological change should be an explicit concern of policy makers, encouraging innovation in a form that increases the employability of workers and emphasises the human dimension of service provision'. The manifestations of technical change are not the result of some inevitable outside (exogenous) force; they are chosen by policy makers. The present direction of innovation, says Atkinson, is firmly directed towards automation which has the potential of reducing labour costs by reducing the number of employees required. This needs to change towards forms of employment with a human dimension, i.e. services which require person-to-person contact. The implications of this analysis are far reaching as anyone studying our third Text in part 5, Tim Jackson's ground-breaking *Prosperity Without Growth* will quickly discover.

Other proposals look more like common sense, and one wonders why the government is so unwilling to adopt them. For instance, Proposal 11 reads: 'There should be a proportional or progressive property tax based on up-to-date property assessments'. The Council Tax, introduced in 1993, Atkinson explains, is based on property values fixed in eight bands, A - H. Although the overall level of tax is set locally, the ratio between the amounts charged for each band are set centrally.

These ratios embody a regressive structure. Houses at the start of band H were (in 1991) worth 4.7 times those at the start of band D, but were taxed at only twice as much. Furthermore, the Mirrlees Report on Taxation (2011) commented that the absurdity of the status quo regarding the Council Tax is underlined by the fact that no regular revaluations had taken place.

Part 3 Can It Be Done?

In considering globalisation, Atkinson says:

> **I make proposals to reduce inequality in OECD countries. One evident response is to say, 'These are fine, but we live in a world that prevent us from pursuing such a path. We might have had such ambitions in the past, but today a fairer distribution of incomes is a luxury that we cannot afford in a globalised economy since any country going down that route will cease to be competitive in the world markets…On this view, the welfare state, progressive taxation, the idea of pay policies and a full employment target are all relegated to history; they have no place in the twenty-first century.**

Atkinson produces several reasons for disagreeing with this scenario. In the first place, he draws attention to the earlier period of globalisation during the industrial expansion of the nineteenth century which saw the introduction of the welfare state, notably in Bismarckian Germany. Says Atkinson:

> **It is therefore puzzling that the present period of globalisation should elicit the opposite response. - that we are compelled to dismantle the welfare state rather than, as I argue here, strengthen it in response to rising inequality.**

Today's objectors to proposals to tackle inequality, as seen above, argue that it cannot be done because of the need for national competitiveness. Atkinson's response is a bit cheeky:

> **I have always been puzzled by the term 'national competitiveness'. I can understand that a firm may not be competitive, or a university, or even a whole industry, but not a nation. I was therefore relieved a few years ago when Paul Krugman, Nobel Prize-winning international trade theorist, said that 'competitiveness is a meaningless word when applied to national economies', and that 'not one of the textbooks in international economics I have on my shelves contains the word in its index'…**

He goes on to give the reasoning behind this statement.

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As already noted, Tony Atkinson's *Inequality* is addressed to the general reader who is interested in politics or economics. In his final words he says it will be individuals, not governments, who will finally determine whether his proposals are implemented or his ideas pursued.

> **They will do so in their capacity as voters and…as lobbyists through campaign groups and the social media acting as countervailing powers to the paid members of the lobbying profession…Individuals can**

influence the extent of inequality in our society directly by their own actions as consumers, as savers, as investors, as workers or as employers…

Along with the other two writers whose texts are reproduced in Part 5 of *Engaging the Powers,* Atkinson sends out the message that what is happening to us politically and economically is not the inevitable outcome of human evolution, something we can do nothing about. It is brought about by human beings and what human beings can do they can also undo. Individuals have the power to influence and shape the decisions of those who govern us - if only we can summons up the confidence to use it. But, I would add, *that* requires that some of us, at least, first familiarise ourselves with ‘what is really going on’.

H P