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A Practical Vision of a More Equal Society

Thomas Piketty

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Inequality: What Can Be Done?
by Anthony B. Atkinson
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Toward a New Radical Reformism

Anthony Atkinson occupies a unique place among economists. During the past half-century, in defiance of prevailing trends, he managed to place the question of inequality at the center of his work while demonstrating that economics is first and foremost a social and moral science. In his new book, *Inequality: What Can Be Done?*—more personal than his previous ones and wholly focused on a plan of action—he provides us with the broad outlines of a new radical reformism.

There's something reminiscent of the progressive British social reformer William Beveridge in Atkinson's reformism, and the reader ought to enjoy his way of presenting his ideas. The legendarily cautious English scholar reveals a more human side, plunges into controversy, and sets forth a list of concrete, innovative, and persuasive proposals meant to show that alternatives still exist, that the battle for social progress and equality must reclaim its legitimacy, here and now. He proposes universal family benefits financed by a return to progressive taxation—together, they are intended to reduce British inequality and poverty from American levels to European ones.

He also argues for guaranteed public-sector jobs at a minimum wage for the unemployed, and democratization of access to property ownership via an innovative national savings system, with guaranteed returns for the depositors. There will be inheritance for all, achieved by a capital endowment at age eighteen, financed by a more robust estate tax; an end to the English poll tax—a flat-rate tax for local governments—and the effective abandonment of Thatcherism. The effect is exhilarating. Witty, elegant, profound, this book should be read: it brings us the finest blend of what political economy and British progressivism have to offer.

L.S. Lowry: Excavating in Manchester*, 1932*

To fully appreciate this book and its proposals, we should first place it in the larger setting of Atkinson’s career, for he has mainly produced the work of an infinitely cautious and rigorous scholar. Between 1966 and 2015, Atkinson published fifty or so books and more than 350 scholarly articles. They have brought about a profound transformation in the broader field of international studies of the distribution of wealth, inequality, and poverty. Since the 1970s, he has also written major theoretical papers, devoted in particular to the theory of optimal taxation, and these contributions alone would justify several Nobel Prizes. But Atkinson’s most important and profound work has to do with the historical and empirical analysis of inequality, carried out with respect to theoretical models that he deploys with impeccable mastery and utilizes with caution and moderation. With his distinctive approach, at once historical, empirical, and theoretical; with his extreme rigor and his unquestioned probity; with his ethical reconciliation of his roles as researcher in the social sciences and citizen of, respectively, the United Kingdom, Europe, and the world, Atkinson has himself for decades been a model for generations of students and young researchers.

Together with Simon Kuznets, Atkinson more or less single-handedly originated a new discipline within the social sciences and political economy: the study of historical trends in the distribution of income and property. Of course, the question of distribution and long-term trends already lay at the heart of nineteenth-century political economy, particularly in the work of Thomas Malthus, David Ricardo, and Karl Marx. But these writers could draw only on limited data, and were frequently obliged to limit themselves to purely theoretical speculation.

It was not until the second half of the twentieth century and the research of Kuznets and Atkinson that analyses of distribution of income and property could actually be based on historical sources. In his 1953 masterwork, *Shares of Upper Income Groups in Income and Savings*, Kuznets combined the first systematic records of American national income and property (records that he himself had helped to create) and the data produced by the federal income tax (established in 1913, in the aftermath of a prolonged political battle), to establish the very first historical account of year-by-year income distribution. While he was at it, he produced a piece of good news: that there had been a decline in inequality.

In 1978, in *Distribution of Personal Wealth in Britain*, a fundamental book (cowritten with Allan Harrison), Atkinson outstripped and overtook Kuznets: he made systematic use of British probate records from the 1910s to the 1970s to analyze in magisterial fashion the extent to which different economic, social, and political forces can help us understand the developments observed in the distribution of income, a distribution that was particularly under scrutiny during this period of exceptional turbulence.

All subsequent work on historic trends in income and property inequality to a certain extent follow in the wake of Kuznets's and Atkinson's groundbreaking studies. Leaving aside his historic and pioneering writings, Atkinson has been for decades one of the leading international specialists doing comparative investigations on the measurement of inequality and poverty in contemporary society. He has also been the tireless architect of projects for international cooperation on these subjects.

An Engaged and Mordant Book

In *Inequality: What Can Be Done?*, Atkinson leaves the terrain of scholarly research and ventures into the realm of action and public intervention. By so doing, he returns to the role of public intellectual that he has never really abandoned since the beginning of his career. Before his historic work in 1978 on the distribution of wealth in Britain, he had already written several other books that in their way were public interventions. In particular, we can mention *Poverty in Britain and the Reform of Social Security* (1969) and *Unequal Shares—Wealth in Britain* (1972). With Atkinson, the dividing lines between history, economics, and politics have never been strict: he has always tried to reconcile the scholar with the citizen, often discreetly, occasionally in a more forthright manner.

All the same, *Inequality: What Can Be Done?* goes much further in that direction than any of his earlier books. Atkinson takes risks and sets forth a genuine plan of action. In it we find his customary stylish prose, his distinctive way of offering a fair hearing to every argument and author, presenting them all in the best light, with simplicity and clarity. But in this book Atkinson makes distinctions and takes positions in a far more drastic way than his natural caution generally inclines him to do. While he has not written a funny book, we find in it the mordant irony that his students and colleagues know so well, an irony that does not always appear with such clarity in his more academic publications.

One such case is the section in which he evokes the historic events of 1988, when Nigel Lawson, Margaret Thatcher's chancellor of the exchequer, led the British Parliament in voting for a reduction of the top marginal income tax rate to 40 percent (that rate was 83 percent when the Iron Lady first came to power in 1979). One Conservative MP got so carried away that he is reported to have said that "he did not have enough zeroes on his calculator" to measure the size of the tax cut that he had just helped to approve for himself. It was a grim moment and fully merits the use of Atkinson's sharp talons.

This break with a half-century of progressive tax policy in the United Kingdom was Thatcherism's distinctive achievement (just as the Tax Reform Act of 1986, which cut the upper tax rate in the US to 28 percent, was the distinctive achievement of Reaganism). It would never really be called into question by New Labour during the years of Tony Blair (for whom Atkinson has no special fondness), any more than Reagan's tax cuts were by the Democrats during the Clinton or Obama years. Nor can we expect that the rate will be seriously called into question under the newly elected Tory government.

Another telling story, which may surprise many of his students and colleagues: on the occasion of that historic vote in 1988, Atkinson himself was in the House of Commons, busily working away on his PC and his tax microsimulator in the Shadow Cabinet Room. With the aid of his colleague Holly Sutherland, he was in fact able to finish calculating the proposed budget before the chancellor of the exchequer was able to complete his speech—wry evidence that scientific research and computer codes can give rise to new forms of participatory democracy.

The Battle for Fiscal Progressivity and National Insurance

The idea of going back to a more progressive tax structure clearly has a major part in the plan of action that Atkinson sets forth. The British economist leaves no doubt about it: the spectacular lowering of top income tax rates has sharply contributed to the rise of inequality since the 1980s, without bringing adequate corresponding benefits to society at large. We must therefore waste no time discarding the taboo that says marginal tax rates must never rise above 50 percent. Atkinson proposes a far-reaching reformation of the British income tax, with top tax rates raised to 55 percent for annual income above £100,000 and 65 percent for annual income above £200,000, as well as a hike in the cap on contributions to national insurance.

All of which would make it possible to finance a significant expansion of the British social security and income redistribution system, notably with a sharp increase in family benefits (doubling and even quadrupling them in one of the variants proposed), as well as a rise in retirement and unemployment benefits for people with lower resources.[*] Atkinson presents a series of variants of these measures and scenarios for reform, while advocating those measures that make it possible to return to a policy of universal social safety nets (i.e., that would be open to everyone), as opposed to conditional transfers of resources.

If these proposals, statistically accounted for and fully financed from taxes, were to be adopted, there would be a significant drop in British levels of inequality and poverty. According to the simulations done by Atkinson and Sutherland, those levels would fall from their current quasi-American levels to the point where they would come close to European and OECD averages. This is the central goal of Atkinson's first set of proposals: you can't expect everything from fiscal redistribution, but that nonetheless is where you have to begin.

Radical Reformism: A New Philosophy of Rights

But Atkinson's plan of action hardly stops there. At the core of his program is a series of proposals that aim to transform the very operation of the markets for labor and capital, introducing new rights for those who now have the fewest rights. His proposals include guaranteed minimum-wage public jobs for the unemployed, new rights for organized labor, public regulation of technological change, and democratization of access to capital. This is only a sampling of the many reforms he recommends.

Instead of saying more in detail about these proposals, I'd like to focus particularly on the question of wider access to capital and ownership. Atkinson here makes two especially innovative suggestions. On the one hand, he calls for the establishment of a national savings program allowing each depositor to receive a guaranteed return on her capital (below a certain threshold of individual capital). Given the drastic inequality of access to fair financial returns, particularly as a consequence of the scale of the investment with which one begins (a situation that has in all likelihood been aggravated by the financial deregulation of the last few decades), this proposal strikes me as particularly sound. In Atkinson's view, it is intimately bound up with the larger issue of a new approach to public property and the possible development of a new form of sovereign wealth fund. The public authority cannot resign itself merely to go on piling up debt and endlessly privatizing everything it possesses.

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Ronald Reagan and Margaret Thatcher at 10 Downing Street, London, 1984

On the other hand, alongside this national guaranteed and insured savings program, Atkinson proposes establishing an "inheritance for all" program. This would take the form of a capital endowment assigned to each young citizen as he or she reached adulthood, at the age of eighteen. All such endowments would be financed by estate taxes and a more progressive tax structure. In concrete terms, Atkinson estimates that, with current revenue from the British estate tax, it would be possible to finance a capital endowment of slightly more than £5,000 for each young adult. He calls for a far-reaching reform of the system of inheritance taxation, and especially for greater progressivity with regard to the larger estates. (He proposes an upper rate of 65 percent, as with the income tax.) These reforms would make it possible to finance a capital endowment on the order of £10,000 per young adult.

Personally speaking, I must say that I've always had certain reservations about the idea of an individual financial endowment. I've generally preferred a focus on guaranteed access to certain fundamental goods—education, health, culture among them. But whichever approach you may prefer, the idea of directly linking the estate tax to the allocation of rights that would be underwritten by such a tax seems to me extremely pertinent. The immense advantage of the solution set forth by Atkinson is that it makes it possible to clearly express the notion that the purpose of the estate tax is to underwrite "inheritance for all." By directly linking the sum given to each person with estate tax rates, we may perhaps hope to change the terms of the democratic debate on this subject.

The Return of the Poll Tax and the Question of a Wealth Tax

One of the most interesting sections of the book focuses on the British debate over the poll tax. This is a notoriously forfeitary tax, or lump-sum tax, as economists say it—one pays the same sum in pounds sterling whether one is rich or poor. It was imposed by Margaret Thatcher in 1989–1990 in place of the old rates tax, which was a proportional tax levied on housing, with the sum due increasing in rough proportion to the value of one's home. The poll tax therefore resulted in a sharp tax hike for the poorest taxpayers, and a drastic drop for the richest ones. To say that this reform was unpopular is to put it mildly: urban rioting and parliamentary insurrection ensued, while the Iron Lady stubbornly dug in her heels until she was finally voted out of power by the Conservative MPs in November 1990 and quickly replaced by John Major, who promptly abolished the poll tax. It was a clearly unacceptable reform.

What is less widely known is that the new local "council tax" that replaced the poll tax in 1993 and is still in effect today is actually almost as regressive as the poll tax. Here the data gathered by Atkinson are particularly striking. Individuals whose real estate holdings are worth about £100,000 pay on average a council tax of some £1,000, while those whose property is worth about £1,000,000 pay approximately £2,000–2,500. While this is evidently a less harshly regressive system than the one envisioned by Thatcher, it still remains extremely regressive. In fact, the tax rate drops from 1 percent for the poorest taxpayers to 0.2–0.25 percent for the richest ones, with an average tax rate of 0.54 percent for the United Kingdom as a whole in 2014–2015. In most European countries, as well as in the United States, local taxes are generally proportional to the value of real estate property.

Quite reasonably, Atkinson proposes that the same approach be introduced in the United

Kingdom. Such a reform, carried out consistently, might be a first step toward the establishment of a progressive tax on real estate, and even, eventually, toward a progressive tax on net wealth (including financial assets and debts). In this regard, it is striking to note that the tax on real estate transactions in the UK ("stamp duty") is already quite progressive, and that it has become even more so over the last few years. The rate paid on a transaction is currently 0 percent if the property is worth less than £125,000, and 1 percent if the property is worth between £125,000 and £250,000, rising thereafter to 3 percent between £250,000 and £500,000, 4 percent between £500,000 and £1,000,000, 5 percent between one and two million pounds (a new rate introduced in 2011), and 7 percent on properties worth more than two million pounds (introduced in 2012).

It's worth noting that the 5 percent rate, introduced by a Labour government, was at first strongly criticized by the Conservatives. Once they came to power, however, they introduced the 7 percent rate. This makes it clear that in a larger national situation of growing inequality, and especially of upward concentration of wealth and the steep challenges facing younger generations in gaining access to property, the need for a more progressive system for taxing wealth is being felt above and beyond partisan political affiliations. This likewise points to the need, advocated by Atkinson, to rethink the overall system of taxes on property in a coherent manner: it's hard to see why the tax on transactions should be so sharply progressive if the annual property tax is going to be regressive.

The United Kingdom, Europe, the World

The only criticism that can be brought to bear on Atkinson's plan of action is its excessive concentration on Great Britain. All of his social, fiscal, and budgetary proposals are conceived for a British government, and the space devoted to international matters is relatively limited. For instance, he briefly brings up the idea of a minimum tax on large multinational corporations but then the possibility of such a tax is remanded to the category of "ideas to pursue," not solid proposals. In view of the central part played by the United Kingdom in European tax competition, as well as on the world map of tax havens, one might expect a more prominent treatment of proposals for the establishment of common taxation on profits, or the development of a worldwide registry—or at least a Euro-American one—of financial securities. Atkinson clearly alludes to such issues as well as the creation of a "World Tax Authority," and the possible increase of international aid to 1 percent of GDP. But they are given less attention than the strictly British proposals.

This same criticism, however, also constitutes the book's main strength. Basically, Atkinson is telling us that timorous governments have no real excuse for inaction, because it's still possible to act on a national basis. The heart of the plan of action that Atkinson sets forth could be implemented in Britain without bothering to wait for elusive prospects of international cooperation. For that matter, they could also be adapted and applied to other countries.

No doubt, reading between the lines, we can glimpse a certain disenchantment on Atkinson's part with the European Union, though he reminds us that he has been a longtime supporter of that institution, especially when the United Kingdom joined in 1973. In that era, he reminds us, many member states called into question the financing of the British welfare state (especially the National Health Service) through taxes. This was seen as an unacceptable form of competition by those countries where the cost of the welfare state rested on employers. A substantial proportion of the British left at the time saw in Europe and its obsession with "pure and perfect" competition a force that was hostile to social justice and the politics of equality. "At the time, these suspicions were not justified," Atkinson tells us. He seems to want to add that they might be more so nowadays, but he never quite goes that far, because he wants to keep the flame of hope for the European Union alive. This is a book written by an optimist and a citizen of the United Kingdom, Europe, and the world: the broad sense it conveys of a more just economy is one of its many appealing qualities. It will stand as a model whatever the outcome of one election or another.

—*Translated from the French by Antony Shugaar*

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* Family benefits for the first child would thus rise from £20 a week to £40, and even £90 a week in one of the variants; at the same time, these benefits would become taxable. ↩

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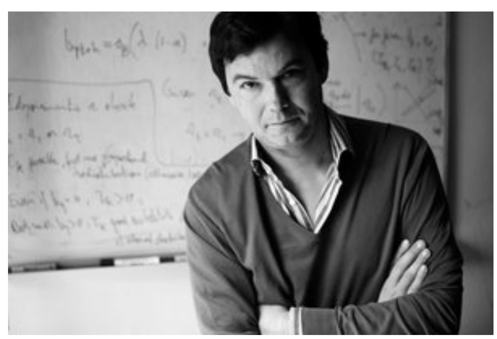

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