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## Book Review

Book Review: Atkinson, Anthony B. (2015): *Inequality: What Can Be Done?* Cambridge, MA, USA and London, UK (384 pages, hardcover, Harvard University Press, ISBN 978-0-674-50476-9)

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## Book review

Atkinson, Anthony B. (2015): *Inequality: What Can Be Done?*  
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Ever since the great success of Thomas Piketty's *Capital in the Twenty-first Century* (Piketty 2014), income and wealth distribution as well as increasing inequality have once again become important topics in economic and social debates. However, although sensitivity towards the topic has definitely increased, there is still no broad debate about the policies necessary for a trend reversal. Certainly, such policies are not the focus of Piketty's book, and his suggestion for an international wealth tax remains quite abstract as it is obviously far from political realization in the near future.

The proponents for a change in distribution policy have, however, recently gained prominent support. With *Inequality: What Can Be Done?*, one of Britain's most prominent economists – and in some ways the doyen of distribution analysis – Sir Anthony B. Atkinson has spoken up in the debate and suggested a far-reaching and detailed catalogue of political measures. Tony Atkinson is a Centennial professor at the London School of Economics and Fellow of Nuffield College, Oxford. In his long life as a scholar, he has published an incredible number of papers and books on a great variety of topics. Among others, he published *Lectures on Public Economics* together with Joseph Stiglitz in 1980, a standard work within the then newly risen so-called 'New Public Finance', an extremely mathematical exercise based in neoclassical welfare economics. After earlier works on poverty reduction and the increase of the British welfare state, Atkinson always remained true to the topic of distribution and the welfare state. In the 1990s he defended the welfare state in many works and took issue against criticism of its allegedly negative economic effects (Atkinson 1993; 1999). He is one of the editors of the *Handbook of Income Distribution* (Atkinson/Bourguignon 2015). Last but not least, he is Thomas Piketty's academic mentor and co-author of the groundbreaking studies on the development of worldwide top incomes (Atkinson/Piketty 2010). Thomas Piketty already wrote an elaborate review of Atkinson's new book, in great praise of Atkinson's academic achievements, for which, Piketty says, he actually deserved more than one Nobel prize (Piketty 2015).

Atkinson's new work, without a doubt, deserves the highest praise. Regardless of its diligence and meticulousness regarding theoretical and empirical analysis, it is certainly his most political book, with extremely well carved out, precise political conclusions. Its political goal is nothing less than a salient reduction of inequality as measured by a reduction of the Gini coefficient for income inequality and poverty rates of at least 3 percentage points each (p. 54). This goal is ambitious, something Atkinson illustrates by a rule of thumb. A reduction of the Gini coefficient for net income of 1 percentage point requires

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a redistribution of income of about 1.6 percent, according to his formula. To reverse the increasing disparities by the 10 percentage points that have been observed in some countries over the last few decades, 16 percent of the income would have to be redistributed. One has to agree with Atkinson that it is utopian – both economically as well as politically – to achieve this merely through fiscal measures such as correspondingly higher taxes. Given this insight, one is automatically led towards a more complex analysis and a more comprehensive political solution.

Atkinson has structured his argument very systematically. In the first part, ‘Diagnosis’, the importance of an equal distribution is first discussed in an impressively persuasive way, followed by an analysis of the relevant statistical concepts and trends showing the presence of the disparity in the distribution of income and wealth and how it has worsened over the last few decades. A detailed explanation of the statistical determinants of income distribution and a long-term historical analysis show how income distribution was and can be influenced. Here, it is convincingly explained that the primary distribution of gross income as well as the redistribution through taxes and social transfers have to be taken into account. The exposition of the relevant concepts and of the important determinants is so clear that it could immediately be used as a basic text for a course on economic distribution analysis.

In the second part, ‘Proposals for action’, Atkinson discusses political measures to correct the distribution of incomes based on the preceding results. In contrast to much of the political debate, his concept is much more comprehensive than just enumerating a few corrective tax measures. It also encompasses the primary income distribution and includes some fairly radical ideas. He explicitly calls for 15 measures and adds ‘five ideas to pursue’. According to Atkinson’s well-established view, the state should promote innovations in employability and social services. Additionally, the functional distribution of income should be influenced by corresponding competition policies, the (re-)strengthening of trade unions, the setting of minimum wages, and even guidelines for wages in the high-income area. The employment goal is to become an explicit goal again, including an employment guarantee in the public sector for the unemployed at the minimum wage. In order to achieve a more equal distribution of capital income, small investors are to be guaranteed a positive real interest rate. Additionally, all adults, according to Atkinson, should be given a minimum amount of capital, while the state holds shares of the productive economy through a social capital fund, in order to share capital gains with society.

In the field of tax policy, income tax is to become more strongly progressive, while income from work should be privileged over capital income – as used to be the case several decades ago. The inheritance and accessions tax should be paid on all received acquisitions over the recipient’s lifetime. Additionally, a proportional or progressive property tax based on realistic property prices is to be collected. In the field of social transfers, substantial child benefit for all children should be paid which would, however, be liable to income tax. A basic social income, based on social participation, should be paid; alternatively, the existing social transfers should be notably increased. Last, taking global inequality into account, development aid should be increased significantly. The ideas to pursue, according to Atkinson, are, among others, the introduction of a general wealth tax as well as a required minimum taxation for businesses.

The third part, ‘Can it be done?’, then deals with common objections against redistribution policies, primarily the alleged harmfulness for growth and employment. Here one can find many historical, theoretical and empirical arguments that show that a redistributing welfare state can, in fact, be macroeconomically efficiency-enhancing. The analysis is illustrated by concrete results of a complex policy simulation which calculates the effects

of core elements of the package of measures on public finance and distribution for Britain. With all due prudence, it is shown that the intended reduction of the Gini coefficient of the distribution of net income by 3 per cent would be achieved. For laymen, Tony Atkinson's excitement for the model theoretical progress of the last few decades may seem a bit exaggerated in this chapter; however, it is of great instructive value and reinforces the textbook character. The focus on the case of Britain is a constraint; however, it is obvious that similar analyses for other countries could and should be done. It would mean a quantum jump within the economic and social policy debate, could they be conducted.

After all the praise, a few critical remarks seem due. First, the book is almost too meticulous and textbook-like, if it is to become widely read and politically influential. Adding to this impression, the style is sometimes not very accessible, as Atkinson provides literal quotes from the respective literature for almost every essential statement. Again, this shows Atkinson's masterful knowledge but also makes reading more difficult. Second, Atkinson almost entirely argues within the framework of the neoclassical economic and public finance mainstream, although it is obvious that the case for a more equal income distribution becomes significantly stronger if one includes Keynesian macroeconomic approaches (see, for example, van Treeck 2015). It needs to be noted, however, that Atkinson uses a very differentiated and progressive neoclassical economics. Hence, the criticism can be turned around: Atkinson shows that, even within the framework of neoclassical economics, one can reach very progressive conclusions if one leaves behind all-too-simple basic models or normative assumptions.

Without doubt Tony Atkinson's new book deserves at least the same attention as Thomas Piketty's mega-bestseller. It is high time that the debate about concrete measures to fight inequality is deepened and intensified. Atkinson's book is the ideal starting point for that debate.

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