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Forum

»Policy can counter inequality«

*Interview with Professor Anthony Atkinson**



Professor Atkinson, does the topic of inequality get more attention today?

Perhaps I could answer autobiographically? I began my undergraduate career as a mathematician, but I was already concerned with issues of social justice, having worked with deprived children in Hamburg. A big impression was made on me by the publication in 1965 of *The Poor and the Poorest*, a study of poverty in Britain by Brian Abel-Smith and Peter Townsend. This led me, when I became an academic, to write a book on *Poverty in Britain and the Reform of Social Security*. At that time, very few economists in Europe were working on poverty, or indeed on the topic of inequality. Today, the position is quite different. Distributional issues receive much more attention from economists. In July 2007, I attended the Berlin conference of ECINEQ, the new scientific society for economists working on inequality, and there were over 200 participants. It was very encouraging to see so many young economists engaging with the topic. Moreover, there is much more coverage in the media. Perhaps for this reason, there is more recognition by policymakers of the distributional impact of policy choices. For example, the Irish government adopted some years ago a formal target for the reduction of poverty, and the Blair/Brown governments in the United Kingdom have given priority to the abolition of child poverty. Ending poverty and social exclusion is one of the objectives of the Lisbon Agenda of the European Union.

What is your judgment concerning inequality changes in recent decades?

The recent rise in income inequality has rightly attracted a lot of interest. In the US, the UK and a number of other OECD countries, the last 25 years have seen the reversal of much of the reduction in inequality achieved in the earlier decades of the 20th century. Attention has focused on the rise in earnings dispersion, which started in the United States at the end of the 1970s. It would however be wrong to assume that this is an unprecedented phenomenon. I have recently been collecting data on changes in the distribution of earnings in 20 OECD countries (to be published in a forthcoming book by Oxford University Press).

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These data show that in a number of countries, but not all (Germany is an exception), there was an equally large rise in earnings dispersion in the 1950s and early 1960s. What is commonly regarded as a »golden« age was, in this respect, less than golden. This has implications for the explanation of widening differentials. If rising earnings dispersion started in 1950, rather than 1980, then we may have to consider other explanations than those currently in favour, which emphasise the advent of information and communication technologies and the impact of globalisation. What is perhaps different about the recent rise in earnings dispersion is that it has largely affected the upper half of the distribution. It is true that the bottom decile of earnings fell in the US in the 1980s but there was a subsequent recovery. The major changes have been at the top. In over half of the 20 countries I have been studying there has been a »fanning out« of the top part of the distribution, with the top decile rising more than the top quartile. It is here, in my view, that globalisation and technology have explanatory power. As Alfred Marshall foresaw, these factors have increased the rents of »superstars«. They have encouraged the spread of the »individualisation« of pay determination. University professors in the UK, for example, bargain about their pay rather than being placed on a fixed pay scale.

What are new challenges?

There are many challenges, which is why I continue to work on the subject I began studying some 45 years ago. Here I refer to just two. The first is the incorporation of distributional issues into the mainstream of economics. For the classical economists, distribution was central (see the next question), but today it is regarded as a »sub-field«. In the same way, welfare economics, which used to be a core part of the teaching curriculum, has been relegated to the status of an optional extra. Joan Robinson, one of my teachers at Cambridge, used to say that »cui bono« (»who benefits«) was one of the central questions of economics, and we need to place it again at the heart of our subject. The second challenge is presented by the growing interest in the global distribution of income. The empirical problems are considerable, but I believe that a global perspective also raises conceptual issues. Together with Andrea Brandolini, of the Bank of Italy, I have been working on a new measure that can encompass inequality on a world scale and can incorporate concerns about both poverty and inequality.

How do you see the development of wage shares?

The share of wages in national income used to be one of the key statistics presented in economic textbooks – it was on the inside cover of Paul Samuelson. And for classical writers, the central question of economics was how the national produce was divided among the classes of the community, in the form of wages, profits and rent. Yet, today factor shares are relatively little discussed. As described above, attention has focused on the skilled/unskilled wage differential, not on the labour/capital difference. But I have long felt that we need at least a three-factor explanation of income inequality, with skilled and unskilled labour, and capital, all entering the picture. It is relevant to explaining changing income inequality that a number of countries have seen, over the post war period, first a rise and then a fall in the

share of labour. At the same time, one has to recognise that we cannot today read directly from the factor shares across to the personal distribution of income. The share of earnings in total personal income is not the same as the share of wages in national income. The earnings recorded in the typical income distribution data have been a declining proportion of the total compensation of labour, which also includes social security taxes paid by employers and employer payments into private pensions and health care. Total personal income includes major elements – transfers and interest on the national debt – that have no counterpart in the national accounts. Part of profit income accrues to pension funds, and part to the government. One cannot therefore simply conclude that a rise in the share of capital increases inequality. A more subtle analysis is needed.

What is the role of the state in countering inequality?

The crucial point to be made is that policy *can* counter inequality. References to globalisation and to new technology tend to create the impression that rising inequality is inevitable, but this is not the case. The welfare state, progressive taxation, educational policy, and health policy can all be important in achieving a fair distribution. We have seen in the past that governments have intervened to reduce inequality. The 1940s saw a compression of wage differentials in the United States, in part resulting from government intervention in the labour market. The rise in dispersion in the 1950s and early 1960s referred to above was followed in Europe by a period of pay policies and trade union action that favoured the low paid. Incomes policies, introduced for macro-economic reasons, were also redistributive. Of course, the powers of national governments are more circumscribed today, but the new supra-national bodies such as the European Union provide a locus for distributional policy that did not previously exist. The adoption of social inclusion as an explicit EU objective has not yet led to substantive policy action, but it has served to place distributional issues higher on the priorities of Member States. So I end on an optimistic note.

The interview was conducted by Martin Schürz in July 2007.

Selected Publications of Anthony Atkinson

Economics of Inequality, Oxford: Oxford University Press 1975 • Lectures on Public Economics (with Joseph E. Stiglitz), Maidenhead: McGraw-Hill 1980 • Poverty and Social Security, Hemel Hempstead: Harvester Press 1989 • Public Economics in Action, Oxford: Oxford University Press 1995 • Three Lectures on Poverty in Europe, Oxford: Basil Blackwell 1998