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Inequality – what can be done?

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Editorial note and acknowledgements

This Working Paper is based on the presentation of my book, *Inequality: What can be done?* (Atkinson, 2015) at the LSE on 30 April, 2015. I am grateful to the discussants, Ruth Lister and Tom Clark for their insightful comments.

Abstract

Economic inequality has become centre stage in the political debate, but what the political leaders have not said is what they would do about it. There are repeated calls for equitable growth but little clue as to how this is to be achieved. In this Working Paper, I seek to show what could be done to reduce the extent of inequality if we are serious about that objective. I draw on the lessons of history, and take a fresh look - through distributional eyes - at the underlying economics. I identify ambitious new policies in five areas - technology, employment, social security, the sharing of capital, and taxation – that could bring about a genuine shift in the distribution of income towards less inequality.

Key words: Inequality, Poverty, Wealth, Redistribution.

JEL number: H2, H3, H4, H5, H6, I3, E2, E6.

Introduction

Economic inequality is now in 2015 receiving more attention than at any time since I first started working on the subject in the 1960s. Following the publication of Thomas Piketty's book *Capital in the Twenty-First Century*, there has been enormous media coverage and it has attracted the attention of world leaders. The United States President, Barack Obama, has described rising income inequality as the "defining challenge of our time." The Pope has called for governments to redistribute wealth to the poor in a new spirit of generosity. Christine Lagarde, Head of the IMF, has declared reducing inequality to be at the top of her agenda, since she sees it as threatening the sustainability of the world economic system. But what world leaders have not said is what they would do about it. There are repeated calls for equitable growth but little clue as to how this is to be achieved. This is the main reason that I have written a book entitled *Inequality- What can be done?*

In fact there seems to be a climate of gloom and doom: a sense that little can in fact be done to reduce economic inequality. The most common adjective used to describe Piketty's view of the future is "dystopian". Dystopia, according to the dictionary, is "an imaginary place where people are unhappy and usually afraid because they are not treated fairly". My aim is to tell a more up-beat story. The key message is that the present levels of inequality are not inevitable; we are not simply at the mercy of forces beyond our control. *If* we want to reduce inequality, and that is a big "if", then there are steps that we can take. They are not necessarily easy and they have costs. We would have to discard economic and political orthodoxies. If our leaders are serious about tackling inequality, then they have to move outside their comfort zone and to consider a wider agenda. But there are concrete measures that can be tried if we are serious about tackling inequality.

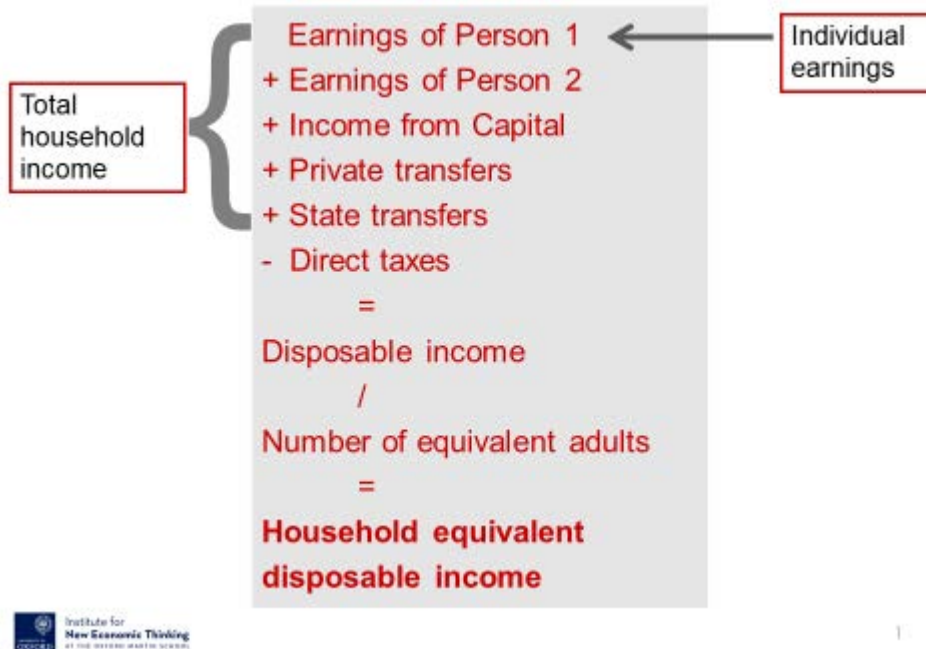
At the same time, I should emphasize at the outset that, while I make far-reaching proposals, I am not seeking to go to the opposite extreme: from dystopia to utopia. Rather, I am concerned with a *reduction* in inequality below its current level - that is with the direction of movement, not the ultimate destination. My reading of the current state of opinion is that many people feel that present inequality is excessive, while having different views about how much they would like to see it reduced. My book is directed at this broad coalition, allowing the reader to choose how far they wish to go along the road described.

History of UK Inequality

To make the discussion now more concrete, what do I mean by "economic inequality"? As I discuss in the book, there are many dimensions. Here I shall talk simply about the inequality of income, but this too could refer to several different things. People may have in mind individual earnings: the gap between pay at the top and pay at the bottom. Others, as in the debate about the standard of living, may have in mind household disposable income. These are different concepts and Figure 1 shows the stages in going from one to the other. Income is not only pay but also income from investments and from transfers such as child benefit. We have to add all these up. Moreover, household income relates to the total for everyone who lives there. So a vicar may be low paid but well off if married to an investment banker. And we have to take account of the differing needs of

different types of family. As one of my colleagues used to say, if you have 2 children then a penny bun costs four pence (his wife got one too).

Figure 1: Inequality of what among whom?

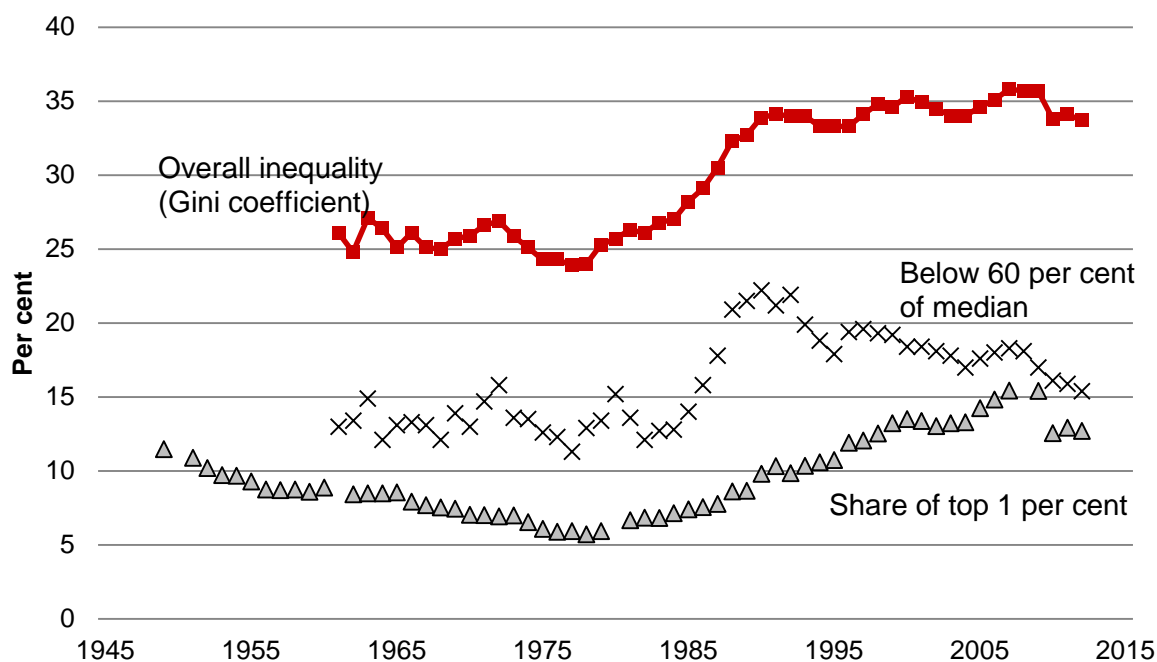


So what – in broad terms – is the story about household income inequality? Figure 2 shows the evolution of income inequality in the UK since the Second World War. The series marked by bold squares shows one measure of overall inequality: the Gini coefficient. This coefficient summarises the extent of income differences between everyone in the population in terms of a score that ranges from zero when everyone has the same income to 100 per cent when there is extreme inequality. This summary measure tells a stark story for the UK. From the early 1960s, when the series starts, through to 1980, the coefficient is around 25 per cent. But after 1980 it begins to rise and it is now around 35 per cent. You will note here that I am taking a long view; I am not commenting on the past few years of the Conservative/Liberal Coalition (on this, see Hills et al, 2015). The key point on which I focus is that inequality in the second decade of the twenty-first century is ten percentage points higher than a generation ago. To get back to where we were when the Beatles were playing, we have to reduce the Gini coefficient by some 10 percentage points. This is a big challenge. To see what it means, suppose that we seek to achieve such a reduction through taxes and transfers alone. Based on reasonable assumptions about tax rates and government spending, the tax rate increase required to reduce the Gini coefficient for disposable income from 35 to 25 per cent would be 16 percentage points of income.¹

¹ Suppose that the tax/transfer system can be approximated by a constant tax rate and a uniform benefit for everyone. A gross income of Y becomes a net income of $(1-t)Y+A$, where t is the tax rate and A is the benefit paid to everyone (this can be thought of as the value of the personal tax allowance). Since A is the same for all, the Gini for disposable income is $(1-t)$ times the Gini for market income (Y) divided by the ratio of average disposable income to average market income. Then, if government spending on goods and services (health,

What is happening at the top and the bottom of the income distribution? The share of the top 1% in total gross income has, despite the drop in 2009, more than doubled since 1979. Top incomes have been racing away. It is the top that has received most attention following Piketty's book, but one of the reasons I wrote my own book is to stress the need to look also at the other end of the scale: at the plight of those on low incomes. Here the UK record is in a sense more encouraging in that the poverty rate, measured in relative terms, has fallen from its peak of 22 per cent in 1990 to 15 per cent. However, the fall achieved in the past 20 years – for which credit must be given – has to be qualified in two respects. First, the available official series ends in March 2013, whereas many of the austerity measures cutting social transfers took effect after that date. The more recent analysis by the New Policy Institute finds that poverty in the UK is rising once more (Kenway, Aldridge and Born, 2015). Secondly, the figure shown still leaves the UK poverty rate today above the level in the 1960s and 1970s, a level that was regarded at the time as profoundly shocking. The Child Poverty Action Group was founded in 1965 when the poverty rate was lower than today.

Figure 2: Inequality in the United Kingdom from 1945



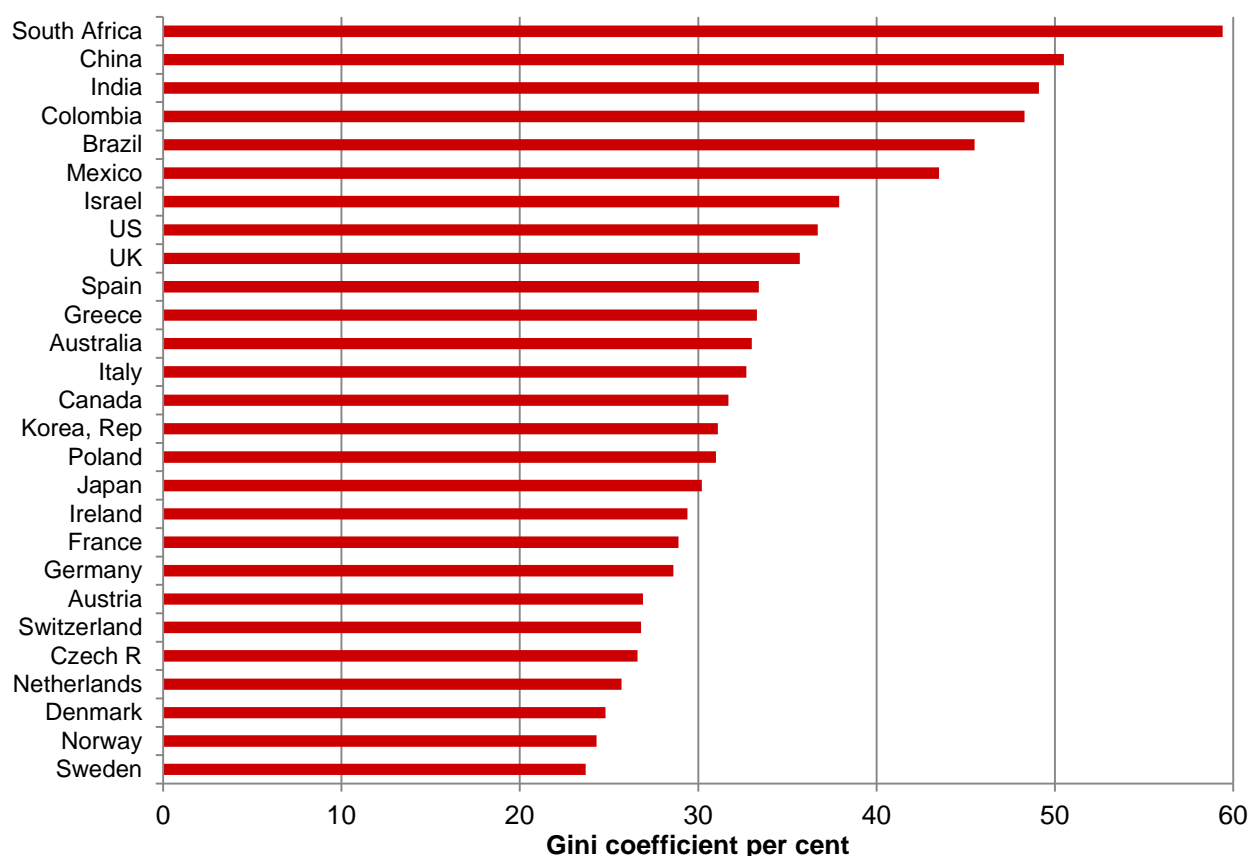
Note: Overall income inequality, measured by the Gini coefficient in the UK in 2012-3 was 33.7 per cent, the share of the top 0.1 per cent in total gross income was 12.7 per cent, and the proportion of people living in households below 60 per cent of the median was 15.4 per cent.

Source: Atkinson and Morelli (2015), *Chartbook of Economic Inequality*, <http://www.chartbookofeconomicinequality.com/>

education, defence, etc.) absorbs 20 per cent of tax revenue, the latter ratio is equal to 80 per cent. Suppose further that the Gini coefficient of market incomes is 50 per cent. The reduction in the Gini for disposable income from an increase Δt in the tax rate is then 0.5 times Δt divided by 0.8. Inverting this relationship, it follows that the required increase in the tax rate is equal to $0.8/0.5 (=1.6)$ times the desired reduction in the Gini for disposable income.

The second piece of background evidence (Figure 3) shows inequality in the UK in international perspective. As a result of the post-1980 increase in overall income inequality, the UK has risen up the table, and is now close to the US. If we were to reduce inequality by 10 percentage points, then it would make the UK like the Netherlands (a country with which we have much in common, including an imperial past). I said at the outset that I am optimistic that moves can be made to reduce the extent of inequality. In part, this is based on the fact that there have been periods in the past when inequality was reduced. This is particularly true in mainland Europe, where there was a sustained period of inequality reduction in the decades after the Second World War. The Gini coefficient in the country just mentioned – the Netherlands – fell by 8½ percentage points between 1959 and 1985. In Finland, the Gini fell by 11 percentage points in a similar period; and there was a fall of 9 percentage points in France and Italy.

Figure 3: Gini coefficient in different countries 2010



Note: This graph shows the Gini coefficient for equivalised household disposable income in different countries, ranked in decreasing order. The coefficient in Sweden was 23.7 per cent.

Sources: LIS Key Figures <http://www.lisdatacenter.org/data-access/key-figures/download-key-figures/>, downloaded 30 November 2014. The data are for 2010 except for Austria (2004), Brazil (2011), China (2002), Czech Republic (2004), Korea (2006), India (2004), Japan (2008), Sweden (2005), and Switzerland (2004).

Understanding inequality

Inequality was reduced in the post-war decades, but it does not follow that the same kind of reduction can be achieved today. This brings me to the economics of inequality and the standard textbook story explaining rising inequality. Economists are often accused of being behind the curve, ignoring the way in which the world is changing before our eyes. But that is unfair in this case. Textbook writers have been quick to include discussion of increased inequality, and you will find in most introductory books a simple supply and demand explanation. Increased inequality is due to the demand for educated workers rising faster than the supply. Forty years ago, the Dutch economist Jan Tinbergen (1975) described a race between education increasing the supply and technological change biased towards demanding more skilled workers. Demand is growing faster and the wage differential has widened. Today's story includes another factor shifting demand in this direction – globalization – which has seen the disappearance of many jobs for low-educated workers.

This standard story is accompanied by the policy prescription that is on the lips of most policy-makers and commentators. We need to invest more in education and training. Now, I fully support these calls for investment in human capital, but it is only part of the story. Here I want to concentrate on the other parts of the story.

The first way in which it is only part of the story is that these drivers of technological change and globalization are not exogenous forces outside our control. Most technological advances – such as the smartphone – reflects decisions that are made by, among others, scientists, research managers, businessmen, investors, governments, and consumers. And these decisions are influenced by economic considerations. The degree of bias in technological change – whether it favours skilled or unskilled workers – and more generally, whether it favours capital or labour – depends on the decisions of firms. But this raises the question as to whether we should leave this purely to the market. My answer is “no”, since the decisions of firms all too often neglect the interests of stake-holders apart from their shareholders. A company may, for example, decide to invest in robotizing its warehouses and in developing delivery of its goods by drones. That would reduce the demand for labour, and the company may indeed be delighted not to have to rely on a work force that wants to be properly treated and paid a living wage. One of my proposals is therefore that the direction of technical change should be a matter in which the government should take an active interest; after all it is the government that has funded much of the underlying research.

The second reason why the textbook account is only part of the story is that there are other important elements that go to make up household incomes. There are many forces in operation: jobs and pay are influenced by other factors, there is capital as well as labour income, and there are important ways in which income can be redistributed via taxes and transfers. It is these three elements that structure the fifteen proposals that I make in the book to achieve a significant reduction in inequality. The proposals are summarized in Table 1 (overleaf) I shall not describe each in detail; rather I discuss them in the groups listed.

Table 1: Fifteen Proposals***Taxing more***

Return to a more progressive rate structure for the income tax, with increasing marginal rates of tax up to a top rate of 65 per cent, accompanied by a broadening of the tax base.

Introduce into the personal income tax an Earned Income Discount, limited to the first tranche of earnings.

Change Inheritance Tax from a tax on giving to a tax on receiving, with a progressive lifetime capital receipts tax.

Council Tax to be replaced by a proportional property tax based on up-to-date property assessments.

Spending more

Child benefit should be paid for all children at a substantially higher rate, and taxed as income.

A participation (citizen's) income should be introduced, complementing existing social protection, with the prospect of an EU-wide child basic income.

OR Restore social insurance to reduce dependence on means-tested benefits.

Rich countries should raise their target for Official Development Assistance to 1 per cent of Gross National Income.

Employment and wages

The government should adopt an explicit target for reducing unemployment, and offer guaranteed public employment.

There should be a national pay policy: with the minimum wage set at the Living Wage, and a code of practice for pay above the minimum.

The direction of technological change should be an explicit concern of policy-makers, encouraging innovation in a form that increases the employability of workers, emphasising the human dimension of service provision.

Capital and wealth

(a) Introduce a distributional dimension into competition policy, (b) ensure a legal framework that allows trade unions to represent workers on level terms, and (c) establish a Social and Economic Council.

The government should offer via national savings bonds a guaranteed positive real rate of interest on savings, with a maximum holding per person.

There should be a capital endowment (minimum inheritance) paid to all at adulthood.

Creation of a public Investment Authority, operating a sovereign wealth fund to build up the state net worth.

The welfare state and taxation

I begin with the welfare state and taxation. One of the factors contributing to the earlier decline in inequality in post-war Europe was the existence of a progressive income tax system and the expansion of the post-war welfare state. But since 1980, there has been an unwinding of redistributive policies in OECD countries, with adverse distributional consequences. The OECD Secretary-General in the 2011 report, *Divided we stand*, spelled out that, to quote “from the mid-1990s ... the reduced redistributive capacity of tax-benefit systems was sometimes the main source of widening household-income gaps” (OECD, 2011, page 18).

Part of what is needed therefore to reduce inequality is to un-do the post-1980 scaling back of the redistributive state. This in turn involves raising taxes. This is not easy, but I have suggested a set of tax measures addressed towards reducing inequality. The first is the return to progressive income taxation, in the sense that marginal rates of tax rise with income, with a suggested top marginal rate of 65 per cent on incomes above £200,000, compared with the present 45 per cent in the UK and a similar top rate in the US (adding federal income tax and state income tax). This would represent a partial – but only partial – return to the rates that ruled for much of the 20th century, coupled with a modest shift of the burden of taxation away from wages towards capital income via a new Earned Income Discount.

Next, there would be a major reform of wealth transfer taxation, to convert the tax from one based on the amount given to a tax on the amount received. By taxing people on the amount received over one’s lifetime in the form of bequests and gifts, we would have a lifetime capital receipts tax. This would underline the fact that the tax is a levy on inherited advantage and that it would only be paid where that advantage was concentrated. This is far from a new idea, having been proposed in the nineteenth century by John Stuart Mill, but seems of considerable relevance today. To quote Martin Wolf, “a tax on lifetime receipt of gifts and bequests, plus wider spreading of educational opportunities, seems to be the only way to limit the cascade of unearned advantages across generations” (*Financial Times*, 2 May 2015).

The last proposal is the conversion of Council Tax into a property tax, levied as a percentage of the market value of the property. This is a specifically UK story, but it has a wider interest in illustrating how quite large shifts in tax policy can be achieved. For many years, local government in the UK was financed as far as households are concerned from “domestic rates” that were related to property values, or an ability-to-pay basis. The Conservative Government in the 1980s decided to replace this system with a radically different flat-rate charge, which popularly became known as the “poll tax”. The Conservatives justified this on the grounds that the benefit from local services was broadly proportional to the number of people. In other words, the basis of taxation was switched from an ability to pay to a benefit basis. This was however highly regressive and the tax provoked widespread opposition and taxpayer resistance. In time, the Prime Minister resigned and her successor announced that the Poll Tax would be abandoned and replaced by the Council Tax we have now. Everyone breathed a sigh of relief, but the Council Tax is

still highly regressive. Houses at the start of the top band are worth nearly 5 times those at the start of the middle band, but are taxed at only twice as much.

Now the Poll Tax is described by Anthony King and Ivor Crewe in their recent book as “a colossal blunder” (2014, page 41), but in fact in terms of Conservative policy it was a great success. The final outcome was a shift in the underlying principle of local taxation: from one based on ability to pay to one based on benefit. Here I am proposing to reverse this shift. This may sound dramatic, but the outcome would be precisely what most US local governments do, taxing people a percentage of their current property values.

What about the transfer side? Here I should explain that I began life as a convinced follower of Lord Beveridge, believing that the key provision should be social insurance – which was the title of his famous Plan of 1942. Beveridge categorically rejected the use of means-tests as in social assistance. He felt strongly that people should be entitled to benefits such as pensions by virtue of contributions, not subject to tests of their income or assets. He hoped that social assistance would die away over time, and be replaced by social insurance – combined with child benefit paid to all. But this did not happen. Instead, under successive governments, the means-tested sector has been expanded, most recently in the form of tax-credits. This was not all bad. In the case of the UK, without the expansion of family income-tested tax credits under the Labour Government of 1997 to 2010, the reduction in child poverty would have been less and inequality would have been higher. Means-tested transfers are better than nothing. But the income-testing approach is inherently flawed. Not only does it generate high marginal tax rates as benefits are withdrawn, and discourage people from taking work, but also means-tested benefits fail to reach a significant minority of the intended beneficiaries. In 2010, 17 per cent of those eligible for the UK Child Tax Credit did not claim. 1.2 million families were not benefiting from the programme that was supposed to help them. In the US, 25 per cent do not claim the Earned Income Tax Credit. For a sustainable long term solution, we need to explore alternative routes.

So what do I propose? First, I argue for a substantial increase in Child Benefit. Moreover, it should once again be paid to all families, but targeted by making it taxable. Here there is a complementarity with the reform proposed to the income tax, in that a basic rate taxpayer would get 80 per cent of the benefit but a top taxpayer only 35 per cent.

Child benefit is a basic income for children, and this brings me to one of the two possible routes for other benefits (the other is a restoration of social insurance). I would favour a Citizen’s Income, an aspiration of the Green Party, but where I would depart in that eligibility would be based not on citizenship (which I believe to be unworkable), but on participation where this would be broadly defined to go beyond employment to include caring and other unremunerated work. Everyone who participates in UK society would receive a basic income, called a Participation Income, just as everyone receives a personal tax allowance (currently £10,600). The difference is that how much the tax allowance is worth to you depends on your income. If you are in the first part of the 40 per cent band, then it is worth £82 a week; if you are in the basic rate band it is worth half that; if your income is below the tax threshold then it is worth still less. What the Participation Income would do is to replace this by an equal cash amount: everyone would get the same benefit. This sounds

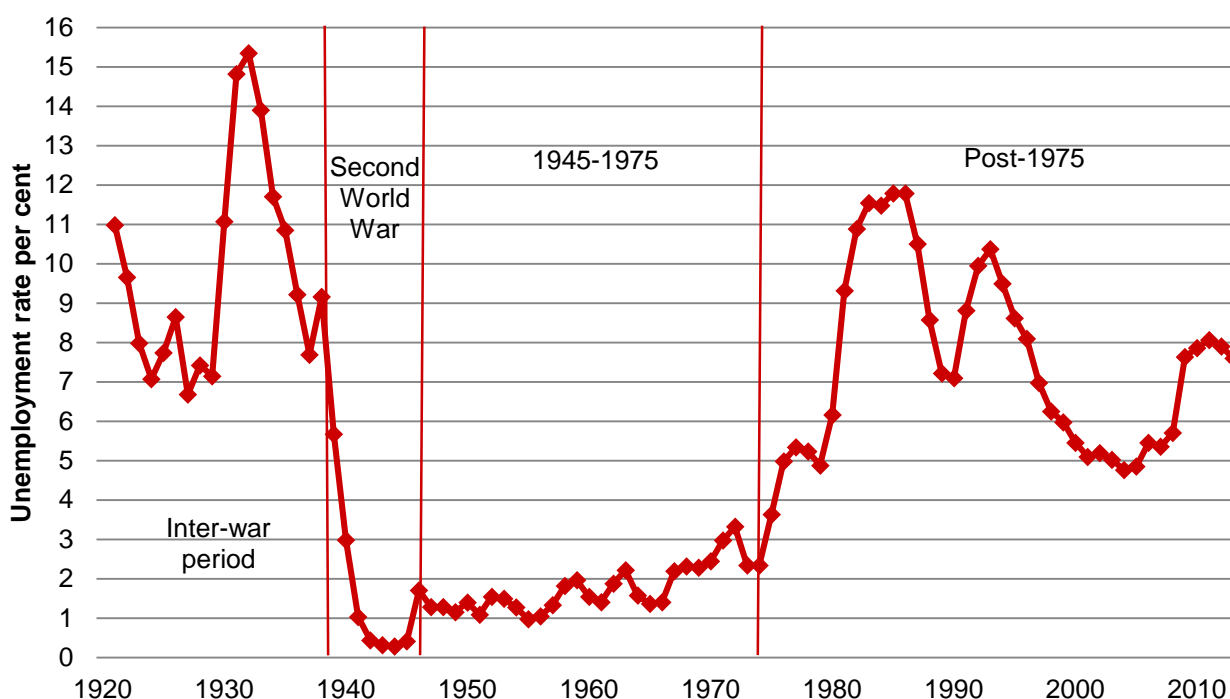
like a radical idea, but it has found support in the past in the US from Nobel Prize winners with very differing views: Milton Friedman, on the right, and James Tobin, on the left.

Employment and wages

But it is not just taxes and spending. Nearly half the proposals made in the book are concerned with the market distribution of income. Indeed one of the key messages of the book is that it is not feasible to achieve a ten percentage point reduction in overall inequality just by taxes and spending. One could get half way, but the other half needs action on earnings and capital incomes. We cannot be intensely relaxed about what the market throws up in terms of rewards.

This means first of all tackling unemployment. To me it is astonishing that this subject is so missing from today's debate in Europe. Figure 4 is included as a reminder that there was a time in the postwar era when unemployment was around 1 per cent. As students, we regarded with horror the prospect that unemployment might rise to 2½ per cent; today a rate of 5 per cent is being heralded as a success. The first proposal that I make under this heading is that the profile should be raised by establishing an explicit target for unemployment, just as we have an official target for inflation. Simon Wren-Lewis has recently proposed giving the Bank of England a dual mandate, “where the objective of achieving the maximum level of employment consistent with long-term inflation stability is given as much weight as achieving the inflation target” (Wren-Lewis, 2015, page 58). And, of course, the Governor of the Bank of England, Mark Carney has made a useful start by introducing unemployment into his discourse.

Figure 4: UK Unemployment rate 1921-2013



Note: The proportion of the labour force in the UK unemployed in 2012 was 7.6 per cent.

Source: Hendry (2015)

But how would such an ambition of reaching an unemployment target be realized? Here I believe that there has to be a radical re-consideration. The measures taken in the past 20 plus years have failed to return us to the low levels of unemployment of the post-war decades. Labour market reform, as advocated by the OECD and others, has not been the solution. The power of trade unions has been greatly curtailed; the level and coverage of unemployment benefit have been severely reduced. But we have not found it possible to keep unemployment in the UK below 5 per cent. There are a number of factors, but in my view one reason is because attention has been focused almost exclusively on the supply side of the labour market. In the book I discuss the demand side at some length, and make the radical proposal that the government should act as a guarantor of employment. After all, if banks are too important to fail, so too are our citizens.

Jobs however are only part of the story. The level of pay is important, as is illustrated by the fact that, in the EU as a whole, just half of the unemployed finding employment earn sufficient to ensure that their families are above the poverty line. Jobs at the moment provide only half of the answer. In-work poverty is a major problem. Hence my endorsement of raising the National Minimum Wage to the level set by the Living Wage campaign.

Wealth and capital

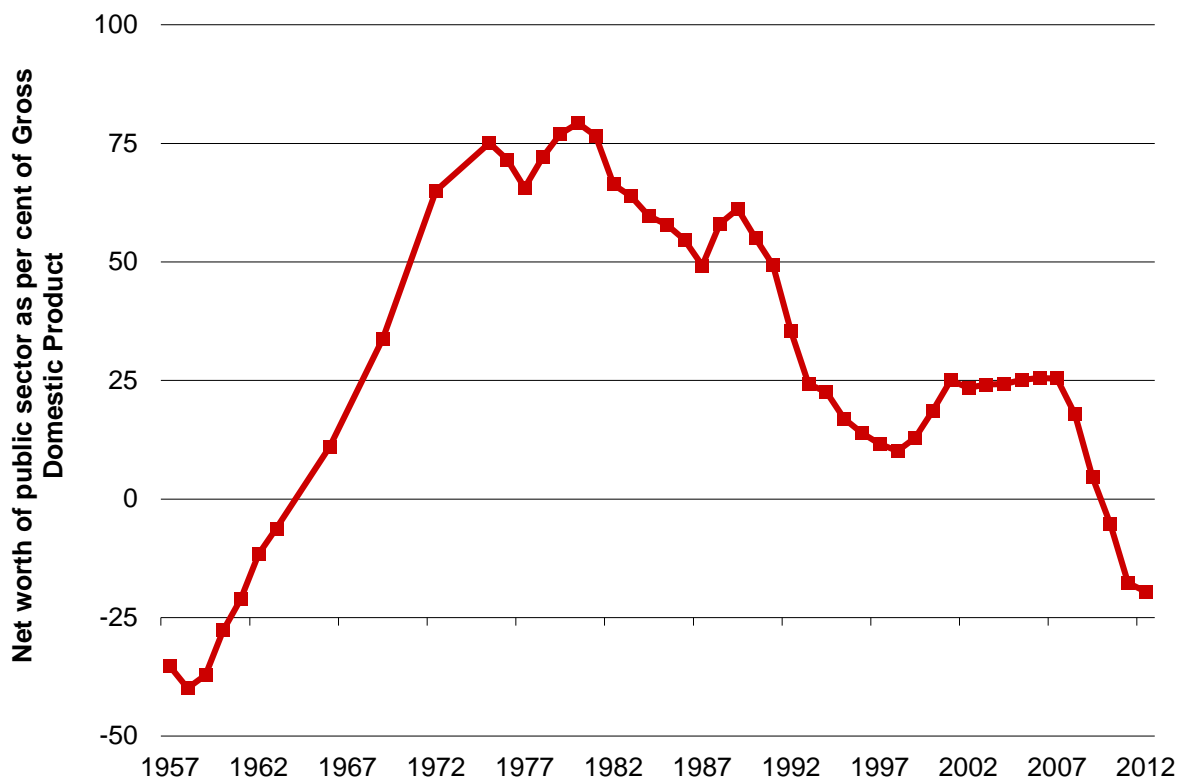
What about capital? Here I distinguish between capital and wealth – a distinction that I believe should have been drawn more clearly in the discussion of Piketty's book, where capital appears in the title but much of the analysis is in fact about the wealth. Why does this matter? Put simply, wealth is now much more evenly spread than it was a century ago. But this does not imply that there has been a corresponding spread of the control over economic decisions associated with capital. A person with a defined contribution pension fund is indirectly the beneficiary from the dividends paid on shares in a company owned by that fund, but has no say in the decisions made by that company. That is why I explore the role of countervailing power, in terms of re-balancing power among stakeholders. To this end, there are many steps that could be taken, including introducing distributional considerations into competition policy, ensuring that negotiations about issues such as TTIP (Transatlantic Trade and Investment Partnership) involve workers and consumer representatives as well as corporations, and examining whether the legislative balance has in this country swung too far against trade unions.

In terms of the ownership of wealth, much of the attention following Piketty's book has focused on taxing the rich, but I believe that we should give as much attention to increasing the wealth of small savers. That is why I propose the re-introduction of index-linked bonds for small savers. Piketty talked about r (the rate of return) exceeding g (the rate of growth), but for many small savers r has been less than g . For much of the past 5 years, the return to small savings has been negative in real terms. The proposal for index-linked bonds guaranteeing at least g in excess of inflation – as used to be offered in the UK but have been withdrawn - would do much to help accumulation by small savers, a step that should find support on the right as well as the left of the political spectrum. Equally, there may be wide-ranging support for the proposal that the revenue from the wealth transfer tax that I discussed just now should be used to fund a minimum inheritance for all on reaching

the age of 18. After all, there is nothing wrong with inheritance as such; the problem is that many inherit very little and some inherit a great deal.

Then there is the proposal for a sovereign wealth fund. I cannot ignore the public finances, but I would like to focus on an aspect that receives little attention in the public debate: the overall asset position of the state, looking at both liabilities and assets. It always seems to me absurd that we talk only about the national debt without considering what the state owns. It is like saying to someone – “you have a large mortgage” while ignoring the fact that they own a large house. Figure 5 is an updated version of analysis carried out by John Hills in the 1980s (Hills, 1989). The picture is a striking – and disturbing – one. After the War, the state gradually restored its net worth position, and by 1979 the net worth was some 75 per cent of national income. But then, following the privatizations of the 1980s, the net worth fell sharply and by 1997 was close to zero again.

Figure 5: Net worth of UK public sector 1957 - 2012



Note: In 1957 the net worth of the UK state was negative and equal to minus 34 per cent of Gross Domestic Product.

Sources: ONS United Kingdom National Accounts online dataset, <http://www.ons.gov.uk/ons/rel/naa1-rd/united-kingdom-national-accounts/the-blue-book--2013-edition/tsd---blue-book-2013.html> variables CGRX for the net worth of general government (from 1987) and YBHA for Gross Domestic Product; net worth of general government and public corporations before 1987 from *UK National Accounts 1990*, Table 12.12 (1979 to 1986), *UK National Accounts 1987*, Tables 11.6-11.8 (1975 to 1978), C G E Bryant, “National and Sector Balance Sheets 1957-1985”, *Economic Trends* 403 (May 1987), Table A1 (1966, 1969 and 1972), and Roe (1971), Table 34 (1957 to 1963).

In the book, I propose that we should be concerned with the overall asset position. The state assets should be brought together in a sovereign wealth fund and fiscal policy should be designed to build up state net worth. This is not nationalization, but rather the acquisition of beneficial ownership, with the medium-term goal that the state would benefit from the rise in the share of profits that may happen as a result of macro-economic developments. As it was put by Laura Tyson in a recent debate about technological change, the implications of robotisation depend crucially on who owns the robots. If the state – which has after all paid for much of the development – gets a significant chunk of the profits, then the distributional outcome will be quite different.

Meeting the objections

I fully recognize that the proposals made here are open to objections. I believe, however, that there are counter-arguments, to which I devote Part Three of the book, in the hope that reviewers will not simply repeat the objections, but rather engage with what I have written. Here I simply summarize in telegraphic fashion the three main objections and my responses.

The first objection is that “the equity/efficiency trade-off means that national income/growth will be reduced”. To this I respond that this depends crucially on how one understands the working of a modern economy. The standard textbook model is in my view a misleading point of departure, since by construction it excludes the ways in which equity and efficiency can be complementary, and ignores the safeguards introduced in the institutional design of redistributive policies. In the book, I draw on a range of developments, such as monopolistic competition, the separation of ownership and control, endogenous growth and technological change, and efficiency wages – to say nothing of differences in endowments (heterogeneous agents). Each of these is an active field of research in economics: for example, Jean Tirole won the 2014 Nobel Prize in Economics for his contribution to “the science of taming powerful firms”. But it is when they are brought together that it becomes apparent that there are situations in which we can make progress on both equity and efficiency.

The second objection stems from the understandable concern that “in a globalized economy, one country cannot pursue such a path to less inequality”. To this, I respond that countries are not simply passive agents in the face of world developments. One central theme of this book is that it is wrong to see today’s high inequality as the product of forces over which we have no control, and the same applies to globalization. The impact on the distribution of income depends on how national governments react to a changing world. As the Migration Advisory Committee (2014) explained, there is much that the UK could do in terms of labour market policy. Moreover, there is scope for action at EU level and for wider international co-operation.

The third objection is that “we cannot afford it”. This issue is addressed head on in the book. With the aid of Holly Sutherland and colleagues at the University of Essex, the EUROMOD tax benefit model (De Agostini and Sutherland, 2014) has been employed to examine the costs of a number of the proposals. The tax and transfer elements form part of

a package that is revenue-neutral and would reduce the Gini coefficient and the rate of poverty each by 4 percentage points. This would be significant progress, but the calculation also underlines the importance of the other proposals that seek to render incomes less unequal before taxes and transfers.

Grounds for optimism?

Reviewers have accused me of being nostalgic for a bygone-era that never will be repeated. But much of the book is concerned with how the world has changed and how it will change in the future. I devote considerable space to the role of technology and robotisation; I stress how the labour market is changing so that we can no longer focus on “jobs”; I discuss the shifting relation between the ownership of wealth and the control of capital. These developments potentially have profound distributional implications. But they are not necessarily grounds for pessimism. The citizens of OECD countries today enjoy a standard of living that is much higher than that of their great-grand-parents. The achievement of a less unequal society in the period of the Second World War and subsequent post-war decades has not been fully overthrown. At a global level, the great divergence between countries associated with the Industrial Revolution is closing. It is true that since 1980 we have seen an “Inequality Turn” and that the 21st century brings challenges that I have not discussed – such as population ageing and climate change. But the solutions to these problems lie in our own hands. If we are willing to use today’s greater wealth to address these challenges, and – crucially – to accept that resources should be shared less unequally, there are indeed grounds for optimism.

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