Report of the 15th Käte Hamburger Lecture

Inequality – What can be done?

with Sir Tony Atkinson

28 October 2015, Essen
The 15th Käte Hamburger Lecture addressed the topic of “Inequality – What can be done?” with Sir Tony Atkinson, Centennial Professor at the London School of Economics. The lecture took place on 28th October 2015 and was organized by Käte Hamburger Kolleg / Centre for Global Cooperation Research (KHK/GCR21) in cooperation with the Institute for Advanced Study in the Humanities (KWI).

The lecture was introduced by Claus Leggewie, Co-Director of KHK/GCR21 and Director of KWI. In his speech, he emphasized that inequality is a matter found in different facets. To illustrate his argument, he mentioned social inequality between Northern and Southern Europe, inequality between the global north and the global south, and also between young and old people in the same societies. What was even more problematic to Leggewie is that inequality has increased over the last years. He remarked that social inequality is of crucial importance for global cooperation, as it affects democratic polity and obstructs the solution to global challenges like climate change mitigation, and thus needs to be understood clearly.

Lecture

Atkinson began his lecture with the remark that inequality has been identified as a problem both by the public as well as by policy makers. For instance, he quoted the President of the United States Barack Obama calling inequality the rising challenge of our time. The Sustainable Development Goals, recently adopted by the United Nations, contain the objective of reducing inequality everywhere as one of 17 crucial targets. However, he insisted, while inequality has been recognized widely as a problem, less attention has been paid to how more equality can actually be achieved. But Atkinson emphasized that if societies assess the current situation of distribution as excessive, there are policies which can be adopted. At the same time, it is necessary to acknowledge that actions taken to fight inequality might be painful, and that policy reforms will produce both winners and losers.

He proceeded his lecture with an analysis of the empirical evidence of inequality. Presenting data from Germany and UK, he challenged the common perception that inequality is increasing at a drastically accelerating pace. Instead, the data he presented showed that inequality only increased slightly over the last 20 years in Germany and the UK. But these developments, he noted, are not comparable to what the UK under the Thatcher administration witnessed in the 1980s, where the Gini coefficient rose from around 25 points to 35 points.

Globally, there are reasons for concern nevertheless. The important question, Atkinson emphasized, is why inequality has risen over the last years. The ‘textbook’ answer, Atkinson explained, goes as follows: Through technological
development, the demand for educated workers has increased, while the demand for uneducated workers has decreased. Consequently, high educated workers get paid more, while less educated workers get paid less, thus widening the income gap. This development is likely to continue. But according to him, the argument needs to be analysed more closely. He claimed that while this commonly given answer identified the causes as exogenous and need to be seen as given, Atkinson insisted that they are not. Instead, technological development is the result of economic decisions of individuals and as such can be challenged. In consequence, he remarked, all stakeholders need to be engaged in the discussion on inequality.

After laying out the fundamentals of inequality in today's societies, he then presented proposals in three key policy areas to challenge inequality. His first proposal revolved around the area of taxation and the welfare state. He firmly stated that a part of fighting inequality is about taxing more, the truth that many policy-makers and even economists often deny. Atkinson suggested the revitalizing taxes on inheritances – a policy which is highly controversial especially in Anglo-Saxon countries. The problem – in his view – is that taxation needs a narrative which appeals. In the case of inheritance taxes, this narrative has been lost over time. People, he elaborated, consider it to be unfair to be taxed for the money they give away. But according to Atkinson, this is not the point. Inheritance taxes are not on those who give away, but on those who receive the money and thereby gain an unfair benefit. To stress this argument further, Atkinson recommended a life time capital received tax which would have a progressive rate. This way, an incentive would be created to give money to those who had not received much before.

Additionally, he proposed to expand the expenditure of the welfare state. He considered child benefits to play a fundamental role in challenging inequality. Acknowledging that some European countries already have programmes for family receipts, Atkinson wanted to go beyond this and envisioned a European regulation which requires member states to provide child benefits. Ideally, the level of child benefits would equal the amount necessary to bring children up to the European poverty level, which would be 18% of the median income. Such a policy would give the European Union a chance to prove its willingness to its future and contribute to inter-generational equity. Furthermore, it would contribute to gender equality, he argued, because, as is the case in the British policy of child benefit transfers, he suggested the payment to be made to the mother of the child.

Next, Atkinson formulated his belief that countries will introduce a ‘Grundeinkommen’ (basic income) sometime in the 21st century. Witnessing the
change of employment and jobs, he perceived the concept as feasible. However, he dismissed the concept of citizen’s income in the sense that the money should be paid based on citizenship. Many citizens, he argued, do not live in the countries they hold a citizenship. At the same time, people live in countries of which they do not hold a citizenship, thus no being eligible to a citizen’s income. Therefore, Atkinson suggested the idea of a participation income. The concept would restrict the transfer of money to some form participation in the society, although Atkinson admitted that he did not have a suitable definition for it so far.

Introducing the field of employment and wages, he revoked the convention that an unemployment rate of five percent is a success. Most economists nowadays, he explained, produce graphical visualisations of unemployment that begin at four percent, implying that a rate lower than that is impossible. He reminded the audience that only 40 years ago, an unemployment rate of four to five percent was considered to be disastrous. In his diagnosis, he demanded that unemployment should be prioritized as an objective of macro-economic policy. While some countries in the EU already have employment as a major government objective, Atkinson suggested policy makers to go one step ahead and introduce a government-provided-employment guarantee. While the idea might sound radical at first, he reminded the audience that the EU already guarantees people under 25 a job, an apprenticeship or further education.

Yet, not only employment but payment also matters, Atkinson emphasized. He presented the concept of a living wage. Instead of defining the minimum wage to an arbitrary height, as it is currently being done in most countries, the living wage, he imagined, is defined as the amount of money someone needs to cover the costs of a basic live. That way, the minimum wage would be adjusted automatically if the costs of living rise, and decrease the level of inequality.

The third and last area of proposals Atkinson presented was about capital and wealth. He noted that the two things are sometimes used interchangeably, but in fact they are two distinct concepts. As he emphasized, wealth has in fact become more equal over the past century. However, control of capital assets is still in the hands of a few. He argued that a competition policy which is not only directed at efficiency of markets but also concerns distribution is needed.

Furthermore, he criticized Thomas Piketty for focusing too much on taxing the rich. Atkinson instead suggested the focus should be placed more on the situation of small savers. Unlike the now famous formula of Thomas Piketty – “r > g” – indicates, capital growth is not always bigger than real economic growth, at least not for small savers who have limited access to financial markets.
Atkinson proposed that the state should intervene in order to challenge the inequality generated by financial markets: A public investment authority should provide **national saving bonds to small savers** guaranteeing a positive real rate of interest.

He ended his lecture with the remark that he remained optimistic. After all, the goal to reduce inequality is already included in EU strategy papers like the Europe 2020 programme. However, as he noted in the beginning, what lacked is agreement on to how a reduction of inequality can be achieved.

Comments

In his comment, **Wolfram Richter**, Professor for Public Economics, TU Dortmund, picked up some of Atkinson’s suggestions and assessed them critically. As for the minimum inheritance, he noted that inheritance taxes are not only about private money, but remarked that a solution is needed for inheriting business assets as well. In this aspect, the tax proved to be even more difficult to advocate. Furthermore, he criticized Atkinson’s concept of guaranteed positive real rates of interest. His fear, he explained, is that in case of bad market conditions, this guarantee would be financed by public debt.

In the Q&A session, discussion revolved around the role of narratives. Questions were raised whether narrative in a global scale is rather broad and vague with the notion of solidarity still absent. The discussion also touched upon the question to whom Atkinson’s proposals were directed, nation states or the European Union. Lastly, the audience also discussed the global scale of inequality and the meaning of inequality for low income countries.

Report written by Patrick Clasen
October 2015