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## **Social democracy and the problem of equality: economic analysis and political argument in the United Kingdom.**

The revival of widespread concern with inequality was a striking feature of early twenty-first century public and academic debate. For example, the G20 meeting of Ministers from the world's biggest economies in September 2015 was presented with a joint paper from the ILO, IMF, OECD and World Bank following the previous G20's commitment to reduce 'inequality and poverty', arguing that inequality had slowed growth and was having a 'corrosive effects on social and political cohesion' (ILO/IMF/OECD/World Bank, 2015). Christine LaGarde, Managing Director of the IMF, repeatedly made speeches stressing the damage done to stability and growth by rising inequality (World Economic Forum, 2017).<sup>1</sup> This has been accompanied by an explosion of work by economists on the issue (Piketty (2014), Stiglitz, 2012).

In terms of both dominant political arguments and economic analysis these events mark a sharp reversal, certainly in the developed capitalist countries. In much of that world the last decades of the twentieth century were notable for both a political downplaying of equality as a goal, and often indeed an emphasis on the positive benefits of inequality.<sup>2</sup> In economics, while there was no single position on the issue, the oft-cited words of Robert Lucas in 2004 were typical of much mainstream thinking, even if expressed in unusually forthright terms. 'Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution.' (He continues: ...of the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production.' (Lucas, 2004).

Such views have not been disappeared amongst either economists or politicians, but have become less evident in the years since the financial crash. Whilst amongst economists there has been a notable upsurge in the focus on inequality, as noted above, there remain those who think this is mistaken (for example, Mankiw, 2013; McCloskey 2014).

This paper analyses this shift by looking at the intertwining of economic analysis and political argument in one country, the United Kingdom. In the UK the international shift towards an emphasis in reducing inequality has been mirrored in the ideological stance of the Labour Party, evident in the 2017 general election manifesto (Labour Party, 2017). This manifesto, while saying nothing *directly* on the overall issue of income inequality, reflected the egalitarian rhetoric of its title by aiming to reverse the last forty years of policy by proposing a 'fair taxation system' with a new marginal

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<sup>1</sup> World Economic Forum, 2017.

<sup>2</sup> This view was not limited to the advocates of 'trickle down' policies in the era of Reagan and Thatcher, but embraced important economic analysts in countries such as Sweden, for example, Lindbeck (1994).

income tax rate of 45% starting at £80,000 a year, and 50% from £123,000 (along with increases in corporation tax).

This manifesto was produced against the background of a conscious repudiation of the legacy of the previous, 'New Labour' government of 1997-2010, and the belief that re-focussing on equality was to return to the central concern of social democracy. It is worth noting that this political shift cannot be explained as simply mirroring the 'facts on the ground' about what is happening to inequality. While there is evidence of increased inequality in recent years in most countries, (as discussed further below) the big increase in inequality in the UK (measured by the Gini-Coefficient) was in the 1980s, and at that time this evoked much less of a broad political concern with inequality.

In the light of this new departure this paper focusses on the work of Tony Atkinson, the most important British economic theorist and policy advocate on this issue since the 1970s.<sup>3</sup> It examines his work in the context of the evolution of British social democratic thinking about inequality (see also Tomlinson 2016).

The first section looks at how far Atkinson's work in the 1970s re-shaped the social democratic debate. The second part looks at his responses to Thatcherism and the remarkable rise in inequality in the 1980s. The third looks briefly at the New Labour period after 1997, and the final section deals with the 'Left turn' in the post-Crash period and how far Atkinson's work has helped shape new approaches.

## I

Many British social democrats have long sought to define their politics by attachment to the pursuit of equality (Crosland (1956); Jenkins (1952); Le Grand (1982). The political and ideological history of this egalitarianism has been given serious attention (Ellison (1994); Jackson (2007); Francis (1997). There is also significant work on social democratic tax policy (Whiting, (2000); Daunton (2002). Much less attention has been paid to the relationship between this thinking and economics.<sup>4</sup>

Most accounts of British social democracy and the question of inequality start with the canonical work of Richard Tawney (Tawney (1931/1964); Tomlinson (2002); Winch (2000). In his text of 1931 Tawney offered a powerful distinctive case for greater equality, and then suggested that there was widespread agreement that measures to reduce inequality were of three types: 'those, in the first place such as the extension of social services and progressive taxation...by securing that wealth which would otherwise have been spent by a minority is applied to purposes of common advantage...those, in the second place, such as trade unions and industrial legislation, which...soften inequalities of economic power...those, in the third place, like the development of undertakings carried on as public services, or the co-operative movement, which...transfer the direction of economic policy from the hands of capitalists and their agents to those of an authority responsible to society'. He saw

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<sup>3</sup> Atkinson died in January 2017. The importance of his contribution can readily be understood from the range of commemorative contributions in Aaberge, et al (2017).

<sup>4</sup> For example in the standard work by Noel Thompson (2006) Atkinson is not mentioned.

these measures as together constituting a ‘strategy of equality’, though he argued that we were not likely to get far with first two unless the third was achieved (Tawney (1931/1964): 119, 120).

Two features of his work are striking. First, Tawney was strongly opposed to quantitative notions of equality. As one of his biographers suggests: ‘Tawney did not have an arithmetical but an algebraic notion of equality’ (Terrill 1973: 122). His key claim was that distribution should follow service rendered, so it was in principle possible for quite large income disparities to be justified on this basis. As a result of this view, Tawney’s use of data is sparse and unreflective. On both wealth and income he draws on conventional academic sources, and their standard way of quantifying inequality, to provide data of the form ‘64 per cent of the wealth was in 1920-21 in the hands of 1.6 per cent of the persons’ and ‘in 1910, just over 1 per cent of the population took 30 per cent...of the national income’ (Tawney 1931/1964: 68,72).

Second, Tawney was extremely hostile to the emerging discipline of economics, a hostility in part grounded on a caricature of the alleged utilitarian groundings of that discipline, and this hostility helped to bifurcate discussion, and meant that early discussions of inequality and its measurement by social democratic economists, notably Hugh Dalton, were entirely distinct from Tawney’s work.<sup>5</sup> Tawney’s hostility was common (though not universal) amongst early social democrats, despite the fact that contemporary economists were both interested in socialism as a general issue, and at the same time developing tools that social democrats would eventually find useful in talking about inequality (Tribe, 2016:41-45).

Atkinson pays tribute to Tawney’s arguments, and it may be argued that their work embodies a similar egalitarian commitment (Atkinson, 2015: 9, 25, 271-2.) But he was clear that however inspirational, ‘Tawney himself would surely have been the first to recognise that his conception and statement of the problem were very much products of his times. The case for equality has to be made in terms of current concerns and circumstances’ (Atkinson, 1983: 23). Despite such sympathies, Atkinson’s work was strikingly different, both in its profound engagement with economic theory, and its concern with quantification. Indeed, one reason for the importance of Atkinson’s first substantial intervention in the British policy debate in 1969 was that it marked a moving away from the dominance of the field shaped by Tawney’s hostility to economics (Atkinson, 1969).

Prior to this book, most of the major works of post-war egalitarian social democrats were not by economists, or, in the case of Crosland, by an economist who had no professional expertise in the field. Key figures include Crosland (1956); Titmuss (1962); Abel-Smith and Townsend (1965).

Although he was soon to publish a foundational theoretical article on the topic (Atkinson, 1970), Atkinson’s 1969 book is not *directly* concerned with the question of inequality, but rather aims ‘to examine the available evidence about poverty in Britain today, and to evaluate the various proposals that have been made for reforming the social security system’. Thus the book places itself within two existing strands of

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<sup>5</sup> On the importance of Dalton’s work see Atkinson and Brandolini (2015). Dalton was Labour Chancellor of the Exchequer 1945-47.

analysis: the strong tradition of British poverty studies, going back to Booth and Rowntree, and the peculiarly British social security system built, in large degree, on the work of Beveridge (Booth, (1901); Rowntree (1901); Beveridge (1942). From this starting point Atkinson concentrates on the position of two categories of persons—the elderly, and the male full-time worker.

The situation of the elderly and the reform of pensions has been central to the British welfare state since the 1940s, given an ageing population and the dominance of the social security budget by pension payments. But the question of the income of low-paid workers raised the most complex and in the long-run even more important problems. The basic Beveridge position was that poverty largely arose from ‘interruption of earnings’ and large family size. The assumption was that those in work would therefore not be poor unless they had a large number of children, which Beveridge argued should be dealt with by family allowances (Atkinson, (1969): 21-22).

This approach was the foundational for the post-war British social security system and its basis in social insurance. Yet in the 1960s evidence was accumulating that a significant proportion of those in poverty were in work, even where they had small families. (Abel-Smith and Townsend (1965). Atkinson addressed two main ways of responding to this problem, by increased child benefits, or a national minimum wage. Atkinson does not strongly urge such a wage, and his approach to its impact is rather narrow one concentrating on its employment effects and impact on different categories of low-paid worker. Broader in scope is the discussion of Negative Income Tax and Social Dividend schemes, precursors in important respects of today’s Basic Income ideas. <sup>6</sup> Again, Atkinson is careful in his judgement and sceptical about some aspects of these kind of schemes. He compares them with a ‘Back to Beveridge’ approach and sees neither as unambiguously superior. But the context in which such schemes were to work was to shift hugely over the next fifty years, as discussed further below.

At the end of *Poverty and the Reform of Social Security* Atkinson calls for the establishing of a Royal Commission on Poverty to ‘help draw to the problem of poverty the attention which it undoubtedly deserves’ (Atkinson, 1969: 194-195). No such Royal Commission was ever set up, but in the 1970s the Labour government established a Royal Commission on the Distribution of Income and Wealth. This partly reflected the immediate political circumstances of the mid-1970s, especially the Labour government’s desire to conciliate trade union opinion in the face of major confrontations about wages, but is also reflected a significant shift away from focussing on poverty to looking at the whole income distribution. Atkinson played an important part in this shift with his book on the wealth distribution, a highly under-researched field at the time (Atkinson 1972).

As with lots of Atkinson’s more applied writing, a feature of the book was the breadth of policy issues it addressed, including social ownership and various devices for spreading wealth. But as is also the case elsewhere in his work, the main focus was on

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<sup>6</sup> Sloman (2016). Note that the social dividend was associated, amongst others, with the work of another egalitarian economist, James Meade, who Atkinson says first encouraged him to work on such issues: Atkinson (1969): 11.

what might be thought of as the staple of the social democratic egalitarian agenda – taxation. And here Atkinson seems to be going with the grain of debate on the left in Britain in the 1970s, which saw a series of publications on the egalitarian or otherwise effects of the tax system (Kincaid 1973; Field, Meacher and Pond 1977).

In understanding this focus of the 1970s, it is useful to link it to the longer-term trajectory of social democratic thinking. After 1945 what came to be called revisionist social democracy, exemplified by Crosland's (1956) book, made two claims that were not easily reconciled. On the one hand they asserted the absolute centrality of equality to social democracy, partly because of a desire to build a sharp distinction with other strands of left-wing doctrine that emphasized public ownership as the defining feature. On the other hand, a major hurdle on the route to increasing equality was asserted to be that the limits of income tax had been reached. Crosland stressed the extent to which across the war period incomes had been equalized, and property incomes especially squeezed, leading to the conclusion that the tax system couldn't take any more income away from capitalists, so egalitarians should now focus on wealth redistribution and widening educational opportunity (Crosland, 1956).

In the 1960s and 1970s, partly through the failure to index thresholds, income tax for the first time became a tax paid by the bulk of the working class. Pay As You Earn (PAYE), which had been invented in wartime to allow the taxation of lower incomes, was a great engine of tax gathering and allowed income tax to reach its peak of significance in the overall tax take. But this success in revenue raising brought new dilemmas to social democratic policy, as the question of redistribution via taxation became much sharper amongst its traditional constituency (Whiting (2000): 173-258). By the 1970s many social democrats had effectively conceded Crosland's claim about the limits of (income) taxation being reached.

Atkinson's work on tax focussed on fundamental issues about how to reconcile optimal taxation with egalitarian objectives. (Stiglitz (2017): 429-30). But his work in this area was on a high theoretical level, and he played relatively little role in the tax debates of the 1970s. He dropped out of the key committee chaired by Meade on the tax system, and did not focus much attention on specific tax reforms (IFS/Meade 1978).

Despite the focus on taxation in the political and policy debates of the 1970s, the impact of economic thinking on the social democratic debate was limited. The Meade report proposed a fundamental shift towards a progressive expenditure tax, alongside social security reform and a wealth tax. But its approach did not prioritise egalitarian goals, despite Meade's own strong egalitarian commitment.

In 1983 Atkinson questioned the commitment of the contemporary Labour party to equality. 'Whatever the achievements of recent Labour governments, no one could claim that the elimination of inequality has been a dominant theme. In this respect perhaps more than any other, the labour movement appears to have lost its sense of direction' (1983:22) He argued that this commitment needed to be founded not just on a desire to eliminate relative poverty, but a broader egalitarian desire, expressed by Tawney, to allow everyone a full sense of participation in the community (1983:28) In addition, Labour needed greater clarity on how it aimed to deliver greater equality. Two elements of this part of the discussion stand out. First was a sharp dividing line

drawn between the approach of Liberals and Labour on whether the focus should solely be on redistribution via taxes and social spending, favoured by the former, or also embrace the market distribution prior to any government role: ‘A Labour government should act to secure a distribution of wages and profits which, taken together with the tax and benefit system, will ensure its distributional objectives.’ (1983:32).

Alongside the lamentation at the loss of progressivity in the tax system, is the commitment to social insurance as ‘an essential element in realising Labour’s commitment to equality’. This was grounded in a very strong hostility to the means testing of benefits which had been recently extended, but was ‘incompatible with dignity and self-respect’ (1983: 34,35.) So in this very summary statement of his position in the early 1980s, it is clear that Atkinson continued to prioritise a ‘back to Beveridge’ approach rather than the more radical changes he had previously discussed such as negative income tax.

## II

Under the Thatcher government in the 1980s Britain experienced its biggest ever shift to greater economic inequality. The Gini co-efficient rose from 0.23 in 1978 to 0.34 by 1992 (Sefton et al 2009: 3). Atkinson responded very strongly to this reversal, and argued at length about the economists arguments which he saw as linked to this shift, whilst also diagnosing its causes.

In his *The Economic Consequences of Rolling Back the Welfare State* Atkinson deployed many of the arguments and techniques from the burgeoning field of public economics (a field of which he was one of the key founders) to criticise those economists who had attacked the extension of state welfare.<sup>7</sup> Notable amongst these are Lindbeck, Dreze and Malinvaud, and Feldstein, all of whom alleged that, by different mechanisms, the growth of social security (and the taxes to fund it) had slowed down the rate of economic growth. As in most of his writing Atkinson is notably dispassionate in his approach to the work of these theorists, seeking to clarify arguments and deploy close economic reasoning to assess their arguments. He focusses particular attention on the issues highlighted by Feldstein, of pensions and unemployment pay. On pensions, he shows how the claim that state provision of pensions reduces household savings and thereby investment rests on a macro model of dubious plausibility. His discussion of unemployment pay focusses on institutional as well as analytic issues, especially in showing how claims that unemployment pay increased unemployment relied on making inaccurate claims about the exact conditions surrounding such payments (Atkinson, 1999).

Particularly because of the importance of social security policy to his egalitarianism, Atkinson was very much concerned with explaining the underpinnings of government decisions on such policy, and for him this meant taking seriously the claims of public choice theory (see also Atkinson 1993) He notes how limited the critical (empirical as well as theoretical) response to that approach had been, a claim which is still true today. Most literature on the ‘rise of neo-liberalism’ plays inadequate regard to the

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<sup>7</sup> Atkinson (1999); Atkinson and Stiglitz (1980) is a foundational text in the field.

way in which public choice ideas have helped undermine belief in state action, a key accompaniment to the ‘market fundamentalism’ which has proliferated.

Key causes of the sharp rise in inequality in the 1980s were the combination of higher unemployment and increasing earnings dispersal (Atkinson, 1995a). One very important issue raised here is whether the sectoral shift towards deindustrialization could account for any part of that increase. Atkinson cites evidence to the contrary, focussing instead on issues such as skills and trade unions. (1995a 27-8). The same question is raised in his Presidential address to the Royal Economic Society, where he raises the possibility of an analysis which mirrors that of Kuznets in his famous exposition of the Kuznets’ curve. (Atkinson, 1997). Kuznets argued that the fall in inequality as a result of industrialization resulted from the fact that while the dispersion of incomes was more equal in agriculture than in industry, the dominant force in the move to greater equality was the fact that within the growing industrial sector the trend was an egalitarian one. (Kuznets, 1955). But Atkinson wants to focus away from this kind of structural argument, to attend more directly to the personal distribution of income.

This is linked to his view that the economist’s traditional focus on the *factoral* distribution has not usually been followed through into explaining the *personal* distribution of income. Hence he starts from the latter, with attention on the household sources of income. In particular, he emphasized the role of social security in personal distribution. Using data for Britain in 1993 he stresses that the share of income from work (whilst declining) was predominant (73 per cent), that from social security was second most important (14 per cent), with income from capital coming third (11 per cent) (1997: 304-305).

Atkinson’s response to the leap in inequality in the 1980s made clear the important role of the social security policies of the Thatcher government in that shift. In particular, he analysed the cumulative way in which benefits for the unemployed had been slashed (Atkinson and Micklewright 1989). But while the importance of this attack on the incomes of some of the poorest should not be downplayed, there was a paradox that despite the widespread talk of ‘rolling back’ the welfare state, no such overall roll back took place. Atkinson recognises this, citing Le Grand’s summary ‘welfare policy successfully weathered... an ideological blizzard in the 1980s.’ (Atkinson (1999): 23; also Daunton (2002): 338.)

In this way Atkinson suggested one the great paradoxes of the 1980s, when inequality greatly increased, but despite strong governmental ambitions the welfare state was *not* seriously ‘rolled back’ (Tomlinson, 2019). One of the reasons for this failure of roll-back was the straightforward rise in eligibility for benefits due to higher unemployment. While the level of unemployment pay fell, the number of claimants rose. At the same time, as the labour market slackened, many of the unemployed moved on to the more generous sickness and disability pay (Piachaud, 1986).

But what was also beginning to emerge in the 1980s was high levels of expenditure on wage subsidies. While Atkinson was prescient in discussing the possible impact of de-industrialization on inequality, he, like everyone else, did not see how that process was over the next couple of decades to lead to an explosion in such payments (1995a: 27-8).



### III

The Thatcherite attack on redistributive taxation effectively boxed in social democratic thinking, so that by the 1990s there was an ideological ceiling on direct tax rates. Under New Labour, which eventually brought in enormous rises in public spending, these had to be financed largely out of economic growth or from ‘stealth’ taxes, as ideologically Labour did not have the Conservative favourite option of raising VAT, seen as a regressive tax. Ideologically also, the very fact that direct tax increases were ruled out made it more difficult to talk about redistribution, so closely had these two issues become entangled in public debate. Whiting emphasizes that ‘Redistributive social spending does not require progressive taxation to fund it; indeed, for much of the period, a tax system that was only mildly progressive overall supported cash benefits which were slanted more heavily to the poor’ (2000: 2). This important point, made at the end of the twentieth century, would be even truer today, with the tax system roughly proportional over most of the income distribution. A large part of the explanation for this pattern of tax incidence is the sharply declining share of income tax in central government revenues, a halving from its peak of 56% in the mid-1970s down to today (1974-1997 data in Jackson and Saunders 2012: Appendix 2).

The New Labour government of 1997-2010 made little direct use of the tax system to achieve distributional goals. But it did redistribute income significantly towards the bottom end. Much of this was done by policies that were means tested (pensioner guarantees; tax credits for working families and children). ‘The reduction in child and pensioner poverty since 1997 is a significant achievement, especially when set in historical context’ (Sefton et al 2009: 28). These strategies sit uneasily with traditional social democratic thinking, especially the rapid growth of wage subsidies, a system which challenges the underpinnings of much of the post-war social welfare consensus (Tomlinson (2016a).

After the unprecedented rise in inequality since the late 1970s, income inequality by many standard measures remained stable under New Labour. However, if we focus on the top 1 per cent, then we find their share of total income increased from around 6 to nearly 9 per cent (1997-2010)—an almost fifty per cent rise, up from around 3 per cent in 1975 (Bellfield et al 2016: 24-5).

New Labour made no direct promises to reduce inequality, but it did promise major reductions in poverty, especially amongst children and pensioners. As poverty was to be defined in relative terms (relative to median incomes) success in this policy would undoubtedly reduce inequality across *some part* of the income distribution. The evidence suggests this poverty reduction strategy was to a considerable extent successful. So the legacy of New Labour is a complex one for those aiming at a more direct ideological and practical assault on inequality.

### IV

A UK social democratic party committed to egalitarian objectives, such as the Labour party under its current leadership of Jeremy Corbyn, is the legatee of a complex political and doctrinal history.

From the time of Tawney most social democrats have put social spending at the centre of their egalitarian programmes. So it is important to ask ‘who benefits?’ from welfare state spending. John Hills (2015) has stressed that most, perhaps 80 per cent, of social security spending is about smoothing life time patterns of income, and only 20 per cent involves vertical redistribution. This is a very important correction to ideologies which conjure up the notion that ‘welfare’ is all about redistributing from a tax-paying majority to an ‘underclass’ of recipients. Similarly, we should try and be clear about the distribution of benefits from the non-cash parts of the welfare state, which with the growth of health, education and social care have formed an expanding share of total ‘welfare state’ expenditure. Most British social democrats have argued that an effective ‘social minimum’ can only be built on universalist principles, because provision designed only for the poor, would inevitably become poor provision. This has been a highly successful aspect of social democratic politics. Universal health care and state-funded education, whatever the structural and managerial changes introduced in their provision, have remained politically unassailable. But this success has had paradoxical consequences for egalitarian politics.

On the one hand, it has boosted support for universal provision beyond social democracy’s political supporters, but on the other, it has meant relatively little focus on the distributional impact of various types of social spending. Questioning of the effectiveness of social spending in achieving egalitarian goals has usually come from the Right, while on the centre-left the discussion has been muted. An exceptional contribution from an egalitarian is the work of Le Grand (1982), whose approach plainly contradicts Tawney’s emphasis on the *collective* aspect of social services, in favour of what can be characterised as the orthodox but egalitarian economist’s Utopia of a redistribution which expands consumer sovereignty by increasing cash incomes, eliminating the ‘distorting’ effects of state provision.

Le Grand’s distributional analysis has been paralleled in British official statistics, where from the late 1950s the government published annual assessments of the effects of taxes and benefits on household incomes’. The most recent analysis provides this striking summary: ‘The poorest fifth of households received benefits in kind equivalent to 62.8 per cent of disposable income, with the NHS (35.4%) and education (25.4%) being the largest contributors. The richest fifth of households. On the other hand, received benefits-in-kind equivalent to 8.4% of disposable income, again NHS (6.0) and education (2.0) the largest contributors’ (ONS 2018: 10).

The general pattern of social democratic neglect of these services and their distributional effects is evident in the work of Atkinson, despite his involvement in the debate about measuring the output of such services in the national accounts (Atkinson 2008). Atkinson’s last book (2015) book is replete with data—almost fifty figures and tables. The most surprising absence from measurement, or indeed serious discussion, is the significance of the social services for equality (with the partial exception of education). While a chart acting as a ‘guide to household income’ notes the need to include the ‘value of public services’ to get a full view of household income, none of the distributional charts use the extended conception, but focus on after tax income (Atkinson 2015: 269). There is only one footnote (out of almost 450) that relates to this issue, giving one reference to the literature (Atkinson 2015: 32, footnote 38).

This is a very striking omission, not only because of its centrality to Tawney's 'classic' treatment, but because of the role spending on such services has played in debates in British social democracy. Atkinson's book proposes a very wide-ranging agenda of egalitarian reform, but within the discussion of the role of the public sector, the focus is on tax and social security, not social spending on benefits in-kind (see also Atkinson 1997) The only discussion around decisions in the public sector concerns questions about the virtues of seeing employment levels as crucial to maintain quality in these services.

We can regard discussion of the distributional impact of in-kind services as something of a blind-spot in recent discussions of inequality. It is perhaps particularly amongst economist that this is the case, so that recent work has been more in public policy rather than economics journals (for example, Paulus et al 2010).

As noted in the introduction to this paper, the 'headline' egalitarian policy of contemporary social democracy in Britain is increasing taxes on higher income groups. This is part of a very long-standing notion in British social and political thought that taxation could be used as a means to re-shape society (Daunton 2001: 332). In thinking about the economics and politics of this focus, it is useful to start with the quantitative representation of inequality.

From the beginnings of social democracy a form of percentile/decile tabulation has been by far the most common form of representation of income inequality. Such representation has an obvious, intuitive appeal, especially when (as is usually the case) emphasis is put on the large share going to the top. The appeal of this in comparison with the Gini Co-efficient, its main academic rival, is obvious. For example, to be told that this Co-efficient for the UK went from 0.23 in 1978 to 0.34 in 1992 can only seem dramatic to the initiated. It is not a statistic that political campaigns can ground themselves upon.

Atkinson, along with others such as Piketty, has been a major figure in recent analysis which has emphasized the share of the top percentiles (Atkinson, 2005; Atkinson, Piketty, Saez, 2011). Atkinson argues that this focus has partly been driven by the disparity (especially in the USA) between growth of incomes at the top and stagnation at the median. He defends this focus with the important claim that a policy concern with what is happening to the incomes of the rich correlates strongly with addressing problems of distribution lower down. From a sample of OECD countries, he argues that 'Only Switzerland appears to have below-median poverty while having above median top income shares. Higher poverty tends to go along with larger top shares.' (Atkinson, 2015: 25).

Bringing top incomes into our understanding of the distributional pattern, where they had previously been obscured, is important. But the problems of focusing on the top percentiles are also significant. First, it detracts attention from where much of the redistributive impact of policy is concentrated. Most traditional social democratic efforts and successes have concerned redistributions from those above median incomes to those below, rather than from those at the very top. The reduction in poverty evident in post-war Britain required a shift in resources which went *far* beyond the top one per cent, via a mildly progressive tax system and a much more progressive social security system (Whiting, 2000: 2).

The focus upon the top percentile in readily lends itself to political positioning; hence the ‘we are the 99 per cent’ slogan. (See O’Connor’s discussion in this special edition of the politics of focussing upon ‘the 1 per cent’ in the USA). More fundamentally, the focus on a small proportion of the rich and wealthy at the top seems to fit with developments in popular but problematic understandings of the class hierarchy in recent decades. These understandings are characterised, crudely, by a perception of a ‘great big middle’ of ‘ordinary’ people, covering most of those who in traditional sociological categories would have been both working and middle-class, with a small ‘rough’ class below, and a small elite above. The political appeal (and, of course, deliberate shaping) of this perception is attested by the ubiquity of the appeal to ‘ordinary working families’ in British politics since the 1970s (Sutcliffe-Braithwaite 2018: 145-202).

So focussing upon one decile or percentile necessarily simplifies the picture, and the danger is that the ‘othering’ of the top proportion may lead to misperceptions about the social categories that may be the target of redistributive policies. For example, Labour’s 2017 manifesto emphasizes that the only tax rises will be for the top 5%.<sup>8</sup> In the UK a household consisting of two full Professors (with no dependent children) would fall easily within this band.<sup>9</sup> This example emphasizes that, given the small number but enormous size of the ‘giants’ at the top end of the distribution, we need to think very carefully about how we visualize the scope as well as the scale of any intended redistribution—with, of course, implications for the instruments that might be used to effect such a change.

Analysis of top incomes shows that the most rapid growth has not been amongst the top 10%, or even the top 1%, but amongst the top 0.1 per cent. While the share of the top 1% *has* been increasing since the mid -1970s, the really remarkable growth has been amongst the top 0.1%-so today perhaps one-third of the top 1% share goes to the top 0.1. Also, at the very top end of the distribution, more income has fallen outside the PAYE system, as forms of income have diversified. The rich are no longer “idle”, and earn salaries, but much of their income comes from additions, share options etc., and these are forms of income that are much more ‘malleable’ for tax purposes.<sup>10</sup> Such problems mean that the capacity of those who pay an increased share of income tax (because their incomes are so high, and because thresholds have been raised) to avoid this tax has increased. PAYE as a mechanism of effective collection has also been undermined by the rapid rise in self-employment, which takes large numbers out of the system (Blanchflower 2000).

There is another problem in seeing the income tax as the major engine of redistribution. It is not that income tax is not progressive in itself; it has become more so with recent rises in thresholds, and some recent use of rates above the 40% level.

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<sup>8</sup> Labour Party (2017: 9). Possible confusion arises because only 4% of income tax payers and 2% per cent of the adult population have incomes above Labour’s proposed threshold for higher income tax of £80,000; IFS (2017).

<sup>9</sup> Calculated on the basis of data from <https://www.ifs.org.uk/wheredoyoufitin/>

<sup>10</sup> Between 1949 and 2000 the contribution of investment income to the income of the top 1 per cent fell from 41 to 13 per cent: Atkinson (2015): 107.

But. As noted above, its contribution to total taxation has fallen markedly, halving to under 30 per cent in the last forty years.

*Within* arguments about income tax, there has been a wholly unhelpful focus on *rates*. A striking example of a much broader phenomenon is the way in which the enhanced devolution settlement in Scotland grants the Edinburgh government control only of these rates, and no control over the definition of income (allowances, etc). Yet many of the key distributional features of the UK income tax (and most such systems) are driven by what counts as taxable income. Particularly egregious are the enormous (and regressive) reliefs given to pension contributions, where most of the benefit goes to the higher rate (40%) payer.

In his last book Atkinson provided a strong defence of high (65 per cent) income tax rate, against the trend amongst economists, especially following the work of Mirrlees, to claim that ‘optimal’ rates for high earners were significantly lower than this figure. But it is notable that Atkinson’s arguments here are largely empirical, and he does not offer the kind of fundamental critique of ‘optimal taxation’ made elsewhere. (Offer and Soderberg, 2016:170-173).<sup>11</sup> But in the current context what is important to stress is that Atkinson, while defending high income tax rates, has also suggested some of their limits as a mechanism of redistribution.

Following the inspiration of James Meade, Atkinson had a persistent concern with radical changes to the tax system towards embracing a ‘social dividend’ or what has generally become known as a Basic Income system (Atkinson 1995: x). His initial discussion goes back to 1969, and is even-handed but sceptical, whilst in the 1990s he was more even more sceptical because of the costs (Atkinson, 1969: 157-184; Atkinson 1993: 30-31). But like many others he became more favourable to the idea in recent years, with an endorsement of the idea of a ‘participation income’(a basic income subject to the condition of some social contribution) in his last book, though he did not see it as a panacea, and his schema would be only a partial replacement for other social security payments (Atkinson 2015: 218-223).

This shift in approach partly reflects a recognition of the forces driving the growth in income inequality, particularly growing wage dispersal. As noted above, Atkinson’s analysis of the causes of rising inequality in the 1980s suggested that de-industrialization was not a key factor because of rising dispersion in all sectors. But over the last twenty-five years the evidence of the scale of polarization in the service sector has shifted the argument decisively towards recognising this sectoral shift as a major cause of inequality and a major problem for egalitarian politics (Goos and Manning 2007).

The recognition of the changing nature of the economy, and the significance of these changes for egalitarianism, is reflected in Atkinson’s last book, which puts forward a very wide range of policy possibilities, well beyond the traditional social democratic staples of income tax and social security, that his own previous work had focussed upon. Arguably the most important of these is the ‘re-opening’ of the entwined issues of capital ownership and corporate governance (2015: 155-78). Here there is a case for social democrats to look for useful elements of analysis in the neglected work of a

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<sup>11</sup> His critique is somewhat more wide-ranging in Atkinson (2012).

previous generation of social democratic economists, especially James Meade, (Atkinson 1993; Meade 1964) whose work fed so significantly into that of Atkinson. Current revived discussion of these matters would be strengthened by recognising the potential fruitfulness of this legacy (Labour Party 2017a).

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