Anthony Atkinson

I first came to Berlin in 1963 and I never imagined that 44 years later I would be back in these circumstances. It was then scarcely two years since the Wall had been erected – it was still just barbed wire in places. 1963 was the year in which Britain’s application to join the EEC was vetoed by General de Gaulle. It would have required great vision and incredible optimism to foresee that today Berlin would be re-united and that Germany and the United Kingdom would be part of a 27 country European Union. Moving to a personal level, I could never have imagined that I would present at this ceremony and would receive this honour from the Wissenschaftszentrum Berlin, with which I am very proud to be associated in this way.

There is, in a sense, a direct thread that joins the experience of a young man, between school and university in 1963, and the university professor who stands before you this evening. I was working at the time as a Hilfspfleger in the Alsterdorfer Anstalten in Hamburg. The experience of deprivation and poverty among the families with whom I worked at that time undoubtedly led me to change my career. I had been planning to become a mathematician, but I switched to economics, studying under the great Cambridge economists of the time, like James Meade, Nicholas Kaldor, Joan Robinson, and Richard Stone. I studied economics, but I had a broader interest in social sciences. Indeed, I was particularly influenced by the work of two British sociologists, Brian Abel-Smith and Peter Townsend, and by their book, *The Poor and the Poorest*, published on Christmas Eve 1965.

The rediscovery of poverty in rich countries

This led me to write my first book, *Poverty in Britain and the Reform of Social Security*, published in 1969. My aim in this book was to show how quantitative social science could be used, first to bring urgent social problems to public attention, and second to illuminate the possible solutions. There was at the time a great deal of complacency. It was widely believed in Britain that the Golden Age of the 1950s and 1960s had solved social problems. Growth and full employment meant that poverty was a thing of the past. According to Anthony Crosland, in the *Future of Socialism*, “primary poverty has been largely eliminated”. Yet by 1969 it had become clear – and this was the key message of my book – that there were important holes in the social safety net. There were new needs not covered by the Beveridge welfare state and many people were not receiving the benefits to which they were entitled: what became known in Germany as the “Dunkelziffer der Armut”.

When I began working on poverty, there were very few economists in Europe interested in this subject. It is worth remembering today, when we talk about the European Social Model, that in the 1960s it was the United States that had a War on Poverty. It was American economists, for example at the Wisconsin Institute for Poverty Research, who were conducting most of the economic research on poverty, including the negative income tax experiments. But even in the US, the study of poverty was marginal to the main concerns of the economics profession. In this respect, we are far from the position of classical economists, for whom issues of distribution were of central importance. As Ricardo famously wrote, “the principal
The measurement of inequality and economic welfare

Since I did not wish to be a marginal economist, much of my professional life has been concerned with seeking to re-integrate the study of distribution into the mainstream of economics. One of my earliest articles, that on the measurement of inequality in 1970, was published in the *Journal of Economic Theory*, very much a mainstream journal. Moreover, in this paper, I sought to link the practical problem of measuring inequality to the study of welfare economics, a branch that had tended to disappear into rather fruitless controversy and which I felt needed bringing back to reality.

The reality is, as we see just as much today, that there are large differences in the economic resources over which people have control. The old age pension in Britain is about €600 a month; the Chelsea footballer John Terry earns that in about 7 minutes. His income is about 1,500 times that of the pensioner. Not all of these differences are necessarily a source of inequality. John Terry will not earn this all his working life: he is at the peak of his career. The pensioner may have been well paid when he was at work. But many of the differences do represent inequality. And we need to be able to summarise the degree of inequality among the 25 million households that make up the United Kingdom; to reduce these 25 million numbers to a summary statistic. Why? One reason is that we want to know whether the distribution is becoming more or less unequal. Under the last 10 years of Labour Government, the position of pensioners has undoubtedly improved, but so too has the position of hedge fund managers. Has increased inequality at the top been offset by reduced inequality at the bottom? Crossing the Channel to France, we see a recent headline in *Le Figaro*, “La reduction des inégalités marque une pause”. But what do they mean by “inégalités”? How is inequality being measured?

Independently, at the end of the 1960s, Serge Kolm and I hit on the idea that one could express the cost of inequality as a proportion of national income, just as with other economic calculations. At the time, there was much discussion of the entry of the UK into the Common Market, and there were estimates that the gain would be, say, 1 per cent of national income. The measures proposed by Kolm and myself expressed the cost of inequality in the same way: saying that, if incomes were equally distributed, then this would be equivalent to a rise in national income. For example, taking one measure, the Gini coefficient, greater inequality in the United States than in Germany means that the US needs around 15 per cent more national income to achieve the same level of national well-being. Allowing for the differences in distribution, the gap between Europe and the US is much less than appears from simply looking at Gross Domestic Product.

*Signs of progress: EU social indicators*
How successful has this campaign been to make inequality once again centre stage in economics? Viewed from today, there are some positive signs. One of these is provided by the developments in the European Union since 2000. The Lisbon Agenda of 2000 was regarded with some scepticism at the time, and its success is debated, but one important feature was that it brought together EU economic and social policy. The fact that “social cohesion” appeared in the same sentence as “competitive economy” gave new life to the social dimension of Europe. This was taken forward in the Social Inclusion process, where the social performance of Member States is judged, like their economic performance, by a set of commonly agreed indicators. I was involved in this process, working on behalf of the Belgian Presidency, and, when we started out, I did not believe it possible that the then 15 Member States would agree on a common set of social indicators. But we did arrive at the Laeken indicators, as they have become known.

A key element in reaching this agreement was the fact that the indicators were multi-dimensional. I referred earlier to inequality of incomes, and I have worked particularly on this dimension, but I am fully persuaded that we need to look at many dimensions of deprivation. As a result of the adoption of these indicators, we now have distributional performance measures alongside the headline growth rate and employment figures. And, moving from a European to a world scale, the adoption, also in 2000, of the Millennium Development Goals means that world poverty and deprivation, again on a multi-dimensioned basis, is being regularly monitored in the light of explicit targets.

In the development of these indicators and targets, a central role has been played by social scientists. Moreover, this has been the result of international collaboration. One of the striking changes over the course of my professional life has been the growth in the extent to which social scientists in different countries are working together. When I became a university teacher in 1967, going to a conference abroad was a fairly rare event. Now we are genuinely an international community. Just at this very moment, I am engaged in joint research with people from Australia, Belgium, Germany, Ireland, Italy and Norway. And in the development of this community, a great contribution has been made by the openness and hospitality of institutions such as the WZB.

The world distribution of income

So far I have referred to progress on process. What about the substance? Beginning at the global level, we can see again some grounds for optimism. The World Bank *Global Monitoring Report 2007* concluded that “overall, the world as a whole is on track to meet the goal [of halving poverty] by 2015”. The population share of those living below $1 a day has fallen from 29 per cent in 1990 to 18 per cent in 2004. Of course, the qualification “overall” is important. Sub-Saharan Africa remains a long way off the path that would ensure meeting the Millennium Development poverty Goal. The same applies to the world distribution of income, where the countries at the bottom are being left behind. But we are also seeing countries such as China and India rapidly closing the gap with the rich countries of the OECD. Taking the long sweep of history, the gap between countries widened steadily after the Industrial Revolution but has now begun to narrow. Many years ago, Simon Kuznets argued that inequality would follow an inverse-U shape, first rising with industrialisation and then narrowing. As far as the distribution between countries is concerned, he appears to have been broadly right.
World inequality rose substantially on this account over the past two centuries but is now moving, slowly, downwards.

But working in the opposite direction is the current rise in income inequality within countries. The two forces seem in fact to operate in opposite directions. During the century from 1870, countries grew further apart as the West industrialised, and this was accompanied, as Kuznets predicted, by declining income inequality within those countries. In 1914, in the UK, the top 0.1 per cent of the population received over 10 per cent of all income, or more than 100 times their proportionate share; by 1979 the share had fallen to just over 1 per cent. But this has since been reversed. In the UK the share of the top 0.1 per cent is now back over 4 per cent. In many, but not all, OECD countries, recent decades have seen a U-turn in income inequality. This is particularly marked in the case of Germany. The estimates of the DIW for West Germany based on the Socio-Economic Panel, show that the Gini coefficient of inequality rose between 1992 and 2006 by 6 percentage points. To put this in perspective, the rise is larger than the 4 percentage point increase in the United States in the 1980s that generated the large literature on rising inequality.

Why does rising inequality matter?

There is indeed mounting policy concern about income inequality. Both the current Chairman of the US Federal Reserve, Ben Bernanke, and his predecessor, Alan Greenspan, have made recent speeches about this subject. In the EU, ECFIN, the directorate concerned with macro-economic policy devoted this year’s annual research conference to income inequality.

Why does this matter? There are many reasons. Here I give just two. The first is that rising inequality means that the gains from economic growth are not being equally shared. That is, there may be growth in real gross domestic product, and improvement in the macro-economic indicators, but this is not being translated into rising living standards for everyone. This is most obvious in the US, where has been much questioning as to where the fruits of growth have gone, as ordinary people seem to be no better off than 10 or 20 years ago. The gains from growth have in fact gone largely to the upper part of the income distribution: according to Robert Gordon, “over the entire period 1966-2001 half of the income gains went to the top 10 percent of the income distribution, leaving little left over for the bottom 90 percent”. The same concerns are being expressed by policy-makers in Europe. Politicians are worried that their success in securing economic growth, and raising the employment rate, has not been recognised by the population as a whole. There is a sense among the citizens that their living standards have not risen.

One simple measure of this distributional effect is provided by the difference between the mean and the median. The mean corresponds to the total GDP per head, whereas the median is the income of the person who is in the middle if we line everyone up in order of their income. If the benefits from growth were spread evenly, then both median and mean would rise together. But if, say, the top 25 per cent scoop all the benefit, then the median stays constant while the mean rises. This is what has tended to happen in the US, where since 1970 the median income has grown 0.5%
per annum more slowly than mean income. This is a large amount: about equal to the
difference in growth rate between the US and the UK in the past decade.

This leads me to make a simple policy proposal: that when reporting the
change in living standards national governments should measure the change in
median incomes: the change in the income of the middle person. Focusing on the
median does not sound particularly revolutionary and has a natural appeal in
democratic societies. The principle has in effect been accepted in those consumer
price indices, such as that of the UK, which omit the richest households when
constructing the index weights. This simple change should not therefore be
controversial; its implications are however far-reaching. It means that the macro-
economic discourse would have to consider the distributional implications of policy.
It would require the acquisition of distributional information alongside the national
accounts.

Children mainstreaming and a basic income for children

The second reason for concern with the distribution of income is that inequality
and poverty today lay up trouble for the future. Even if one is not concerned with
unequal incomes among people today, one has to recognise that inequalities today
generate unequal opportunities for the future. The life chances of today’s children
depend crucially on the circumstances in which they grow up. It is for this reason that
attention has been increasingly paid to the problem of child poverty: that is the
proportion of children growing up in families below the poverty line. In Germany, this
proportion is no higher than in the population as a whole, but in the majority (18 of the
25) of Member States in 2005 children were over-represented among those living at risk
of financial poverty.

The fact that children are growing up in poor families is of great concern in view
of the transmission of poverty from generation to generation. Many years ago, together
with colleagues, I did a study following up the children of the families in the city of
York found to be poor when interviewed by Seebohm Rowntree in 1950. Our research
indicated that there was considerable inheritance of poverty: those who grew up in low
income families were twice as likely to be in poverty themselves. More recent research
on income mobility suggests that the degree of heritability has, if anything, increased
rather than decreased over time.

It is for this reason that I have proposed that the EU should take a first step in
developing a European social policy by introducing a Basic Income for Children.
Implementation would remain the responsibility of each Member State, who could
choose the instruments, but they would be required to guarantee unconditionally to
every child a basic income, defined as a percentage of the Member State median
equilivalised income (and possibly age-related). The minimum could be provided via
child benefit, via tax allowances, via tax credits, via benefits in kind, or via employer-
mandated benefits. The implications of such a proposal have been modelled by Holly
Sutherland and colleagues using the EU tax benefit model, EUROMOD. They show that
a Child Basic Income set at 25% of national median income would in 2001 have halved
child poverty in all the (then) EU15 Member States except Italy and the UK.
Conclusions

I am very honoured by the decision of WZB to name me as the first recipient of the A.SK Academic Prize, and I would like to thank Herr and Frau Chan most warmly for making it possible. They have also made possible the award of post-doctoral studentships and I very much welcome this investment in the future of social science. In this lecture I have tried to illustrate some of the ways in which we can be helped to better understand our societies and to form better policies by the use of hard-headed but compassionate social science.