European Journal of Economics and Economic Policies: Intervention, Vol. 19 No. 2, 2022, pp. 294–297

Book review

Blanchard, O. and D. Rodrik (2021): *Combating Inequality: Rethinking Government's Role*, Cambridge, MA, USA (312 pages, The MIT Press, hardcover, ISBN 9780262045612)

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Introductory mainstream microeconomics textbooks like Mankiw et al. (2020) relegate the discussion on inequality towards the end of the book's chapters, where the text focuses more on poverty reduction instead of the contemporary discussions on the Top 1 per cent and wealth taxes. Often the topic is not addressed at the ECON 101 level. Anecdotally, some economists believe that the concern with inequality rests predominantly on envy. This is why the book *Combating Inequality* edited by Blanchard and Rodrik is pressingly significant, as it comprises 29 articles, which converge towards the consensus that inequality must be effectively addressed beyond poverty alleviation (p. xiii). The articles are short and readable and can be easily assigned in undergraduate classes including ECON 101 to spur discussion and interest in one of the most pressing issues of our times.

In the introduction, Blanchard and Rodrik mention that the income shares of the Top 1 per cent in Western Europe and the US increased from around 8 per cent in the 1980s to 11 per cent and 20 per cent respectively today, whereas the income share of the Bottom 50 per cent decreased from 20 per cent to 18 per cent and 12.5 per cent respectively. Similarly, the wealth share of the Top 1 per cent in the US increased from 25 per cent to 40 per cent. The comparatively drastic increase in inequality in the US, as measured by the income and wealth shares, has occurred even though both Western Europe and the US have experienced similar trends in globalization and technological change (p. xi). The relatively low economic inequality in Western Europe may be attributed to more progressive taxation, stronger unions and minimum wage laws, generous social transfers, and better access to healthcare and education (p. xii). Blanchard and Rodrik distinguish between pre-production policies to combat inequality like educational, healthcare and financial access, production policies like minimum wages, and post-production policies like progressive income and wealth taxes. Additionally, they highlight policies that support middle-class jobs that are at risk due to technological change, including artificial intelligence and automation (pp. xiv and xv). This sets the stage for the 29 articles by noted experts, whose salient points follow.

In his article, Lucas Chancel critiques the standard neoclassical explanation of rising inequality, according to which, technology and trade have increased the demand for skilled workers and reduced the demand for unskilled workers in developed countries, arguing that rising inequality is not just due to labour income but also due to capital income and wealth (p. 17). He adds that high top marginal tax rates would curb wealth accumulation (p. 22). Additionally, he mentions that universal access to high-skill education will be necessary to curb the impact of automation on inequality (p. 24). In contrast to this, in her article, Laura Tyson mentions that there are considerable skill gaps between

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the displaced and new jobs due to technological change and highlights the significance of individual security accounts (ISAs) that provide portable benefits to workers in multiple precious jobs (pp. 181 and 183). Thus, educational upgrade is not always a panacea for inequality.

Chancel's views also contrast with Gabriel Zucman, who opines that while progressive income taxes and taxing multinational companies are important, they still allow excessive wealth accumulation and that neither are as effective as a wealth tax (p. 274). Similarly, Emmanuel Saez deems that a wealth tax is more powerful than income, estate or corporate taxes to deconcentrate wealth (p. 157). However, Lawrence Summers is critical of Saez and Zucman's overestimation of the revenue potential of a wealth tax, alluding to tax avoidance through the use of trusts, gifts to charity, and division of assets within family members (pp. 145 and 146). He mentions how wealth taxes failed in Europe, although he supports tax reform based on closing loopholes and shelters, reforming capital gains taxation, and restoring tax-rate cuts (pp. 146 and 148). Additionally, he considers the limits of a wealth tax in curbing political influence, mentioning that even a 6 per cent wealth tax would not attenuate the ability of the wealthy to make political contributions (p. 144). Furthermore, he states that a wealth tax would only increase the influence of the wealthy, as they would be incentivized to increase philanthropic transfers (p. 144).

On the other hand, Saez mentions that a comprehensive tax base that includes all assets would prevent tax avoidance, and that aggressive enforcement would prevent tax evasion (p. 153). He also states that any adverse effects of a wealth tax can be ameliorated by using tax revenues for education and infrastructure investments and facilitating credit-constrained innovators (p. 158). In a similar vein, Zucman argues that wealth taxes in Europe did not fare well because taxpayers can avoid paying by easily moving to other countries, as member states do not tax their citizens living abroad, because there was no exchange of information between banks and European tax authorities, and because of loopholes, exemptions of assets, and deductions (pp. 272 and 273). However, with an exit tax on moving abroad, sharing of information between financial institutions and tax authorities, giving tax authorities the resources to enforce the law, refusing tax competition, and by taxing all assets above a high wealth level to address liquidity problems, a wealth tax can be effectively administered (pp. 272 and 273). Overall, both Saez and Zucman offer a strong case for implementing the wealth tax. Irrespective of such discussions about the most appropriate mix of tax types, Peter Diamond maintains that equity and social welfare maximization necessitate distortionary taxes with deadweight losses (p. 33).

As noted above, there is a difference between post-production and pre-production policies to combat inequality. This discussion on taxes so far, whether income or wealth, has been on post-production policies. However, T.M. Scanlon focuses on pre-production policies. Highlighting pre-tax income inequality, he argues that procedural fairness and substantive opportunity are violated when the rich can buy better positions for their children, who get better opportunities to develop their abilities (p. 61). Similarly, Tharman Shanmugaratnam states that with assortative mating, rich parents can make much larger investments in their children (p. 100). He argues that this inequality is perpetuated through socially segregated neighbourhoods with lower-quality schools because of the sorting of teachers and students (p. 100). Additionally, he states that top-tier employers hire graduates from prestigious universities that are based on social pedigree and that the bottom quintile of college graduates do not end up working at jobs that require a degree (pp. 100 and 103). Thus, beyond post-production policies like taxes, it is also important to address pre-production inequality.

Apart from the discussion on post- and pre-production policies to combat inequality, there is also the issue of mobilizing voters on economic inequality. In this regard, Sheri

Berman argues that voters must be mobilized on economic issues to tackle inequality, as right-wing political parties usually focus on issues like immigration, racial anxiety, and national identity (pp. 76 and 77). This lack of emphasis on tackling inequality is not confined to the political right, as Nolan McCarty notes that the US Democratic party focuses on the environment and social issues and that many of the high-income voters for the party do not particularly support redistribution policies (p. 87). The fact that voters on both the political right and the political left focus more on other issues than inequality may be explained by Stefanie Stantcheva, who states that people do not trust governments on redistribution, since they believe that they were the ones who exacerbated inequality in the first place (p. 265). Additionally, she opines that people tolerate inequality if they believe in equality of opportunities and that everyone has the chance of climbing the social ladder (p. 266). Therefore, in terms of galvanizing voters on economic inequality, it is important to note her observation that narratives are more powerful than hard facts in influencing people's views (p. 267). However, mobilizing voters is confined to the ballot, as Richard Freeman's article offers the caveat that social protests like the 2011 Occupy Wall Street movement and the 2019 Extinction Resisters make media headlines but rarely effect policy changes (pp. 202 and 203).

Freeman mentions the inverse empirical relationship between union density and inequality (p. 202). This is because unions not only reduce inequality within firms by narrowing the pay distribution among employees, but they also reduce inequality among firms by inducing non-unionized firms to copy union settlements to thwart unionization of their own workers (p. 202). Similarly, Heidi Shierholz underscores the significance of unions, arguing that unionized workers are less likely to experience wage theft through expropriation of tips, workers being made to clean up after clocking out and not being paid overtime rates, all of which arise because of diminished bargaining power of workers (pp. 227, 228 and 230). In a similar vein, Christian Dustmann highlights how strong union representation ameliorates job losses due to globalization and free trade, as it incentivizes firms to retrain workers instead of adopting the costlier option of firing them and hiring better-skilled workers (pp. 117 and 121). In short, the three experts highlight the role of strong unions in curbing inequality by countering the firms' monopsony power, limiting wage theft, and by ameliorating the negative impact of globalization and free trade.

Like globalization and free trade, technological change also contributes to inequality by adversely impacting jobs. Daron Acemoglu mentions that while automation increases productivity it also causes displacement of labour, and when the latter overwhelms the former, as in the case of what he calls 'so-so technologies', it decreases employment and wages and increases inequality (pp. 164 and 167). He proposes rolling back favourable tax treatment of excessive automation, and increasing government leadership in directing technological change, as the business models of firms like Amazon, Facebook, Google and Netflix do not involve serious efforts to address the labour displacement effect of automation (pp. 166 and 168). Similarly, Laura Tyson opines that reducing payroll taxes and increasing corporate taxes would temper the bias on labour-saving investments, although she adds the caveat that it could reduce government revenue for healthcare and education (pp. 179 and 180). She states that most business R&D generates return to capital instead of good jobs, and that most of the R&D credits go to large companies that have large stateless income sheltered away (p. 180). Likewise, Philippe Aghion states that while innovation by new innovators has a positive impact on social mobility, the incumbent wealthy 'superstar' firms like Facebook, Amazon, Microsoft, Google and Netflix can lobby to prevent new innovators from entering the market and innovating (pp. 173 and 175). Therefore he argues for rethinking competition policy in the context of incumbent superstar firms (p. 176). Overall, the three experts indicate that the impact of technological change on inequality can be addressed through curbing tax incentives, letting governments lead technological change, and introducing a more effective competition policy on incumbent superstar firms.

Apart from policies like ensuring educational access, implementing taxes, and strengthening unions, there is also a push for a universal basic income to address inequality. Gregory Mankiw supports a value added tax to support universal basic income, as that would not distort the incentive to save and invest (pp. 138 and 140). However, William Darity Jr cautions that the universal basic income or the earned income tax credit (EITC) could subsidize the private sector, creating bad jobs, and instead highlights a federal government job guarantee, which would function as an automatic stabilizer by expanding during recessions and contracting during booms, and which would be less inflationary than a universal basic income, as it would be concomitant with actual production of goods and services (pp. 215 and 216). Similarly, David Ellwood argues that some of the lowest-paid and most unstable jobs with unpredictable work hours and without a career ladder, like childcare, are most important and therefore a fraction of the funds proposed for universal basic income might be better utilized for making 'bad jobs' good (pp. 223 and 224). Thus, there is a difference of opinion in whether a federal job guarantee, creating good jobs, or a universal income would be most effective to combat inequality.

Overall, the book showcases that there is a diversity of opinions in combating inequality in terms of whether the emphasis should be on raising top tax rates or implementing a wealth tax, focusing on post-production policies like taxes or pre-production policies like educational access, and underscoring federal job guarantee or universal basic income. It presents various strategies like mobilizing voters through a narrative, strengthening unions, curbing tax incentives for excessive automation, letting governments lead technological change, and introducing a more effective competition policy on incumbent superstar firms. In essence, through the voices of 29 noted experts, the editors Blanchard and Rodrik make a strong and persuasive case to combat inequality by centring it in mainstream economics instead of ignoring or minimizing the issue or relegating it to heterodox economics. Indeed, their work teaches ECON 101 students that economists should be at the forefront of tackling inequality instead of making the usual naysaying arguments that 'we can't afford it', 'we don't have enough evidence' or that 'incentives will be distorted' (p. xx).

REFERENCE

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