



Tax-benefit systems, income distribution and welfare analysis

Special issue in homage to Tony Atkinson

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Editorial introduction

This issue is the first of three special releases of the *Journal of Economic Inequality* honoring the work of Sir Anthony “Tony” Atkinson. It focuses on the analysis of tax-benefit systems and the way they affect income distribution and welfare. While other tributes have recalled the extent and depth of Tony’s work on this topic and others, the idea of this issue is to present modern contributions that reflect Tony’s legacy in this vast field of research. Tony not only provided some of the most important theoretical characterization of optimal taxation, and explicitly introduced distributional objectives into measures of inequality, but also initiated empirical assessments of tax-benefit policies and their effect on inequality, poverty and public finances.

A key aspect was the development of tax-benefit microsimulation models, computer-based simulations that enable one to reproduce national tax-benefit systems and, plugged into nationally representative data, simulate policy reforms and their effect on income distribution. Tony initiated the very first model in the 1980s and, armed with it, already drew out the implications of new budgets or policy alternatives in the UK. Today, microsimulations are used by researchers and analysts in governments, treasuries or statistical institutes all over the world to provide a rigorous analysis of current policies and support the design of reforms. This special issue starts with the latest of such analysis by Tony and colleagues on the UK (**Atkinson, Leventi, Nolan, Sutherland and Tasseva**).

Tony also devoted a lot of attention to social inclusion and cohesion in Europe, stressing the importance of having the appropriate tools to understand the distributional implications of fiscal and social policy changes in a comparative way. This led to the construction of an EU-wide microsimulation model, EUROMOD, now extensively used by researchers, by EU Directorates and by the European Commission’s research centers for the monitoring of

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social progress in the EU. Among the many policies that could be analyzed in a comparative framework, one is symbolic of Tony's work: the basic income proposal. What seemed a radical reform is currently on the policy agenda of several EU countries. **Immervoll and Browne** suggest a timely assessment of basic income proposal using EUROMOD; focusing on a set of relevant countries, they discuss how this policy could become a central element of a modern social Europe.

For Tony, combining theoretical analysis with precise data was the most powerful way to make progress. He demonstrated it by making "Public Economics in Action" with concrete characterizations of basic-income flat-tax systems using the optimal tax framework. Today, it is possible to combine administrative data, microsimulation models and the optimal tax apparatus to characterize the implicit redistributive views of existing systems. **Bastani and Lundberg** suggest an application for Sweden, using the inverse optimal tax framework suggested by François Bourguignon, to show how tax-benefit reforms over time can be interpreted in terms of changes in social preferences.

Lately, Tony Atkinson encouraged the diffusion of microsimulation tools to other parts of the world and the conduct of cross-country comparisons in regions where inequality levels are globally high. This is particularly the case in Latin America, so that comparative work on the current and potential role of socio-fiscal instruments in the region is greatly needed. **Bargain, Jara and Rodriguez** suggest a policy swap exercise using new models for Ecuador and Colombia, two neighboring countries characterized by very different levels of tax-benefit redistribution. The exercise consists in applying the system of one country to the population of the other in order to decompose the extent of redistribution attributed to fiscal and social policies.

Welfare analysis was not only "brought in from the cold" by researchers like Tony in the 1990s but also by the upsurge of interest illustrated in the Stiglitz-Sen-Fitoussi commission, in which Tony played an active role. One of the conclusions was to go beyond usual measures of welfare, and particularly beyond income. In fact, many advances in applied economic research could be used to expand welfare analysis beyond the mere distribution of household equivalized income. **Bargain** discusses the way microsimulation could benefit from these advances in welfare measurement. One of these developments is exemplified by **Jara and Schokkaert** in a welfare analysis of tax systems that originally combines subjective data about individual well-being and tax-benefit microsimulation.

This special issues pays tribute to Tony's work by showing how his ideas have snowballed into a wide set of new research as exemplified in these various contributions. All of them are faithful to Tony's principles that good research should rely on underlying economic theory, attempt to gather increasingly good data and tools, and provide sound positive and normative analyses. His work and his life will remain inspirational for generations of scholars who aim, through their research, to support the development of fairer and more efficient institutions, to reduce the extent of inequality, and to improve the living conditions of the most disadvantaged in society.