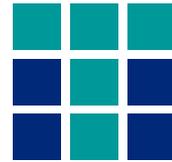


מרכז טאוב

לחקר המדיניות החברתית בישראל



TAUB CENTER

for Social Policy Studies in Israel

Causes and Consequences of Inequality

Herbert M. Singer Conference Series



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Increasing Income Inequality and Its Impacts: Evidence from 30 Countries over 30 Years

Brian Nolan

University College Dublin

Outline

- Introduction
- What has been happening to income inequality in the OECD, and why?
- What does evidence suggest about the impact of increasing income inequality on social and political outcomes?
- Long-term perspectives and implications

Core Concern

- The core concern one sees expressed is that
 - income inequality is increasing in OECD countries, driven inexorably by technological change and globalisation, with little prospect of policy countering or reversing that trend;
 - higher/increasing income inequality produces serious negative social outcomes, including
 - more family fragmentation and crime,
 - poorer health and greater health inequalities,
 - less social solidarity and cohesion,
 - reduced intergenerational mobility and greater inequality of opportunity
 - and undermines the effective operation of democratic political systems



The 'GINI' Research Project

- Aim to capture and understand income (and wealth) inequality trends and their impacts
- Funded by EU FP7 programme, Co-ordinator Wiemer Salverda (Amsterdam), Research Coordinator Brian Nolan
- Covering 30 countries over 30 years 1980-2010
- Country Reports and 90+ Discussion Papers available on GINI website
 - <http://www.gini-research.org/articles/home>
- Two books in production at Oxford University Press:
 - <http://ukcatalogue.oup.com/product/9780199687435.do#.Uhu9OZdBuUk>
 - <http://ukcatalogue.oup.com/product/9780199687428.do#.Uhu9TZdBuUk>
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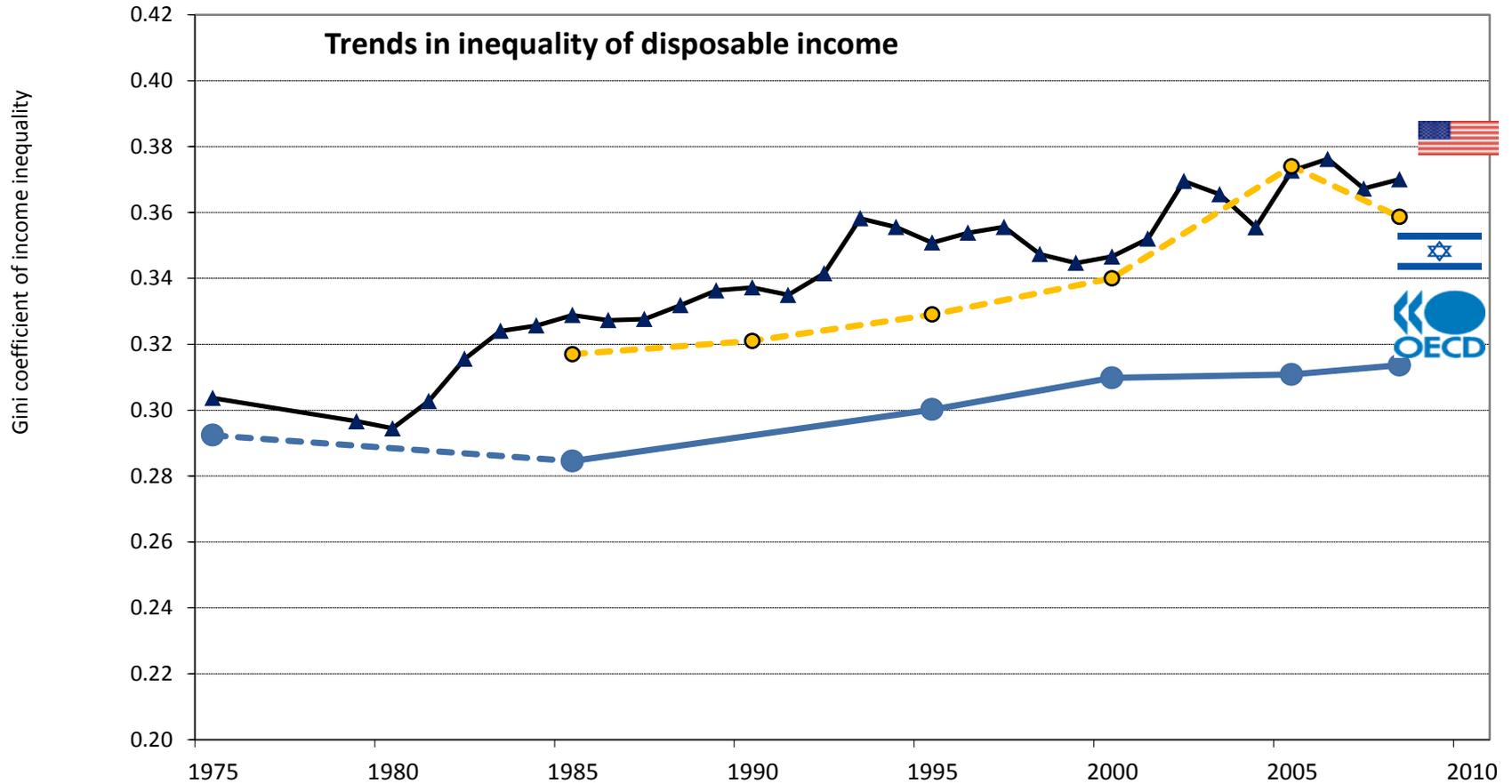
Capturing Income Inequality Trends

- Inequality in terms of household net income
 - Sum of labour earnings,, investment and property income, cash transfers less income taxes and social insurance contributions, adjusted for household size
 - not consumption expenditure, wealth, ‘happiness’, or ‘capabilities’
- ‘Non-cash benefits’ from social expenditure not included
- Rely mostly on survey data – implications in terms of (non-)capture of top incomes
- Income inequality measured in various ways
 - Here use Gini coefficient, potential range from 0-1; actual range among OECD countries c. 0.20-0.40

Income Inequality Trends: Evidence from OECD

- OECD's renewed focus on income inequality, has assembled data from countries for 1985, 1990, 1995, 2000, 2005, 2007-
- Shows income inequality trending upwards from 1980s in many OECD countries
 - Up in 2/3rds OECD countries from mid-1980s to mid-2000s
 - “Moderate but significant” rise – [*Growing Unequal*, 2008]
 - ‘Income inequality in OECD countries is at its highest level for the past half century’ [*Divided We Stand*, 2011]

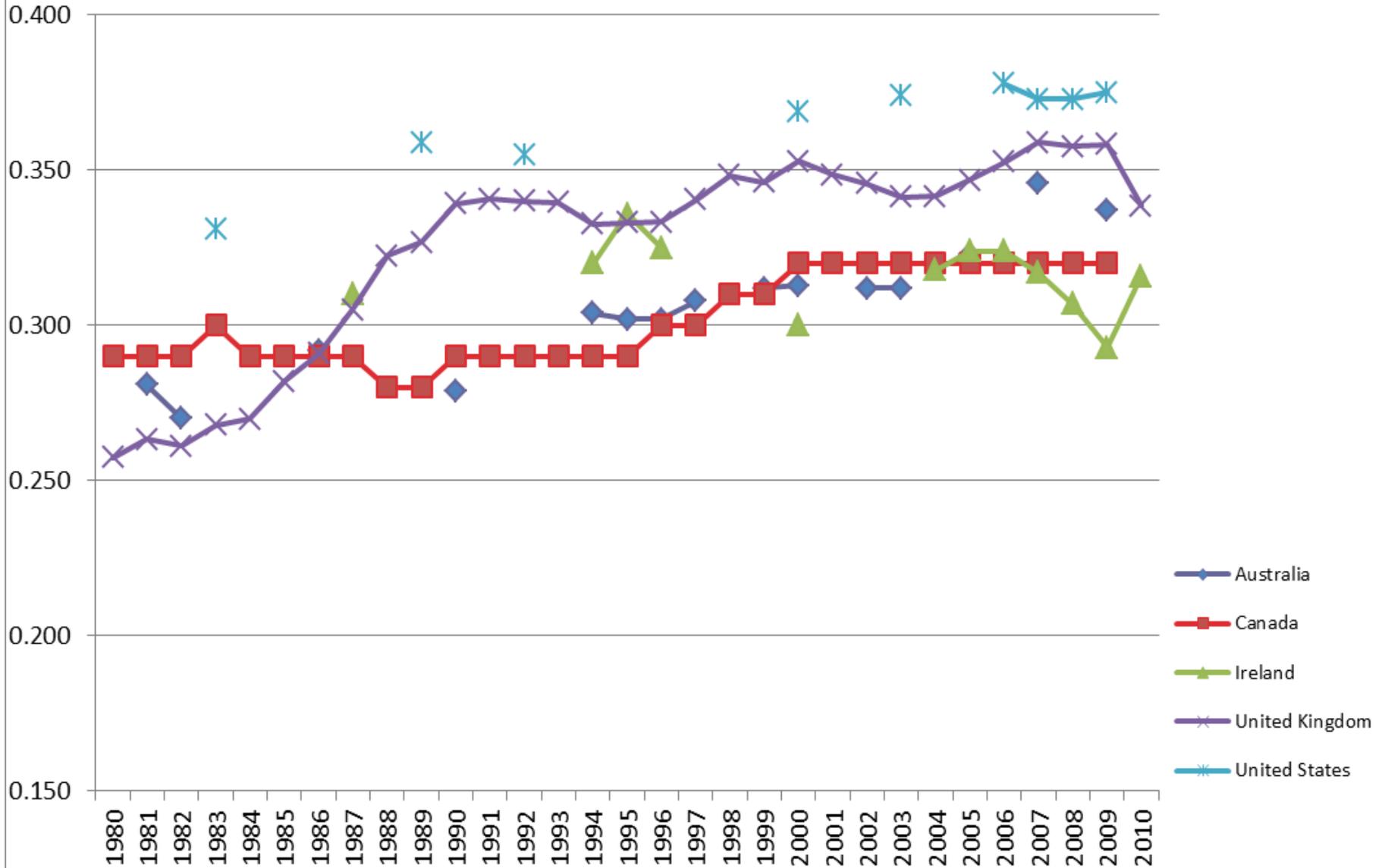
Inequality Trends in OECD



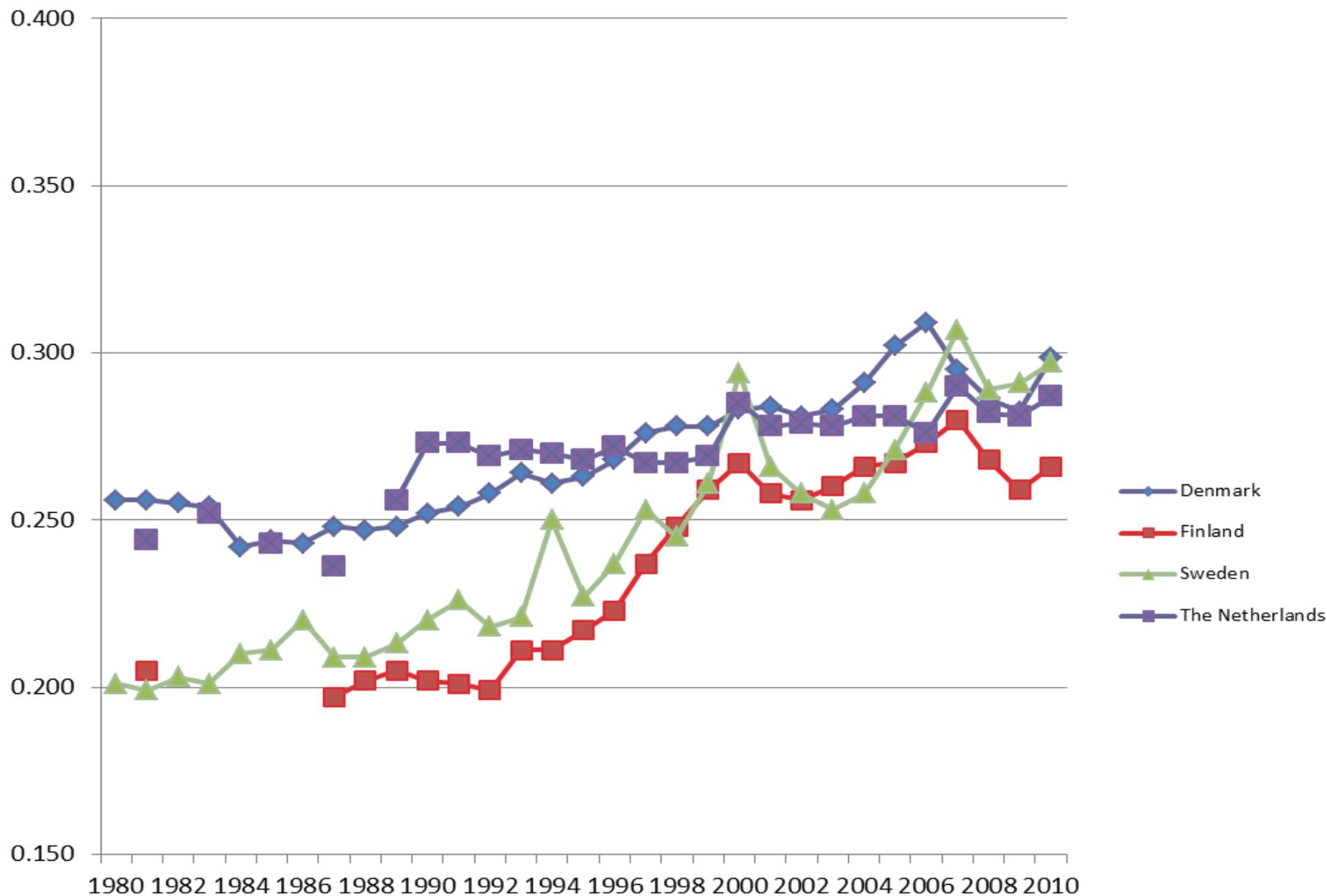
The 'GINI' Project Evidence

- Need annual data to properly capture trends in inequality and relate to outcomes
- Annual database of summary inequality measures assembled by national experts from various sources
- Some gaps and limitations in comparability
- But allows 'episodes' to be identified
- And change in inequality can then be related to other indicators/outcomes

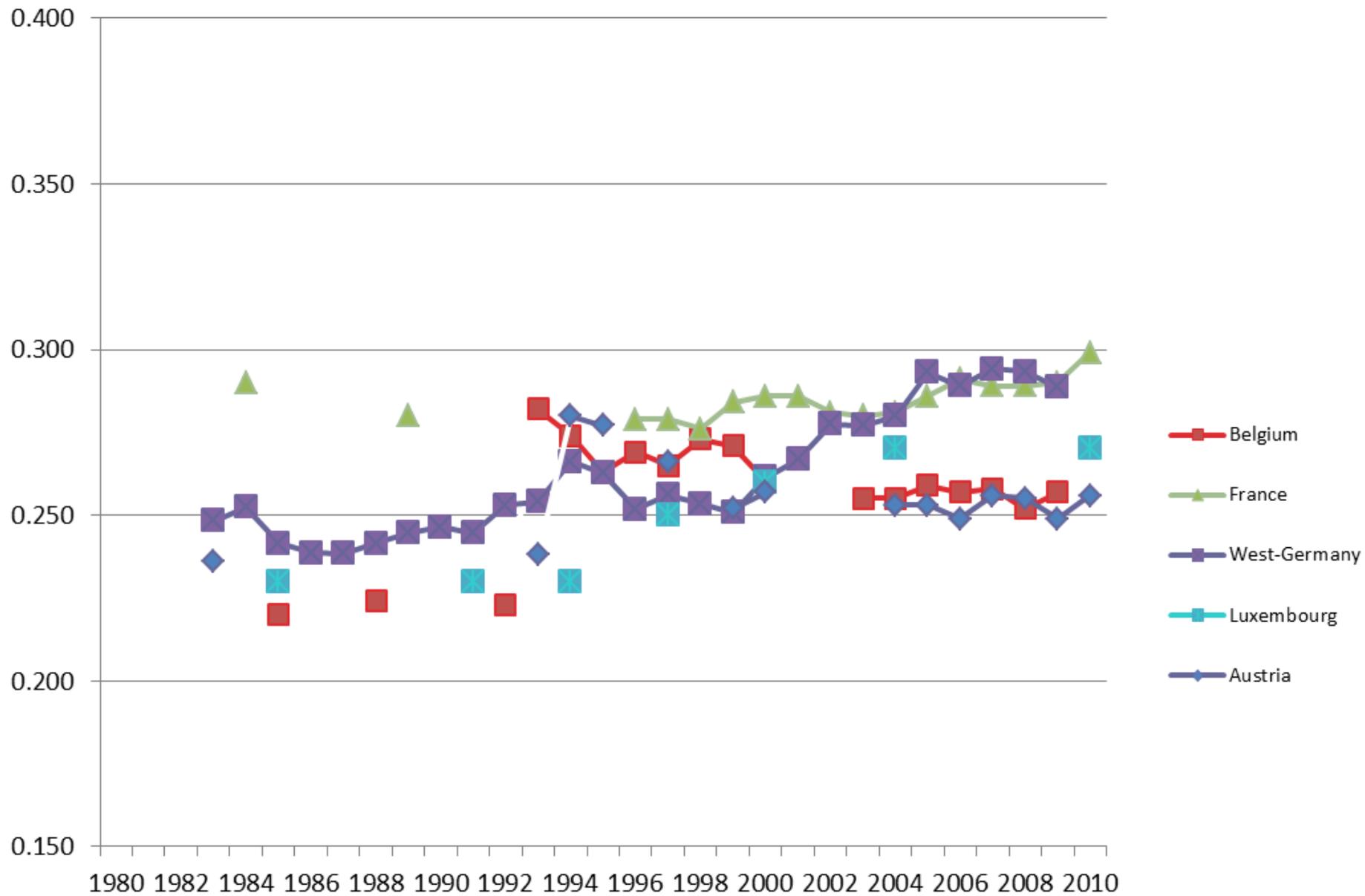
English speaking liberal welfare states+US



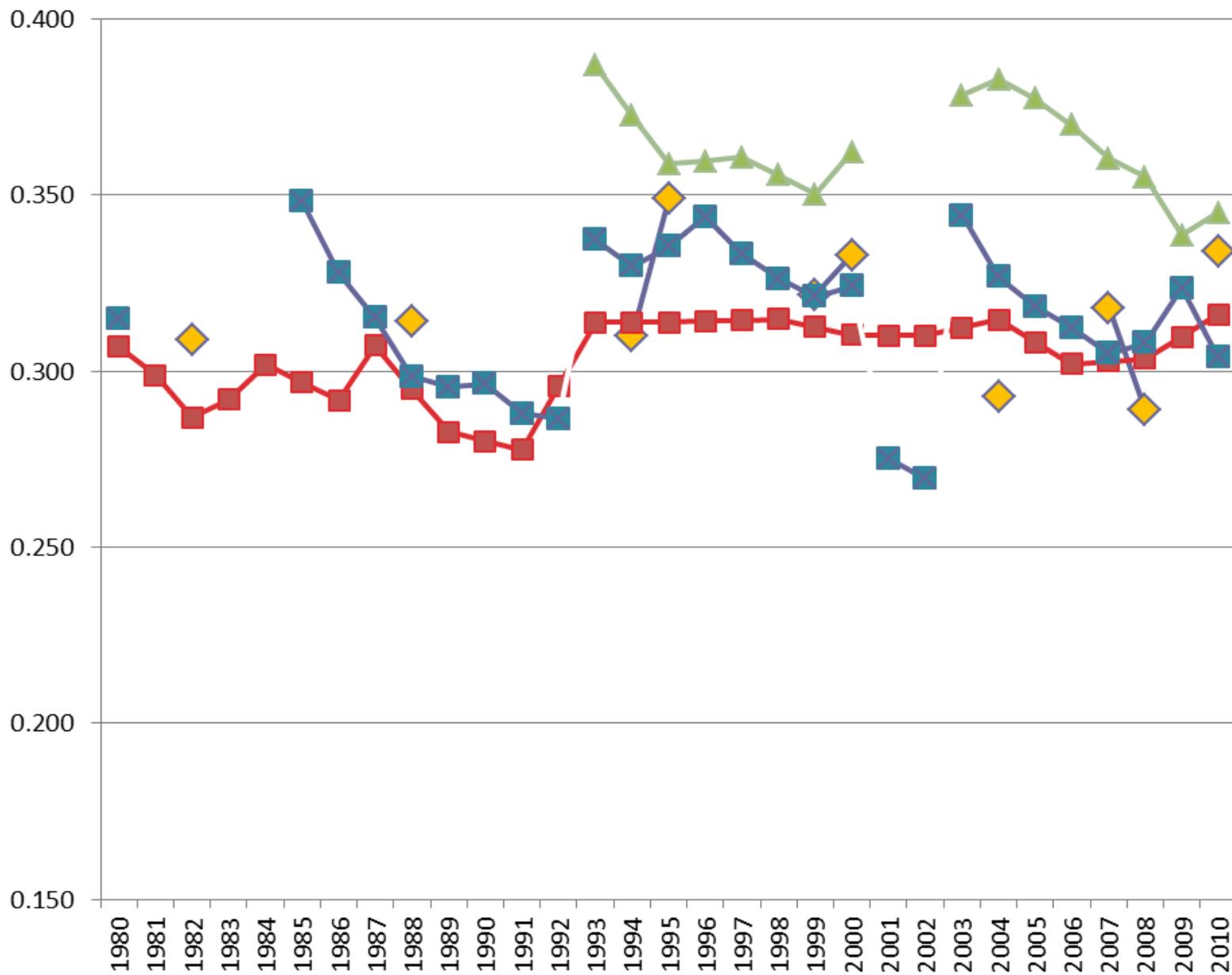
Nordic EU countries + Netherlands



Continental European welfare states

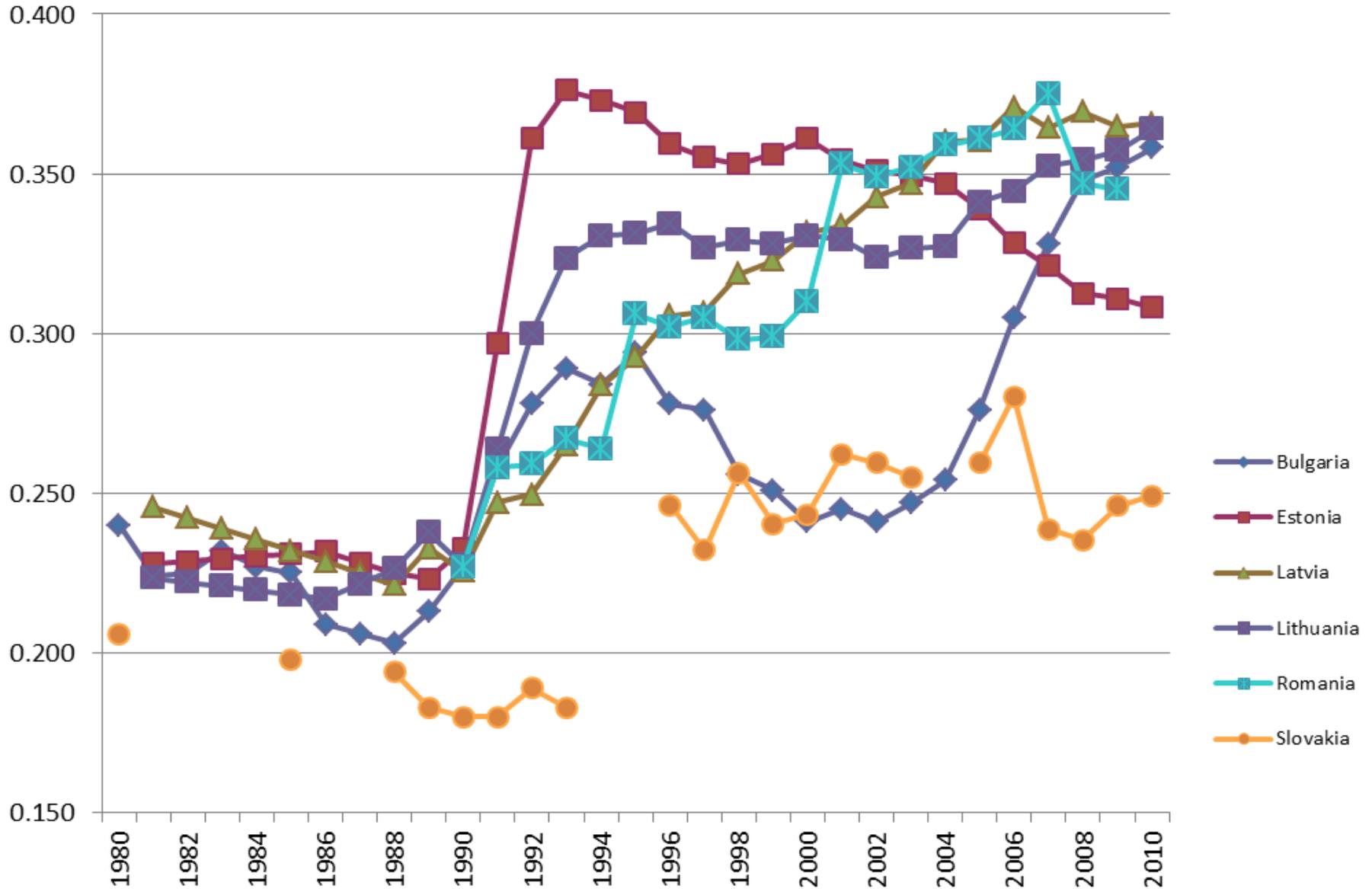


Mediterranean countries

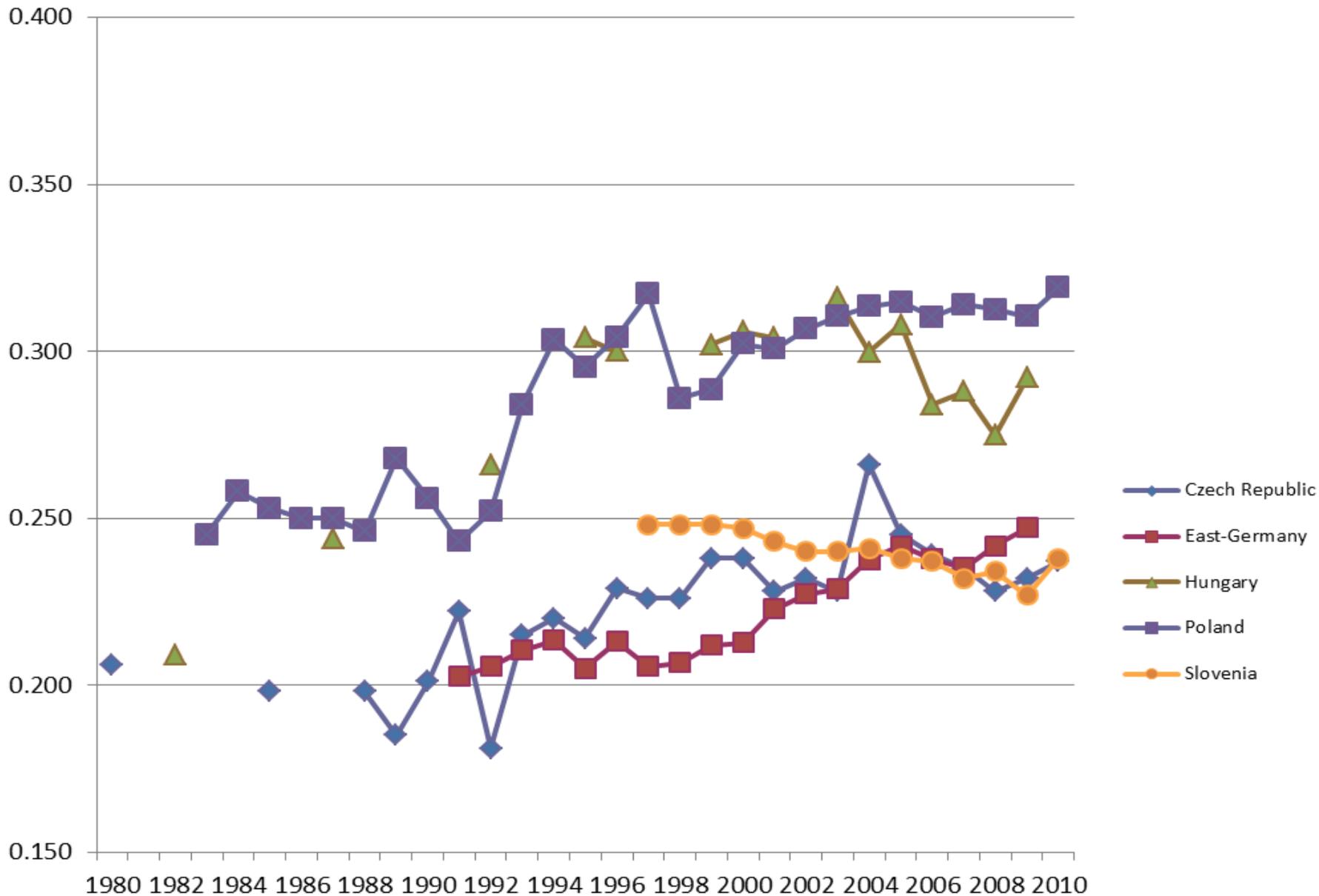


- Greece
- Italy
- Portugal
- Spain

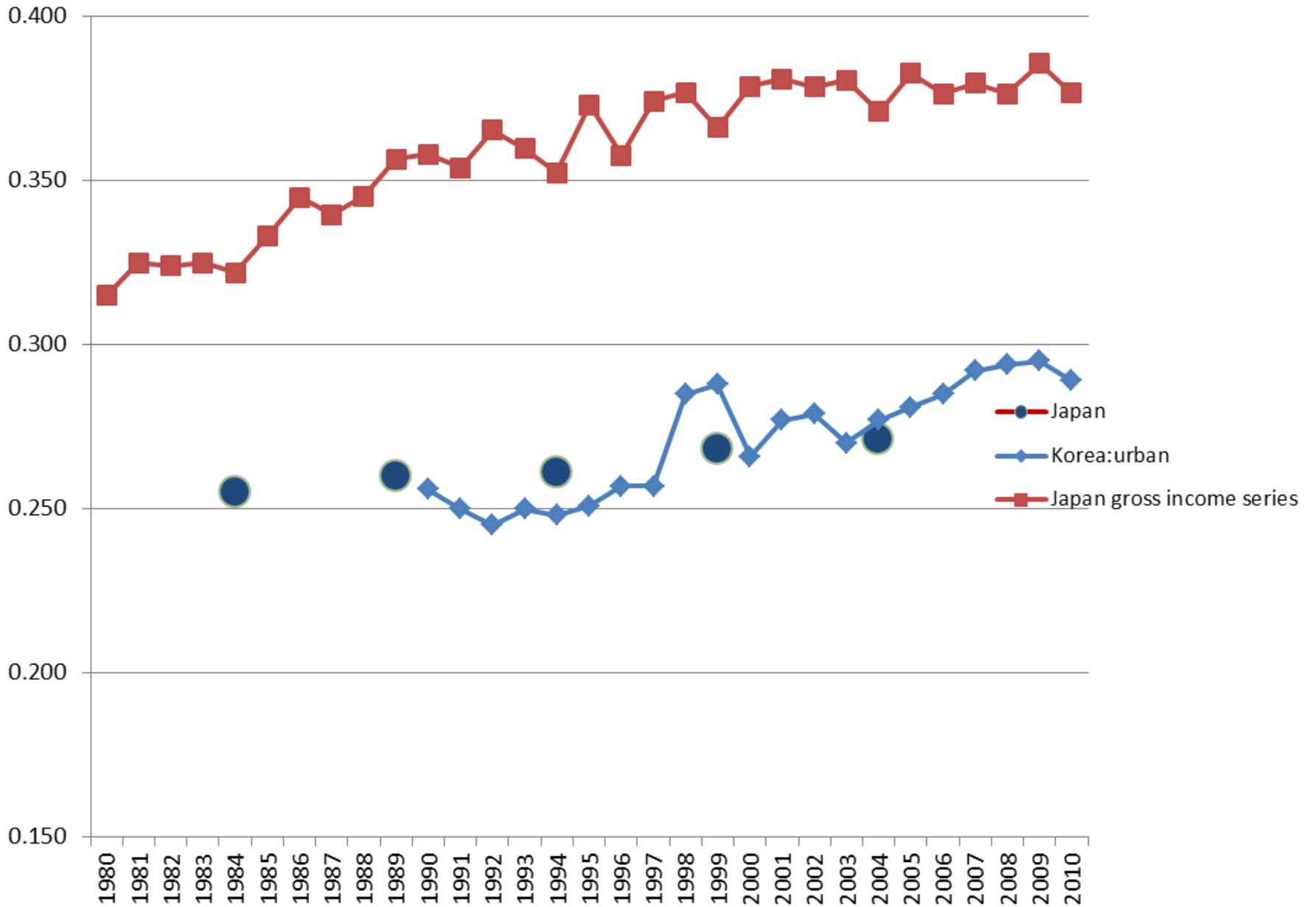
Shock-transition CEE countries



Smooth transition CEE countries



Japan and Korea

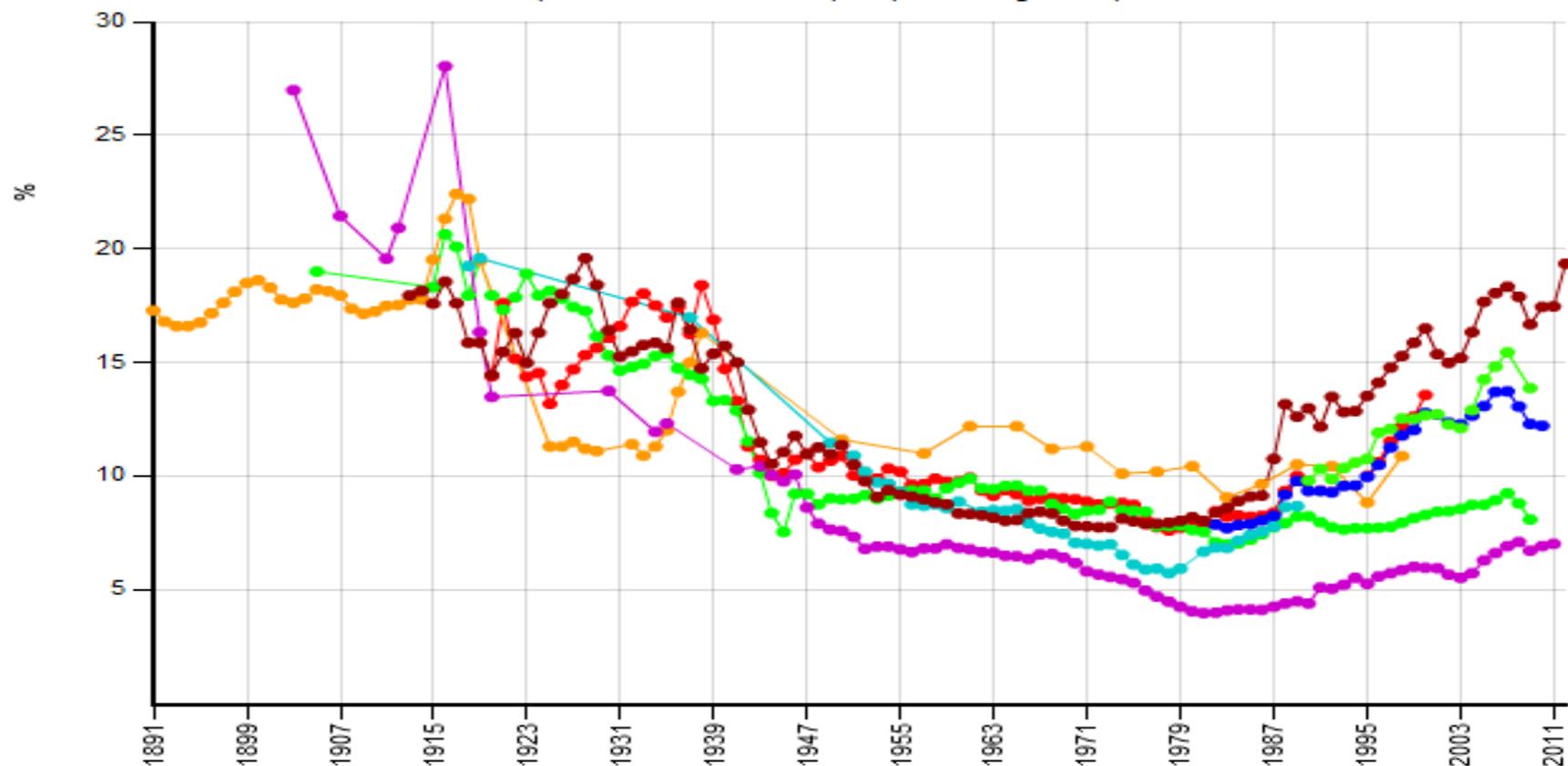


Income Inequality Trends: Top Incomes

- Household surveys cannot capture incomes right at the top of the distribution
- Major advance in knowledge due to recent use of income tax administration data to study shares of top 1%, 0.1%
 - Atkinson, Piketty, Saez
- Data now available for wide range of countries in *World Top Incomes Database*
- ‘1%/99%’ distinction now in common use

Top income shares. 1891-2012

Sources: The World Top Incomes Database. <http://topincomes.g-mond.parisschoolofeconomics.eu/>



- ✓ Top 1% income share (Canada)-Saez & Veall (2007); Veall (2010, 2012)
- ✓ Top 1% income share-LAD (Canada)-Saez & Veall (2007); Veall (2010, 2012)
- ✓ Top 1% income share (France)-Piketty (2001, 2007); Landais (2007)
- ✓ Top 1% income share (Germany)-Dell (2007)
- ✓ Top 1% income share (Sweden)-Roine & Waldenstrom (2010)
- ✓ Top 1% income share-married couples & single adults (United Kingdom)-Atkinson (2007)
- ✓ Top 1% income share-adults (United Kingdom)-Atkinson (2007)
- ✓ Top 1% income share (United States)-Piketty & Saez (2007)

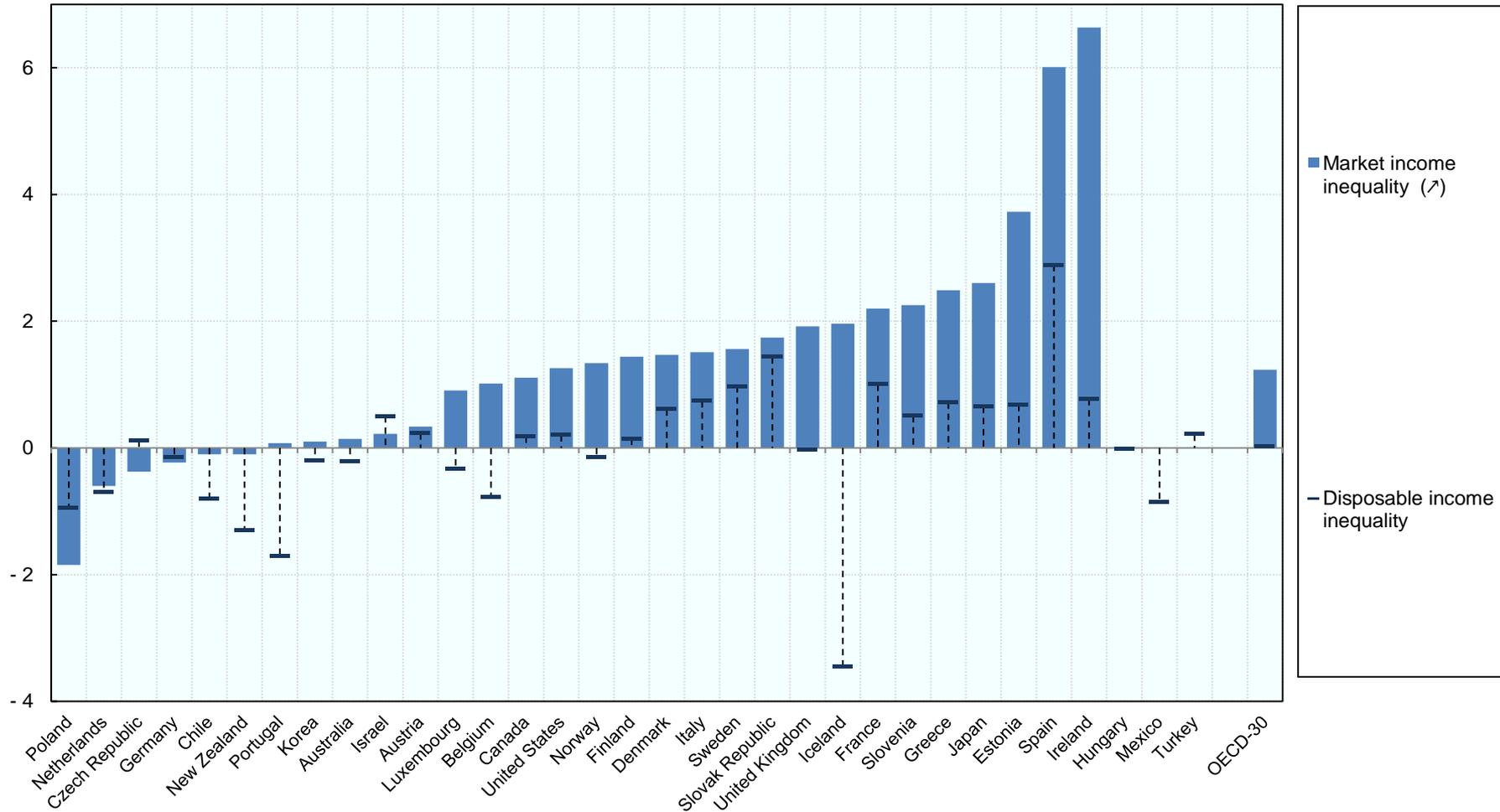
Factors Driving Inequality Trends

- Increasing inequality in market income among households key driver
 - Related to increased dispersion in individual earnings but also income from self-employment and capital
 - Other factors, incl. age and household structures contribute – e.g. more single person households over time
 - Multiple earners concentrated towards top
- Reduced redistribution via tax/transfers also contributes – especially in latter half of period
- Special factors at work at top of distribution
 - ‘tournament’ for top executives, stock market fluctuations, financial sector, changing norms

The 'Great Recession' and Inequality

- There is no 'rule' for inequality trend during recessions – but worst downturn since 1930s
- Key channels include
 - change in income from capital vs labour,
 - scale and nature of unemployment,
 - response of social transfers and tax systems
- Short-term impacts of Great Recession on inequality varied but often modest
 - Some immediate effects hit higher incomes
 - welfare states now provide greater 'cushion'
- But 'austerity' only gathering pace

Change in Gini, Market and Disposable Incomes 2007-2010

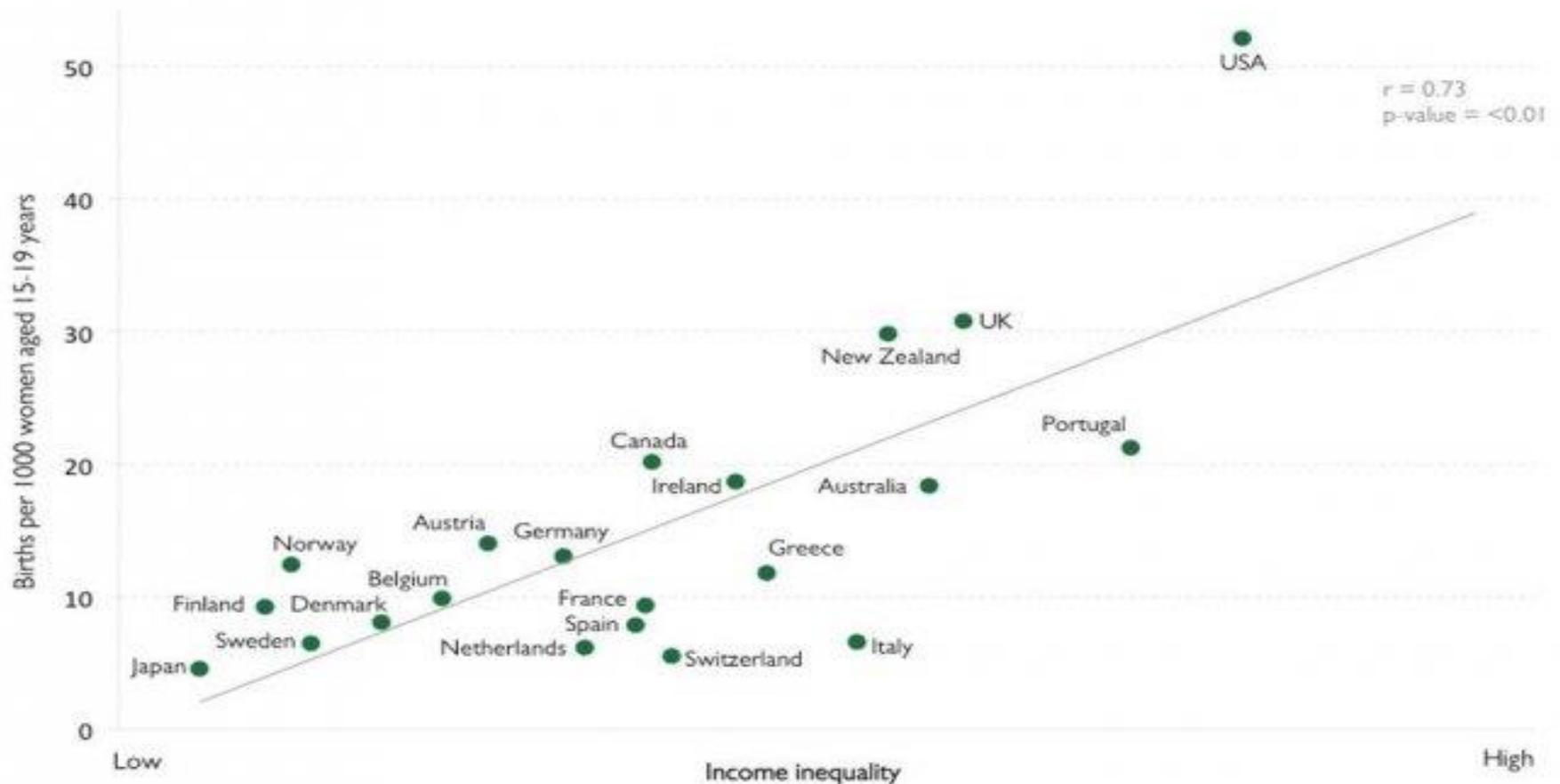


Inequality and Social Outcomes

- Increasing inequality in USA and UK in particular led to focus on linkages between income inequality, social outcomes and political processes
- *The Spirit Level* by Wilkinson and Pickett (2009) helped to crystallise concern that income inequality might be key influence
 - 150,000+ sales in English, 23 foreign editions
- Key claim: increasing inequality leads to more divided societies with worse outcomes for all
 - people at (virtually) all levels of the social hierarchy do better in more equal societies
- Wide range of social domains and potential channels of influence involved

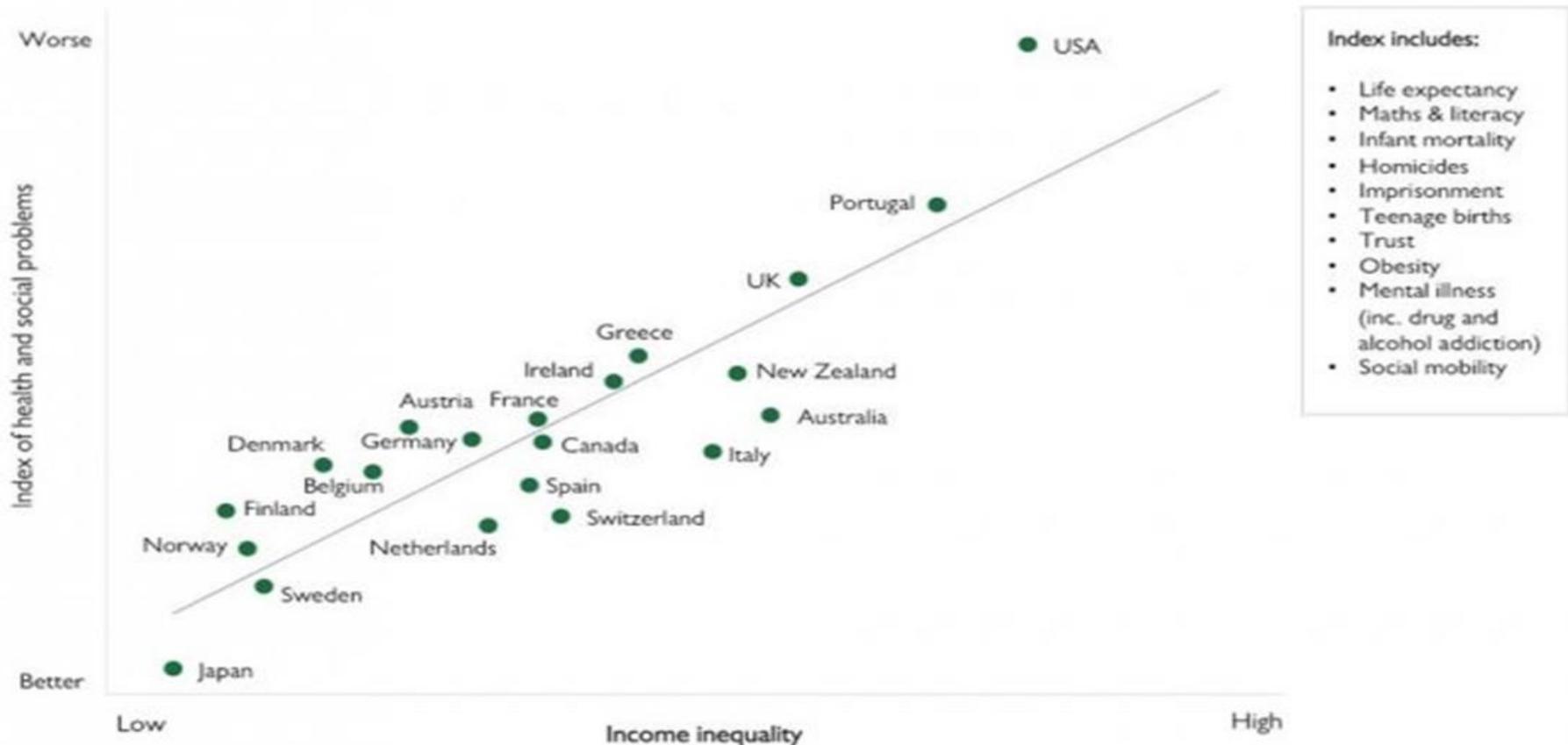
Inequality and Social Problems: 'The Spirit Level'

Teenage birth rates are higher in more unequal rich countries



Inequality and Social Problems: 'The Spirit Level'

Health and social problems are worse in more unequal countries



Why Would Inequality Fuel Social ‘Bads’?

- Higher inequality may be associated with more poverty/deprivation, weaker welfare state institutions/social policies, and aspects of culture/history that exacerbate social problems
 - rather than inequality *per se* having an independent effect
- But *Spirit Level* claim is stronger: greater ‘status anxiety’ in more unequal societies may increase stress and lead to poor health, less solidarity and social cohesion, etc.
- So inequality in itself would be key driver

The Family

- Indicators incl. fertility, age of marriage, cohabitation, births before marriage, divorce, lone parenthood, large families,
- Little cross-sectional correlation between these and income inequality, except for teenage births
- Trends in income inequality explain little of dramatic change in family life across countries in recent decades
 - e.g. in USA, rise in single parenthood began in 1960s before income inequality began to increase, and slowed in the 1980s; plus causality runs in both directions – more family fragmentation and lone parent families leads to more income inequality

Crime and Punishment

- Serious data issues with crime statistics across countries/over time
- Very varied picture within countries over time
 - crime falling over time in Aus, UK and USA when inequality rose sharply; rising in Belgium when inequality stable
- Imprisonment rates often higher in more unequal countries, with notable examples of inequality and imprisonment increasing together
 - more unequal = more punitive?

Social Solidarity and Trust

- Generalized trust in social surveys not negatively related to inequality (with controls)
- Examples where inequality rose but trust unchanged over time (e.g. Australia)
- USA prime example of inequality rising and trust falling, but trust was falling first
- High levels of trust may limit increase in inequality, e.g. Estonia
 - So direction of causality?

Social Anxiety, Stress, Happiness

- Status anxiety related to overall income inequality across countries, but inconsistent patterns over time
- Economic stress not directly influenced by income inequality, deprivation is key predictor
- Overall life satisfaction/'happiness':
 - Negative, modest relationship between respondents' reports and income inequality in Europe, not USA
 - negative impact of inequality on life satisfaction over time in panel data for Germany, but not Russia

Health and Health Inequalities

- Low income => poorer health within countries
 - complex medical, material, social, psychological, behavioral, environmental, and biological pathways
- If higher inequality means reduced low incomes, then aggregate health outcomes may worsen
- ‘Neo-material’ versus psychological factors could produce direct inequality impact, but difficult to disentangle from broader welfare state etc.
- Increasing income inequality in Britain and USA has not seen (much) slowdown in mortality decline
 - though health inequalities may have increased
- ‘Too many theories, too few data-points’
 - income inequality per se not main factor affecting health status

Intergenerational Mobility, Opportunity

- Low-inequality Nordic countries have high income mobility, high-inequality USA does not
 - some cross-sectional association – “Moving from rags to riches is harder in more unequal countries” (Andrews and Leigh, 2009)
- But evidence over time does not (yet) support broader conclusion that *increasing* inequality generates lower mobility
 - recent UK trends have been hotly debated between economists and sociologists
 - USA has seen inequality increase but mobility stable
 - in Sweden transmission remains strong at the very top, with wealth playing key role

Inequality and Political Participation, Legitimacy

- Higher inequality associated with lower civic participation
 - lower turnout among poor may affect political outcomes and legitimacy
- Increasing income/wealth concentration => greater political influence for rich
- Increasing inequality associated with increase in preferences/demands for redistribution
 - though varies with type of public programme, beneficiary
- ‘Discontent’ with inequality rises as inequality rises, but only moderately
 - extent of increasing inequality not fully recognised
 - some increase in acceptability of higher inequality
 - ‘salience’ of inequality may be less

“Overall, we conclude that the effects of inequality on economic growth, health, and equality of opportunity are modest and uncertain in rich countries. We worry most about the possibility that changes in the distribution of income have led to changes in the distribution of political power both because such a change undermines the legitimacy of the political system and because it can make the increase in economic inequality irreversible.”

– Burtless & Jencks (2003)

Broadening the Perspective

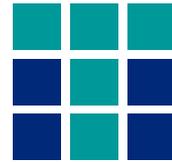
- Focus on income inequality in this context may be unduly narrow
 - imperfect marker for complex web of features
 - does not capture ‘non-cash’ income from government services, broader welfare state
- Risks obscuring/distracting from role of socio-economic stratification more broadly
 - including role of wealth and top incomes
- And the way inequalities reinforce across life-cycle and generations
 - esp. in/post-Crisis
- Equality of opportunity very hard to achieve when resources available to families so different

Instrumental vs Normative Perspectives

- Concern about increasing income inequality can be motivated by its potential impact on health, crime, mobility etc.
- Such effects mostly long-term and uncertain in size, at least in direct terms
- And/or its effects on economic growth (incl. financial crises)
- But core underlying normative issue: level of income inequality one wants to see
 - Lowest level consistent with strong economic growth and employment?

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