

The IFS Deaton Review: Inequalities in the 21st Century

Panel Discussion at World Congress

Oriana Bandiera, LSE

Richard Blundell, IFS and UCL

Jan Eeckhout, UPF

Pinelopi Goldberg, Yale, CEPR and NBER

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by the Nuffield Foundation



The IFS Deaton Review

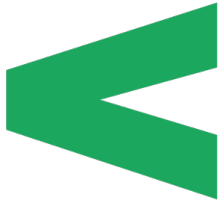


The IFS Deaton Review: Inequalities in the 21st Century

An ambitious 5-year study of inequality.

Bringing together the best available evidence from across the social sciences to answer the big questions:

- Which inequalities matter most?
- How are different kinds of inequality related?
- What are the underlying forces that come together to create them?
- What is the right mix of policies to tackle adverse inequalities?
- For developed economies with the UK as the running example, but comparative in nature....



Inequality

The IFS Deaton Review

Inequality is not just about income

- Income inequality is important, but so are inequalities in
wealth, wages, consumption, health, family life,
political voice,.....
- Need to look at inequalities between groups as well
gender, ethnicity, generations, places,
- The focus is on understanding the *drivers* of these inequalities and the *best policy mix* to mitigate their adverse impacts.

The IFS Deaton Review: An International Panel



Chair



Angus Deaton
Princeton University

Panel



Orazio Attanasio
IFS & Yale



James Banks
IFS & Manchester University



Lisa Berkman
Harvard University



Tim Besley
London School of Economics



Richard Blundell
IFS & UCL



Pinelopi Goldberg
Yale University & World Bank



Paul Johnson
IFS & UCL



Robert Joyce
IFS



Kathleen Kiernan
University of York



Lucinda Platt
London School of Economics



Imran Rasul
IUCL & IFS



Debra Satz
Stanford University



Jean Tirole
Toulouse School of Economics



The IFS Deaton Review

Format of the Review

Much like the IFS's *Mirrlees Review of Tax Reform*, this Review will be published in two volumes:

- I. A volume of commissioned studies and commentaries detailed studies on different aspects of inequality, with commentaries that offer perspectives or alternative views.
 - II. A book written by the panel, aimed at the general public sets out what has happened to inequality, why, and what can be done.
- Country studies from Europe and North America.

Commissioned studies and areas - with commentaries and workshops...

1. What's wrong with inequality?
2. Political economy and political polarisation
3. Attitudes to inequality
4. History of Inequality
5. Trends in Economic Inequalities
6. Gender
7. Race and Ethnicity
8. Immigration
9. Health
10. Geography and spatial inequality
11. Family dynamics and social mobility
12. Early child development
13. Education systems and access
14. Labour markets
15. Firms and market power
16. Trade and globalisation
17. Corporate, capital and top taxes
18. Transfers, tax and tax credits at the bottom



The IFS Deaton Review

More Information

For more information, please visit:

<https://www.ifs.org.uk/inequality/>

And for updates, including last year's presentations at the European meeting of the Econometric Society, go to:

<https://www.ifs.org.uk/inequality/updates/>

Professor Debra Satz

Author and Member of the Panel

Debra Satz is the Dean of the School of Humanities and Sciences, and Professor of Ethics in Society and Professor of Philosophy at Stanford University. She is a member of the American Academy of Arts and Sciences. Her research focuses on the ethical limits of markets, the place of equality in a just society, theories of rational choice, feminist philosophy, and ethics and education.

WHAT'S WRONG WITH INEQUALITY?



OUTLINE: WHAT'S WRONG WITH INEQUALITY?



1. Conceptual Distinctions: Sufficiency, Priority, Equality

2. What, if Anything, is Wrong with Economic Inequality?

- Causes
- Consequences:
 - A. Social Welfare Argument
 - B. Inequality of Opportunity
 - C. Inequality of Opportunity for Political Influence

Professor Jan Eeckhout

Commentator



The IFS Deaton Review

Jan Eeckhout is ICREA-GSE research professor of Economics at UPF Barcelona. He is a fellow of the Econometric Society and of the European Economic Association, and a member of the Academia Europaea. He has teaching and research interests in macroeconomics, with a special emphasis on the labor market. He studies the macroeconomic implications of market power, as well as unemployment and inequality.

MARKET POWER AND INEQUALITY



EFFECT OF MARKET POWER ON INEQUALITY

- Rise of Market Power: fast technological change and change in market structure (M&A)
- Average firm (but: heterogeneity!):

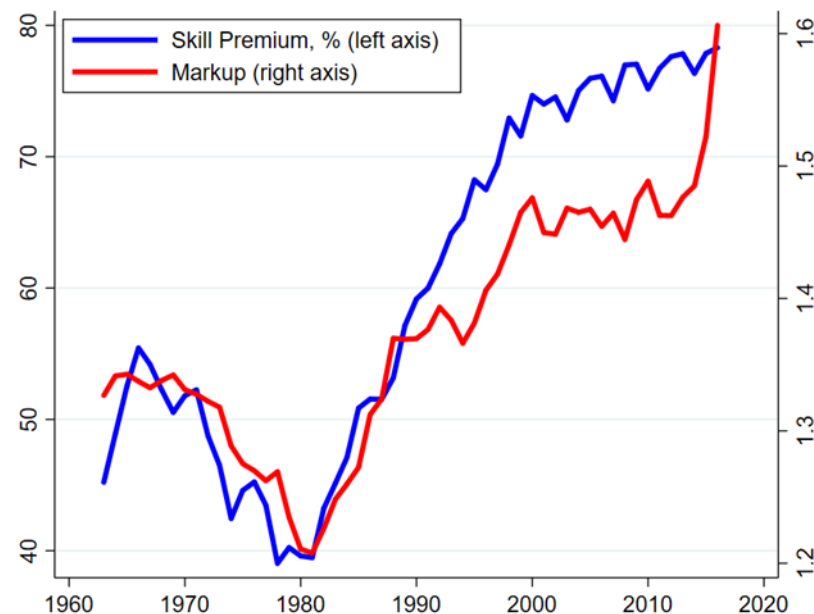
$$P_i Q_i = \underbrace{W_i L_i}_{24 \rightarrow 20\%} + \underbrace{\Pi_i}_{2 \rightarrow 8\%} + X_i$$

⇒ Ratio $\frac{W_i L_i}{\Pi_i}$ from 12 to 2.5: shift from labor income to capital income (profits)

- Mechanism: how does Market Power affect labor income $W_i L_i$?
 1. **Monopsony** → Wages (W_i): no sharp decrease
 2. **Labor force participation** → Employment (L_i): -9%
 3. **GE effect** → Aggregate Wages (\bar{W}): -20%

- Inequality:
 1. Labor Income vs Capital Income: espec. **large firms**
 2. Rise in **Wealth** Inequality
 3. Rise in **Wage** Inequality: Skill Premium
 - Differential rent sharing H and L skilled
 - Wage decline without technological regress

- Market Power is **inefficient** \Rightarrow Policy:
 1. Antitrust: especially to tackle technological change
 2. Optimal Taxation of wages, profits and final goods



Professor Oriana Bandiera

Author

Oriana Bandiera is Professor of Economics at the London School of Economics, and a fellow of the British Academy, the Econometric Society, CEPR, BREAD and IZA. She is co-editor of *Econometrica* and vice-president of the European Economic Association. Her research focuses on how monetary incentives and social relationships interact to shape individual choices within organisations, how this shapes labor markets, the allocation of talent and, ultimately, living standards.

GENDER INEQUALITIES

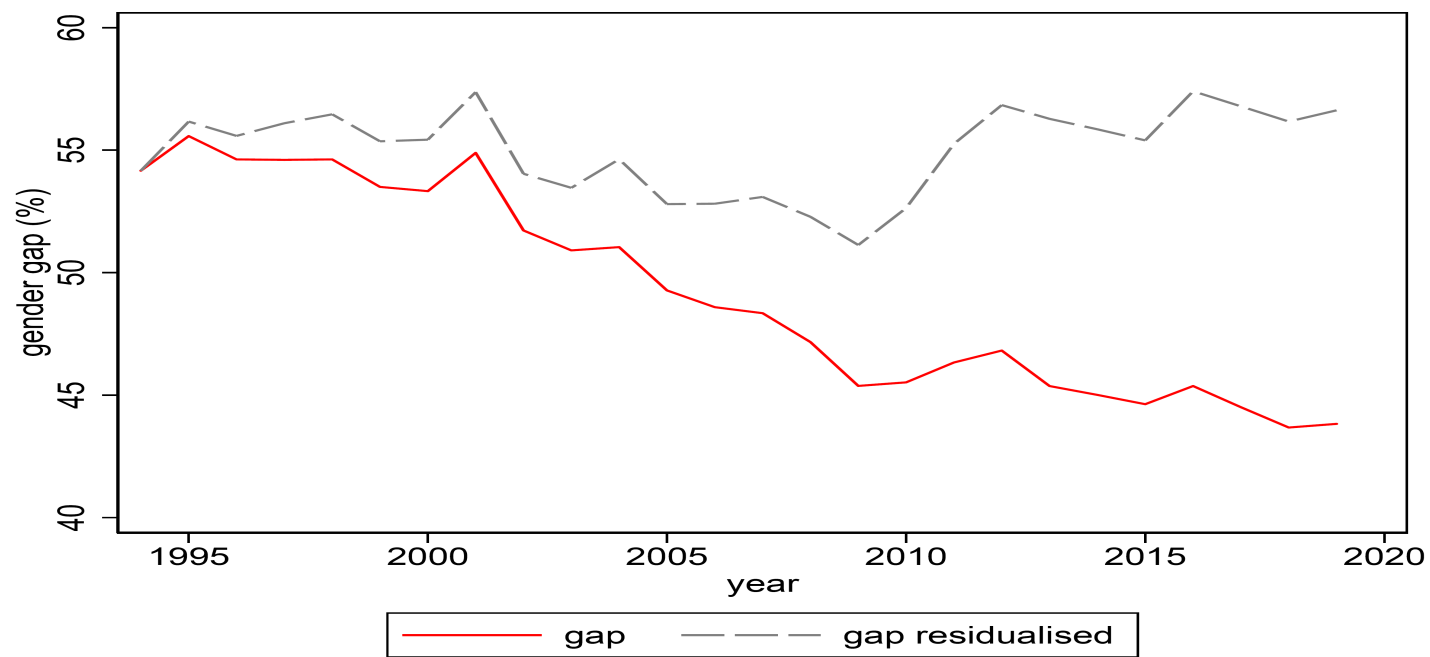


Gender Inequalities

Oriana Bandiera

with Alison Andrew, Monica Costa Dias and Camille Landais

This is the earnings gap in the UK



We unpack this gap

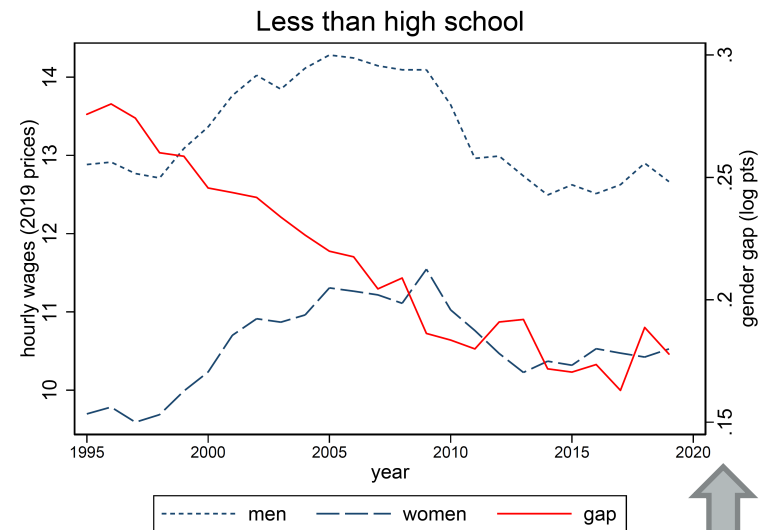
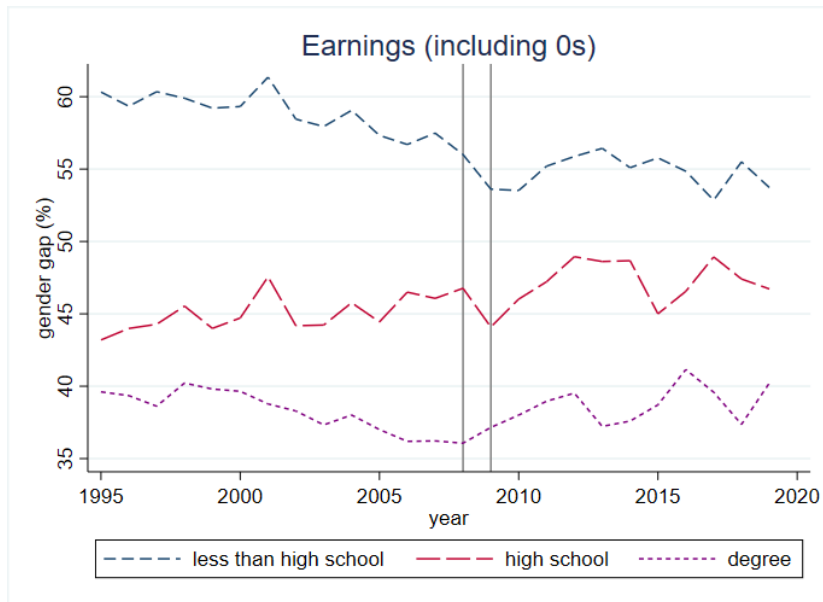
to document between and within inequality

- across the income & skill distribution

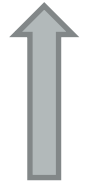
- over the life cycle

to investigate whether these can be explained by comparative advantage, or whether they lead to misallocation

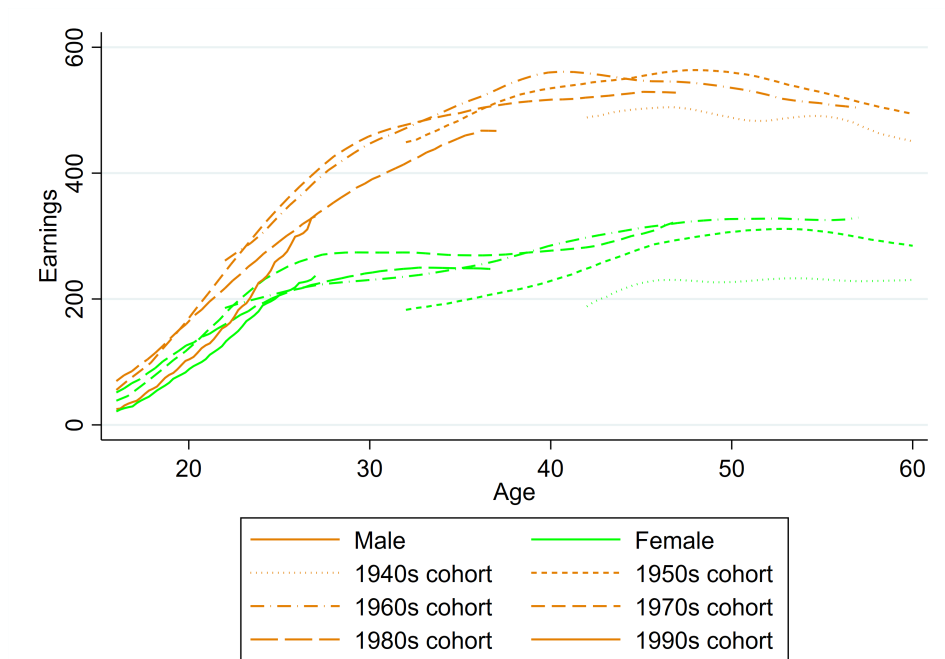
The wage gap is closing only at the bottom of the skills distribution



but that's because men are earning less

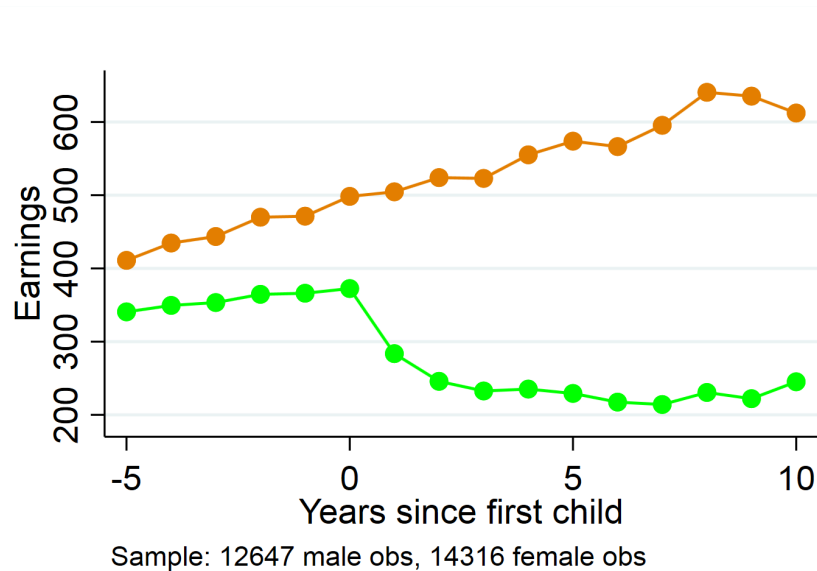


The gap opens up in the late 20s

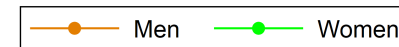
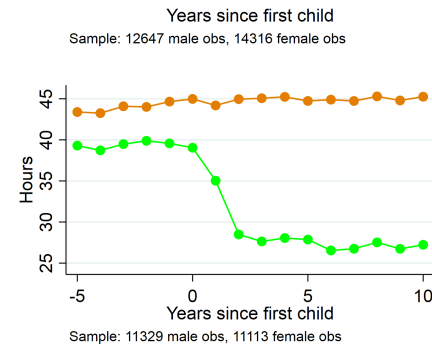


and it always did

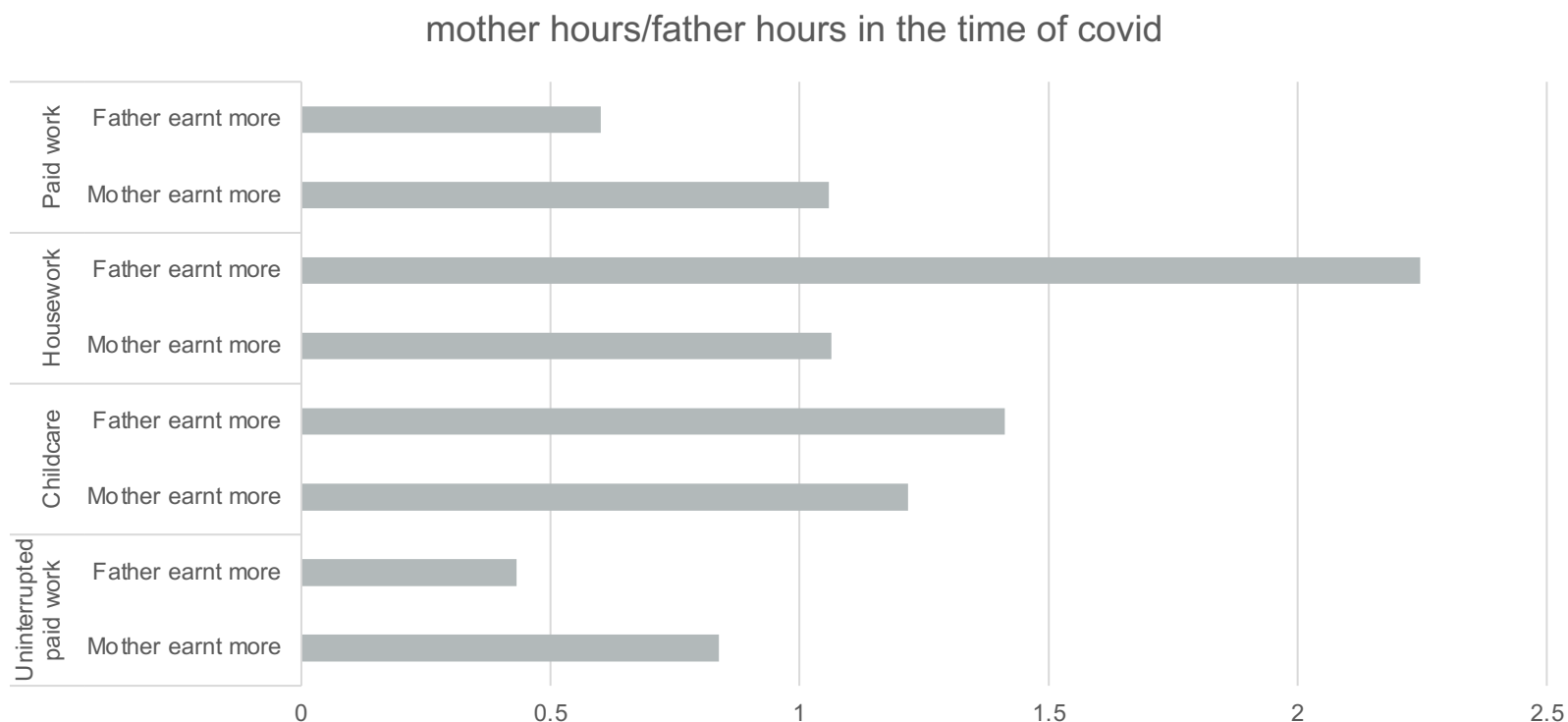
The gap opens when a child arrives



Participation, hours and wages all fall



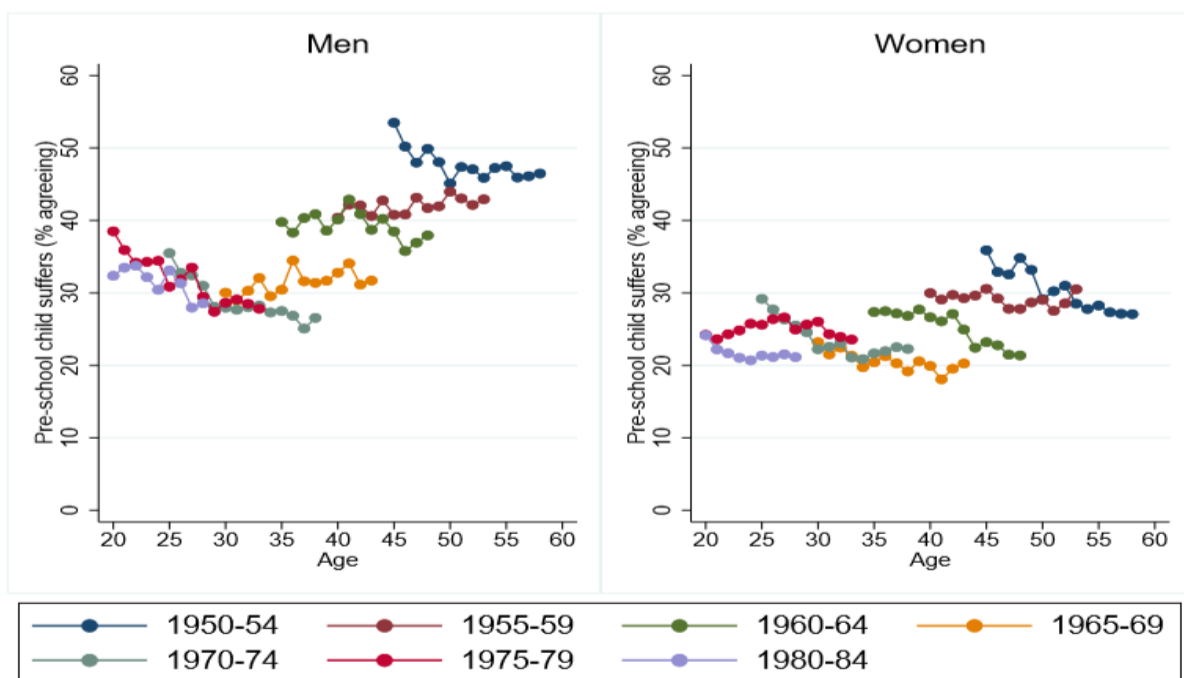
Women who earnt more do the same paid work and housework as their husbands



But they do the same childcare as women who earnt less

What's the link between women and children?

Not biology (Kleven et al 20), possibly social norms



Professor Richard Blundell

Member of the Panel

Richard Blundell is Director of the ESRC Centre for the Microeconomic Analysis of Public Policy and David Ricardo Chair of Political Economy at University College London. He is the Principal Investigator on the research grant from the Nuffield Foundation underpinning the Deaton Review. He has studied the relationship between taxation, family labour supply and consumer behaviour and developed new microeconomic tools for the study of dynamic panel data models and the nonparametric analysis of individual decisions.

INEQUALITIES AND COVID-19



Inequalities after Covid-19...

Risks, opportunities and policy challenges

Richard Blundell (UCL & IFS)



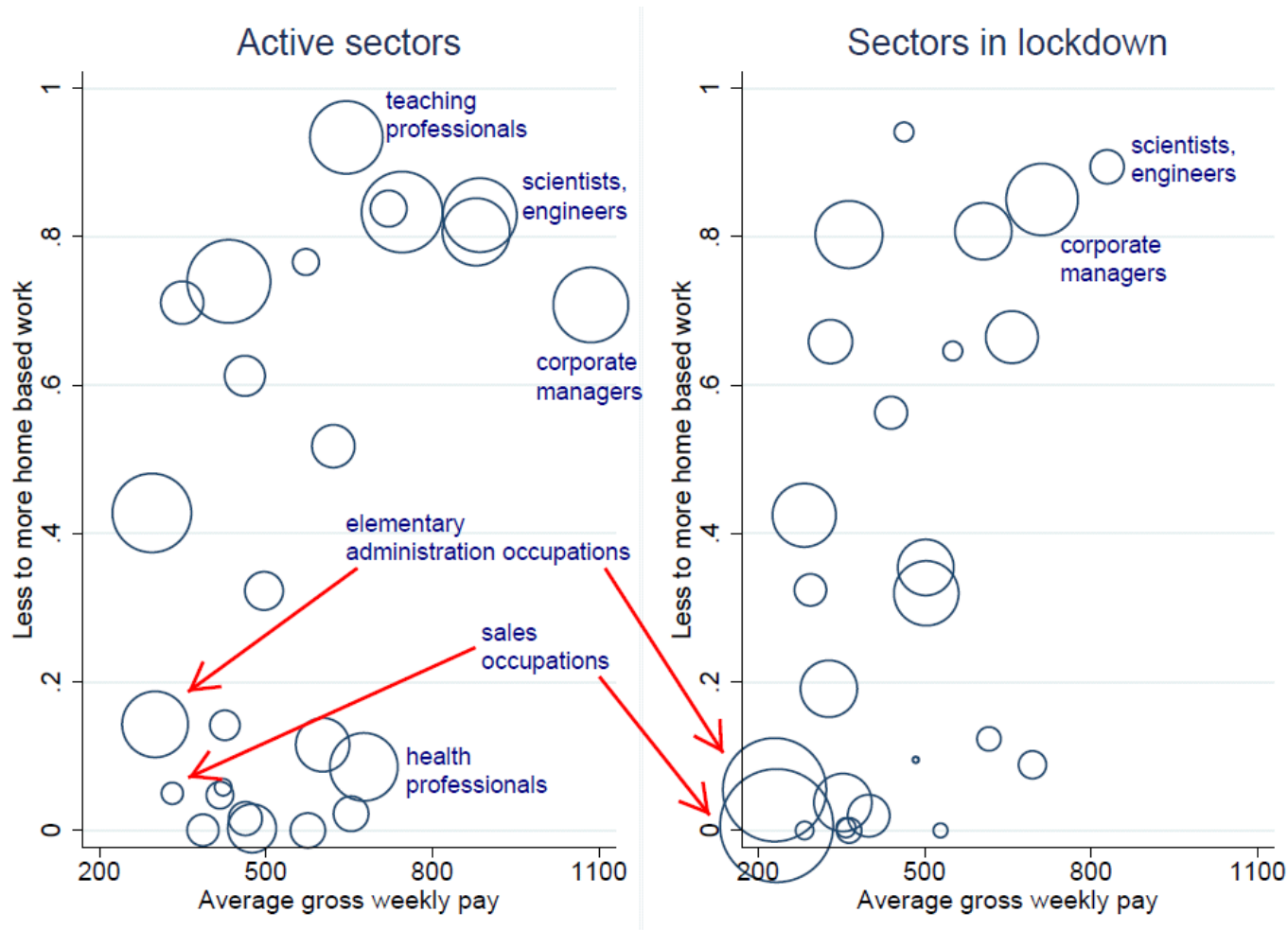
- **Far from pushing inequality and redistribution down the agenda, we have seen how the pandemic has exacerbated existing inequalities**
 - in wages, employment, health, gender, ethnicity, education, and across generations...
 - *and* has opened up new fissures along dimensions that were previously less significant – working at home, home schooling, use of public transport,..
 - The loss of earnings has brought the effectiveness of the safety net into sharp focus.
- **There are many policy challenges but there are opportunities too**
 - not only to address some of the most adverse impacts of the pandemic, but also to tackle some of the most pressing underlying longer-term inequalities.
- **Will there be a new emphasis on building a fairer society?**
 - despite the challenge of doing so while facing unprecedented levels of (peace time) debt.
- **To answer these questions requires an understanding of the array of different inequalities in society and how they interact with each other**
 - exactly the IFS-Deaton Review!

Where are the risks?



- **Wage and employment inequality**
 - Low earners are mostly in shut-down sectors, furloughed and at risk of unemployment.
 - Those with insecure work arrangements more likely to report negative impacts.
 - Increased reliance on technology and home working favours the highly educated.
- **Generational inequalities**
 - Younger workers more likely to have lost their job and experienced a reduction in earnings.
 - Those who would have entered work this year face long-term scarring.
 - After a tough decade, this could knock the younger generation back once more.
- **Gender inequalities**
 - Childcare and housework has fallen far more on mothers than fathers,
 - Could further inhibit wage progression, when progress in closing the gender gap has already stalled.
- **Educational and family inequalities**
 - Children in poorer families have lost more from school closures,
 - This could put back years of slow progress on social mobility.
- **Additional risks from enhanced health inequalities and impacts on ethnic minorities**
 - Of course, some inequalities may be reduced but most of the changes are pointing the other way.

Workers in lockdown sectors are lower paid and less likely to be able to work from home



Notes: IFS calculations. UK LFS for the years 2018-19, adults aged 20-60. Pay in Dec 2019 prices. O-net data used to identify occupations that are amenable to work from home. Use classification in Dingel and Neiman (2020) to identify occupations that cannot be worked from home.

But there are opportunities

1. Changes in attitudes – tipping point for changing social norms
 2. A desire for large scale policies to address long-standing inequalities
- More people will have experienced the welfare state, which could change attitudes.
 - The large numbers of young lower earners coming out of lockdown could force a rethink of training, focusing on skills to complement new technologies.
 - The experiences of people working from home could provide the tipping point for a change in the way we work, which might spread prosperity more evenly across the country.
 - Women are more likely to be key workers, and any pressure to increase the pay of key workers could help reduce gender inequalities, as well as income inequality overall.
 - The experiences of childcare among many more men could provide a change in social norms to generate an even balance in childcare that has been so hard to achieve to date.
 - Health, economic and educational disadvantage come together in pockets of local deprivation, giving urgency for place-based policies that build resilient communities.

(Some) policy challenges



- **Wage inequality?**
 - Will there be pressure to enhance wages of low paid 'key workers'?
 - Or will e-commerce/IT dominate with increased premium for educated & work from home?
- **Human capital?**
 - Children, especially poorer children, will need additional teaching post crisis.
 - Re-think vocational training to focus on skills that match/complement wage progression.
- **A 'just system of rewards'?**
 - More people will have experienced welfare state, will this change attitudes?
 - A new emphasis on social insurance?
- **Will firms consolidate power?**
 - Rethinking competition policy?
- **Financing the deficit and fair taxation.**
 - A new social contract?
 - Enhancing fiscal capacity and trust in government in a time of populism?

Thank you! And again:

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