

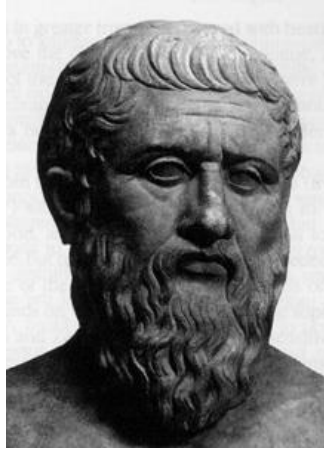


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@TheIFS

Income inequality: how and why has it changed, and why may we care?



There should exist among the citizens neither extreme poverty nor again excessive wealth, for both are productive of great evil

Plato 360 BCE

Some measure of inequality is essential for the spirit of envy... that is, like greed, a valuable spur to economic activity

**Boris Johnson
2013**



A society that puts equality before freedom will get neither

**Milton Friedman
1980**

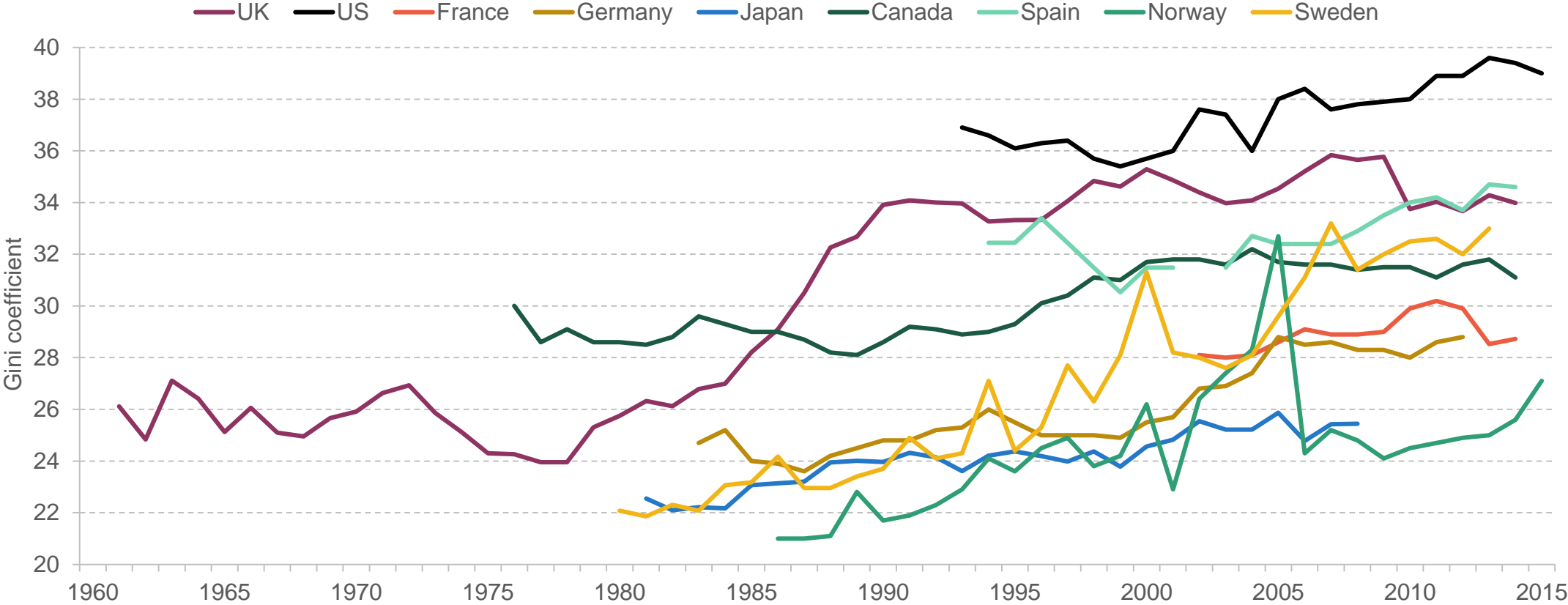


Maybe this idea of idealizing this outcome of 'Maybe one day you too can be a billionaire and earn more than millions of families combined' is not an aspirational or good thing

**Alexandria Ocasio-Cortez
2019**



Income inequality on the up



Note: Income is measured as total household income net of taxes and benefits and is adjusted for household size.

Source: US from OECD all other countries from <https://www.chartbookofeconomicinequality.com/>

This presentation

Part 1:

Income inequality: fact and causes

- Income inequality important but not only measure of inequality
- Whole income distribution widened in the 80s, more recent changes driven by top of the income distribution
- Different possible causes of inequality rise have different policy implications

Part 2:

The impact of COVID-19 on income inequality & add. Resources

- Nature of shock has interacted with many old, deep inequalities



Income inequality: trends and causes

Inequality in what/ between who?

In what?

- Income
- Wealth
- Consumption
- Health/ well-being
- Opportunity
-

Between who?

- Individuals/ households
- Countries/ Regions
- Education
- Gender
- Ethnic groups
- ...

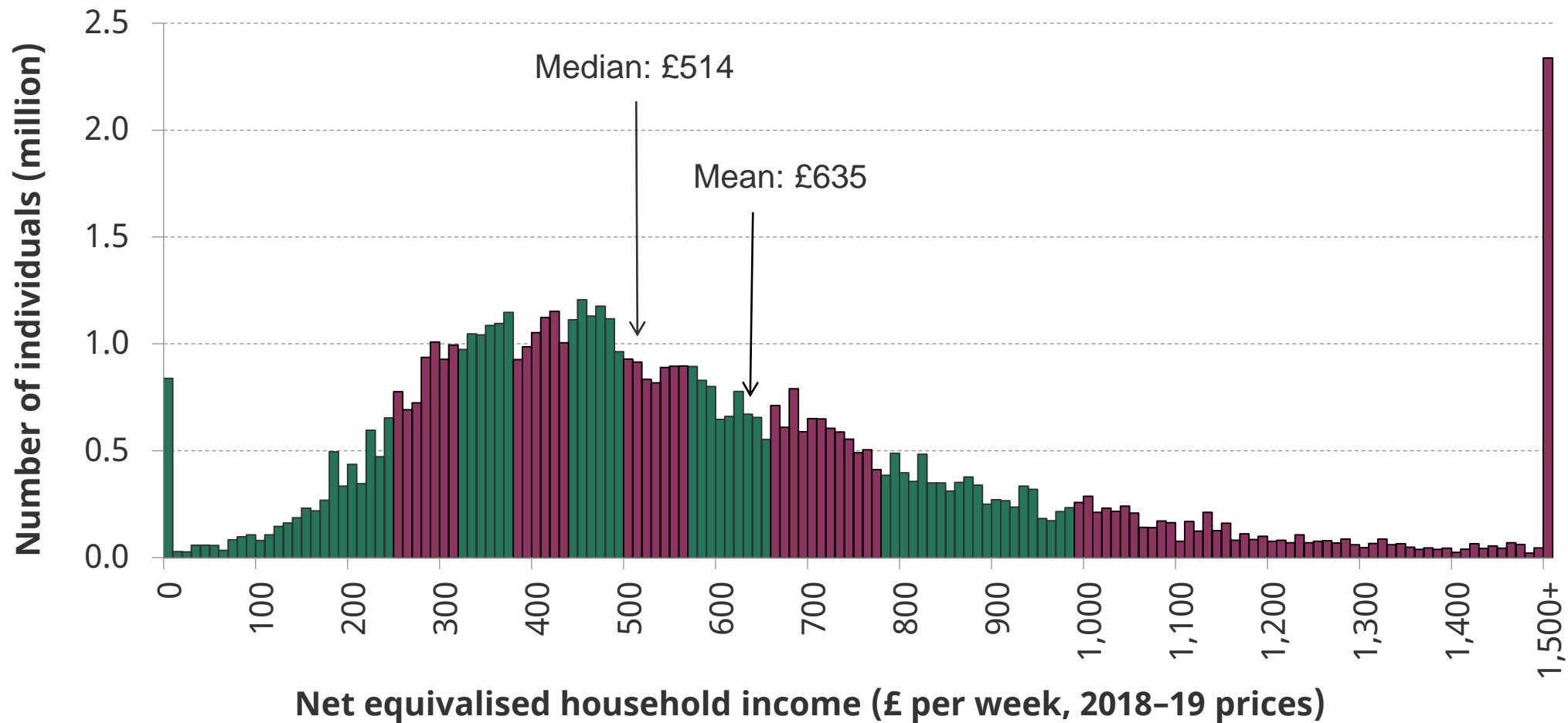


Measuring income inequality

Different measures of income inequality have different benefits:

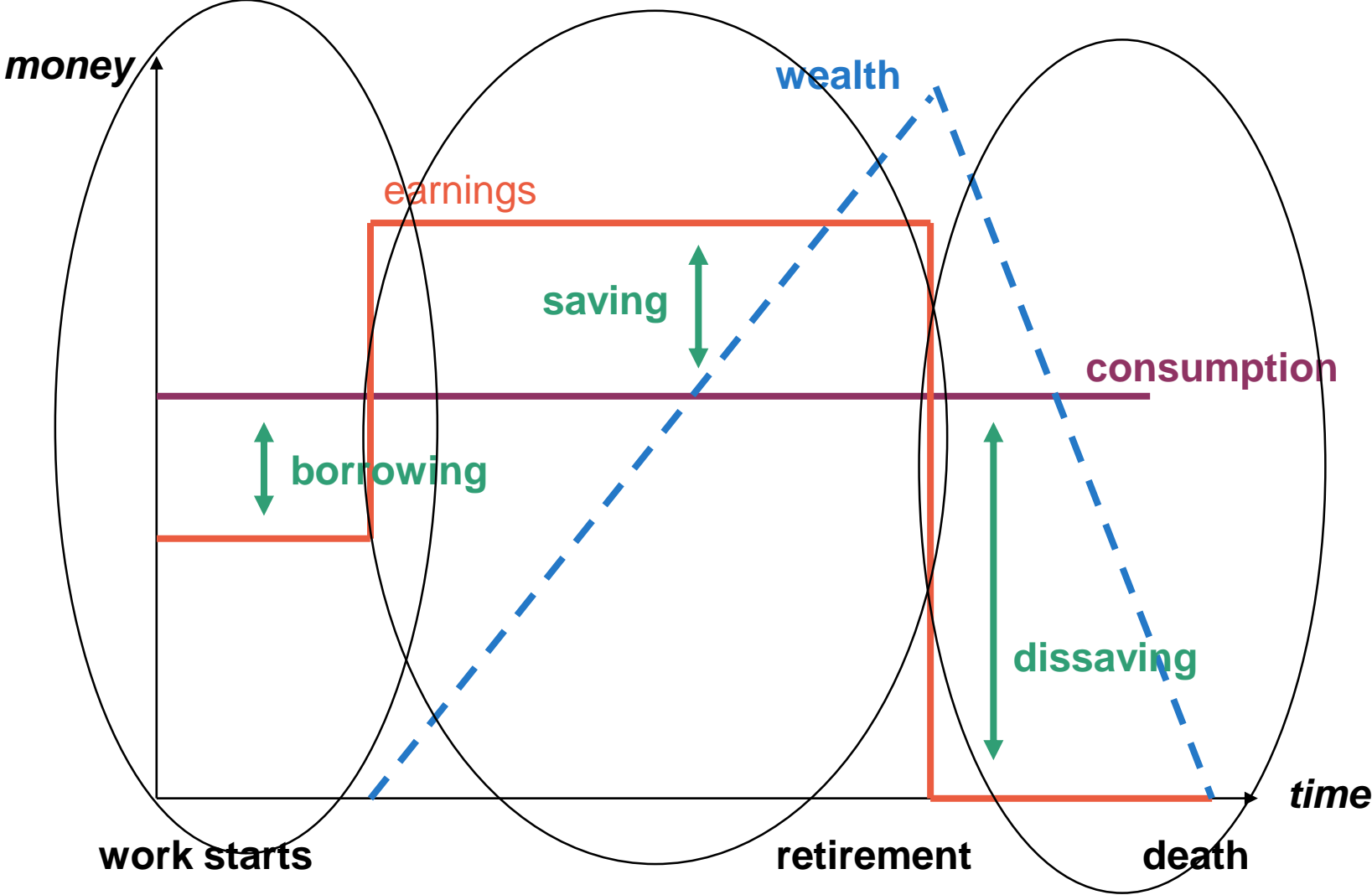
- The Gini coefficient incorporates the entire income distribution
- Percentile ratios (e.g. 90:10) are insensitive to extremes
- Income shares (e.g. top 1% share) can be calculated over many decades (à la Piketty, Saez, Zucman 2018)

The UK income distribution in 2018–19



Note: Income is measured as total household income net of taxes and benefits, but before housing costs have been deducted and is adjusted for household size. Source: Bourquin et al. (2020)

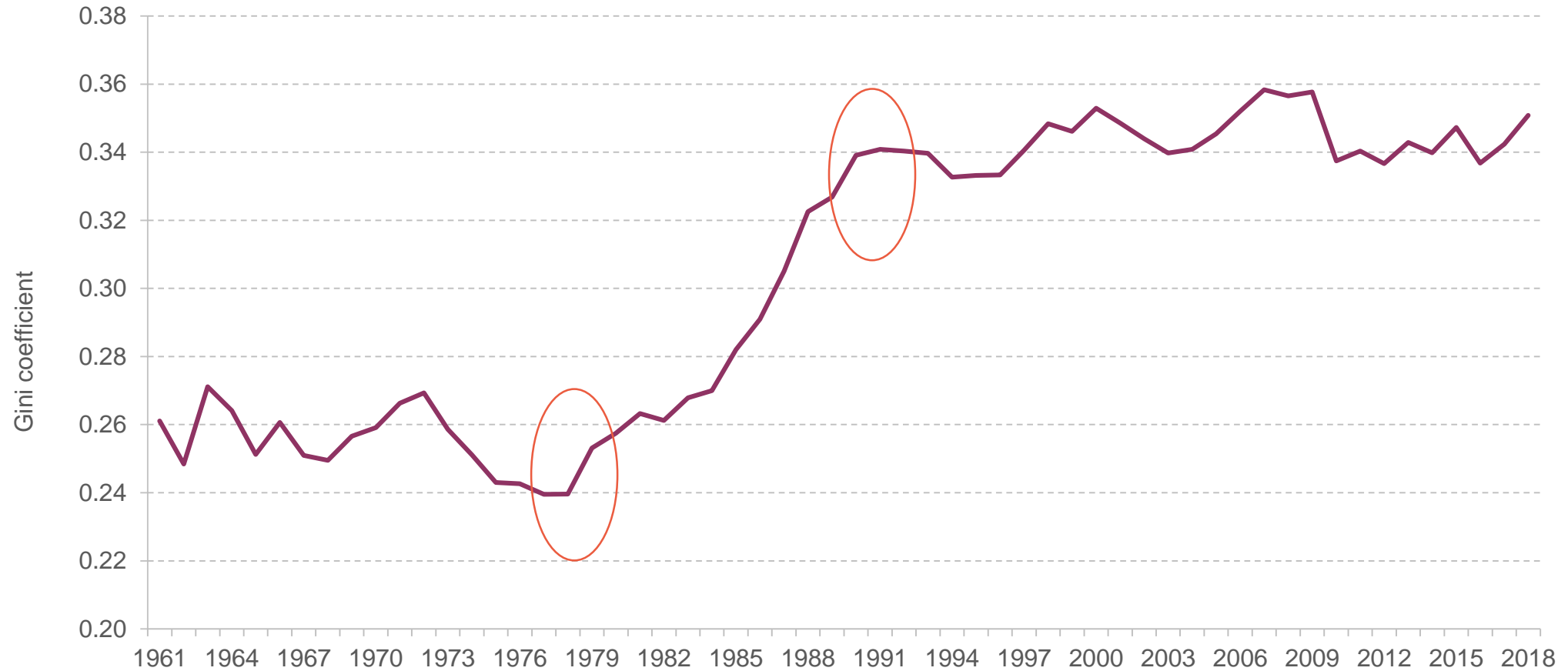
Life cycle model



Inequality: stylised facts

- Income inequality in UK much higher than in 1960s due to large rise in the 1980s

Income inequality in GB



Note: Income is measured as total household income net of taxes and benefits and is adjusted for household size.

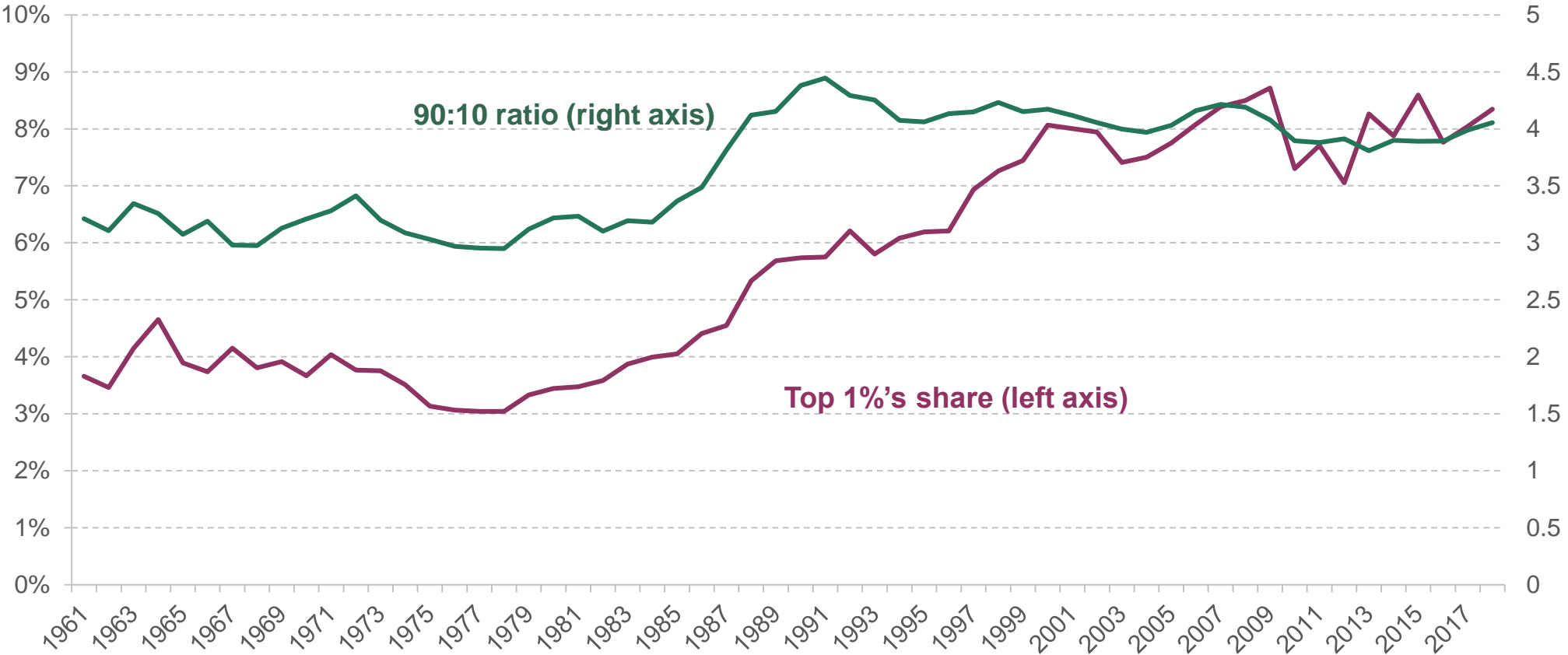
Source: Bourquin et al. (2020)

Inequality: stylised facts

Income inequality in UK much higher than in 1960s due to large rise in the 1980s

- Increases also seen in other OECD countries but sharpest in US and UK
- Whole income distribution widened in the 80s
- More recent changes driven by top of the income distribution

Income inequality in GB



Note: Income is measured as total household income net of taxes and benefits and is adjusted for household size.

Source: Bourquin et al. (2020)

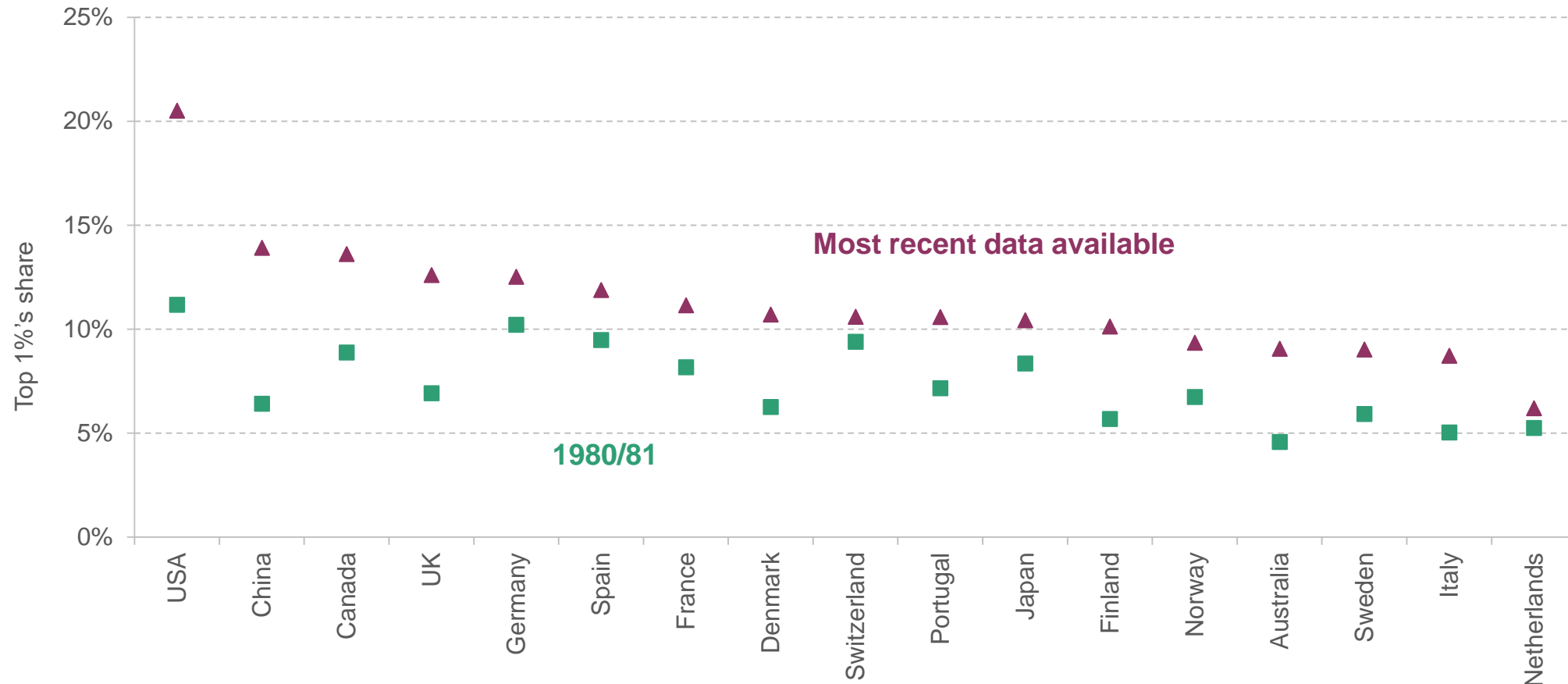
Inequality: stylised facts

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Pulling away of top 1% observed in most countries

The rise of the top 1%



Note: top 1% share is measured as the share of total pre-tax income

Source: World Inequality Database (<https://wid.world/>)

Inequality – a cause for concern?

The equity-efficiency trade-off

Intuition: higher inequality makes people work harder

- Relative gains of ‘making it’ and costs of ‘falling behind’ are greater
- Lower inequality → people exert less effort
- Evidence in favour: response to top rate of income tax



Some measure of
inequality is
essential for the
spirit of envy...
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Boris Johnson
2013

Caveat 1: trade-off doesn't always exist

- Inequality can result from market failures such as uncompetitive markets
- Fixing the market failure = greater equality and lower inequality

Caveat 2: people may be willing to bear cost of smaller economy

- Balance between greater equality and higher income a political decision

Inequality: What's caused the increase?

Empirical work points to several causes of general upward trend

- Skill-biased technological change (Goldin and Katz, 2009)
- Trade (David Autor's Freakonomics podcast)

Both have increased productive potential of the economy

- Interventions to reduce ineq. likely to face equity-efficiency trade-off

Several different hypotheses on why top 1% has pulled away

1. "Super-star" effects (Kaplan and Rauh, 2013)
2. Rise in market power (De Loecker and Eeckhout, 2017)

Have different policy implications

1. Gov. intervention/redistribution faces equality-efficiency trade off
2. Competition policy could increase efficiency and equity



The impact of Covid-19 on inequality

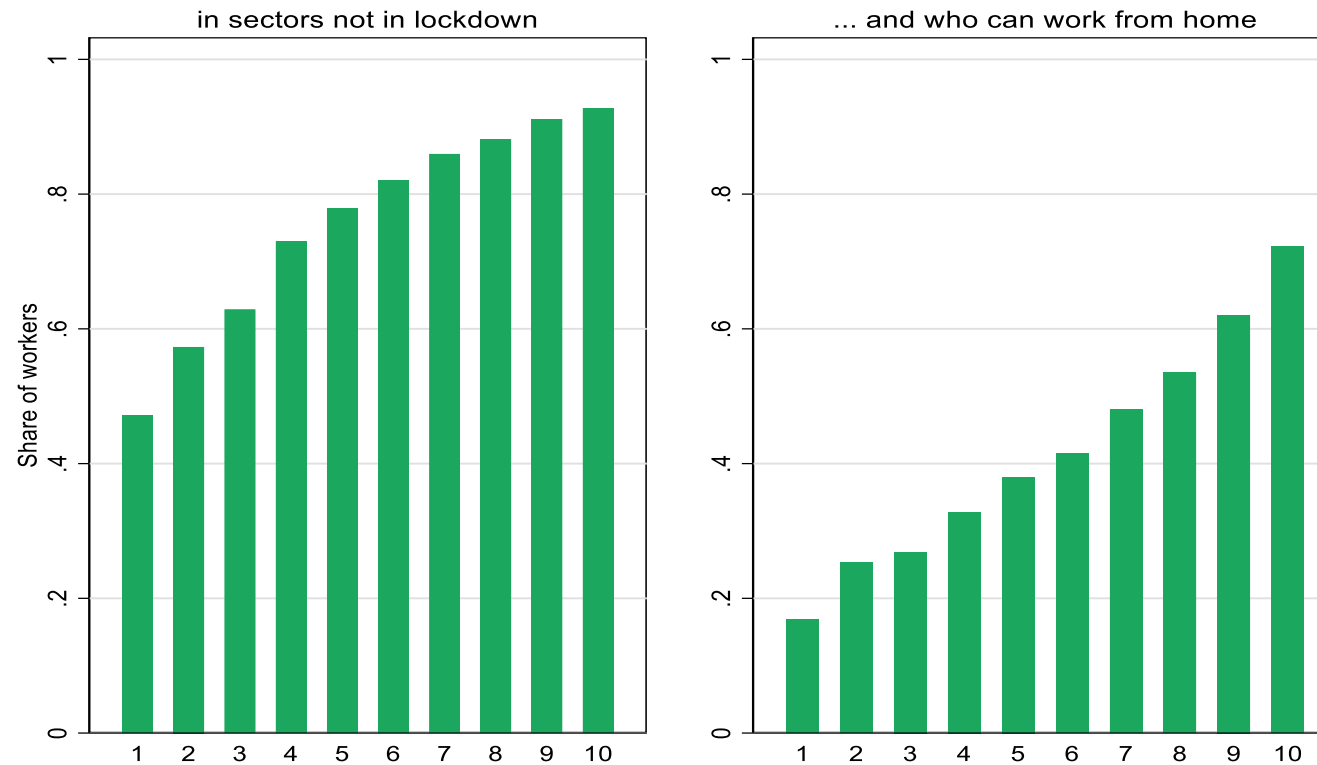
The impact of Covid-19 on inequality

Nature of shock has interacted with many old, deep inequalities (Blundell et al., 2020)

- Highlighted existing inequalities
 - Savings and debt
 - Housing
 - State of benefit system
- Exacerbated some inequalities
 - Ethnic
 - Regional
 - Gender
 - By income
 - Intergenerational
- Longer-term legacy of COVID-19 on inequality

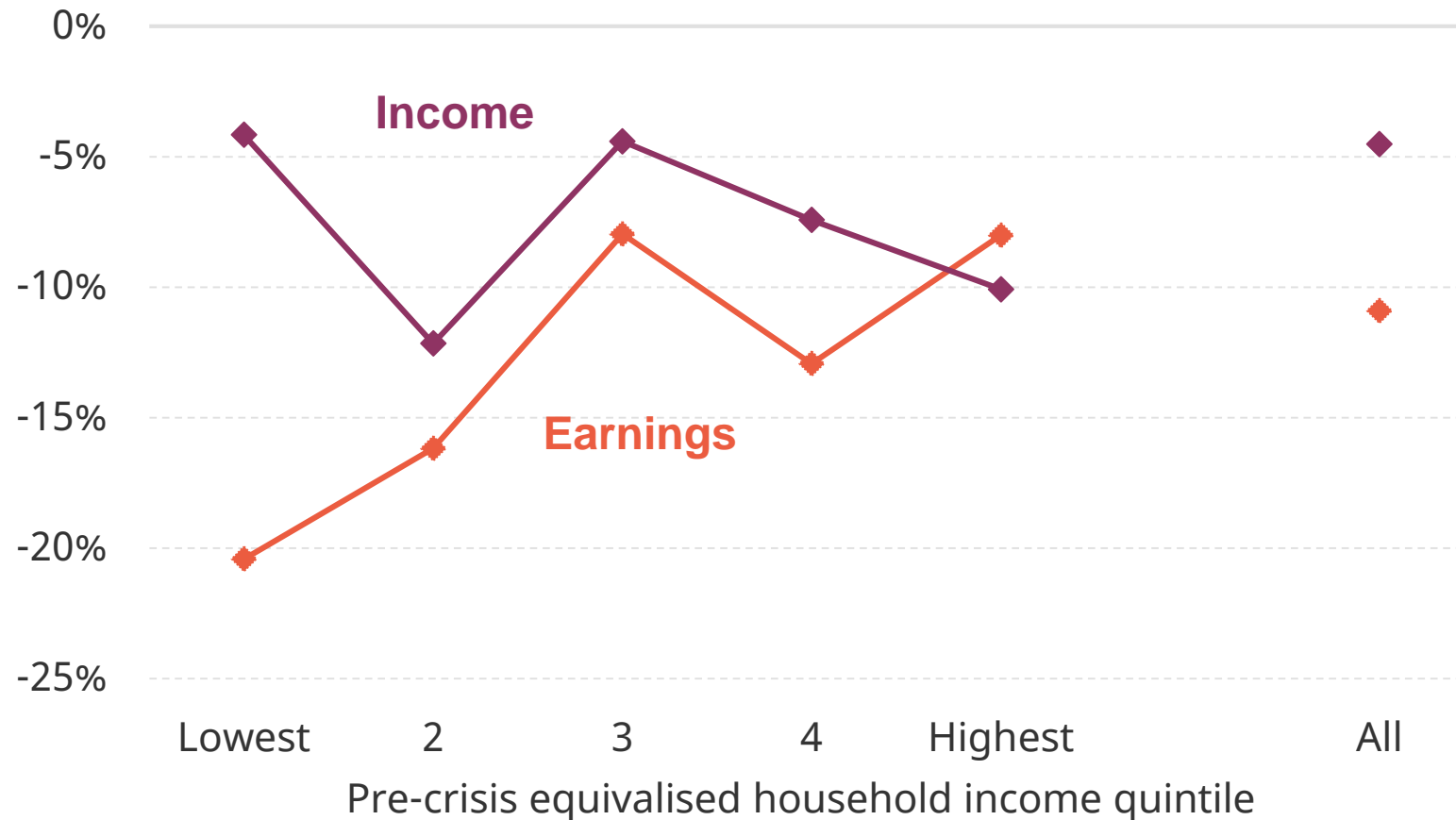
Sector shutdowns and home-working have hit low-paid workers the hardest

Share of workers in sectors not in lockdown and who can work from home, excluding key workers, by decile of earnings distribution



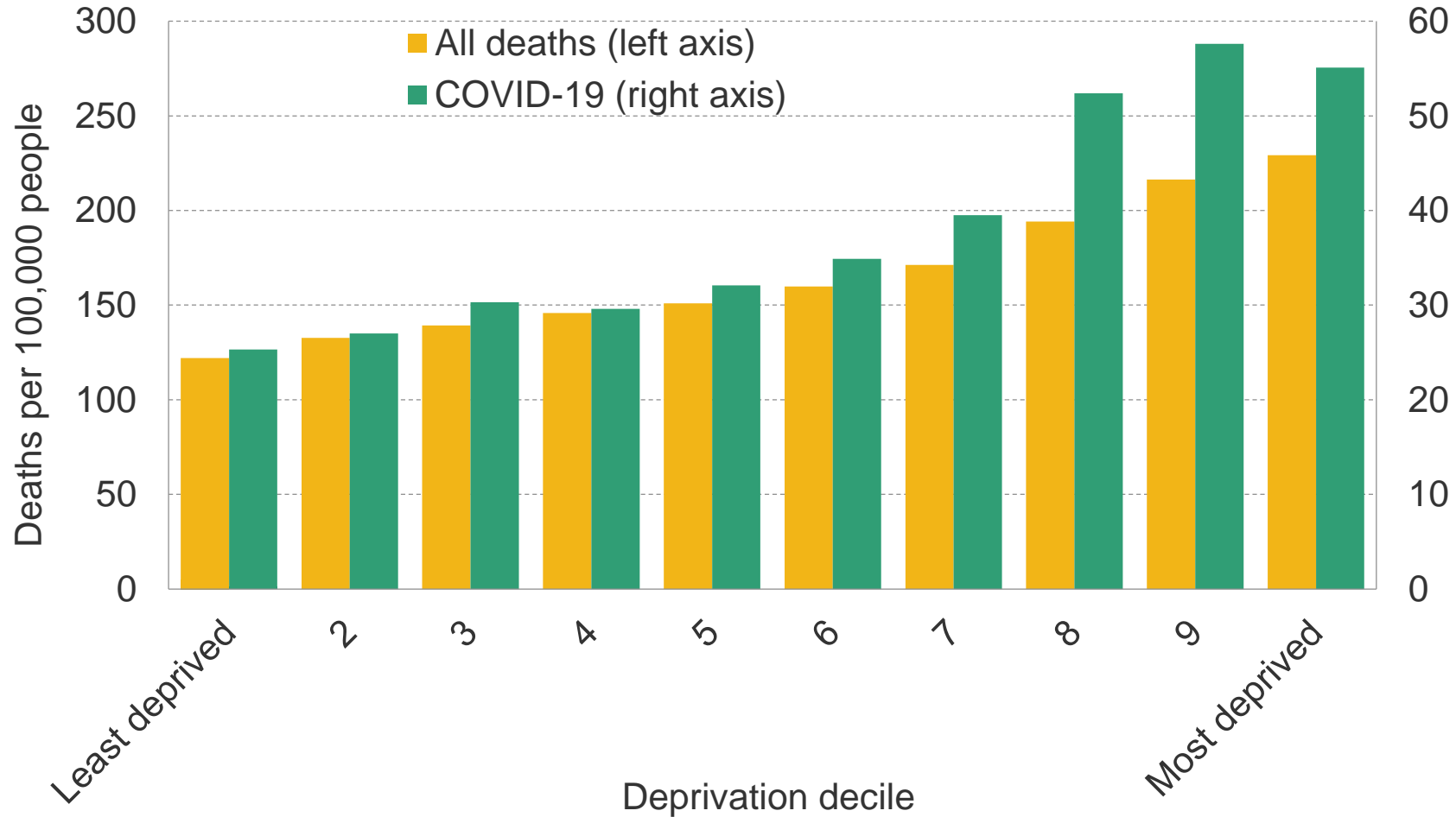
Source: Blundell et al. (2020)

Crisis hit lowest earners hardest, but more even impact on household income so far



Source: Bourquin et al (2020)

Covid-19 death rates higher in more deprived areas



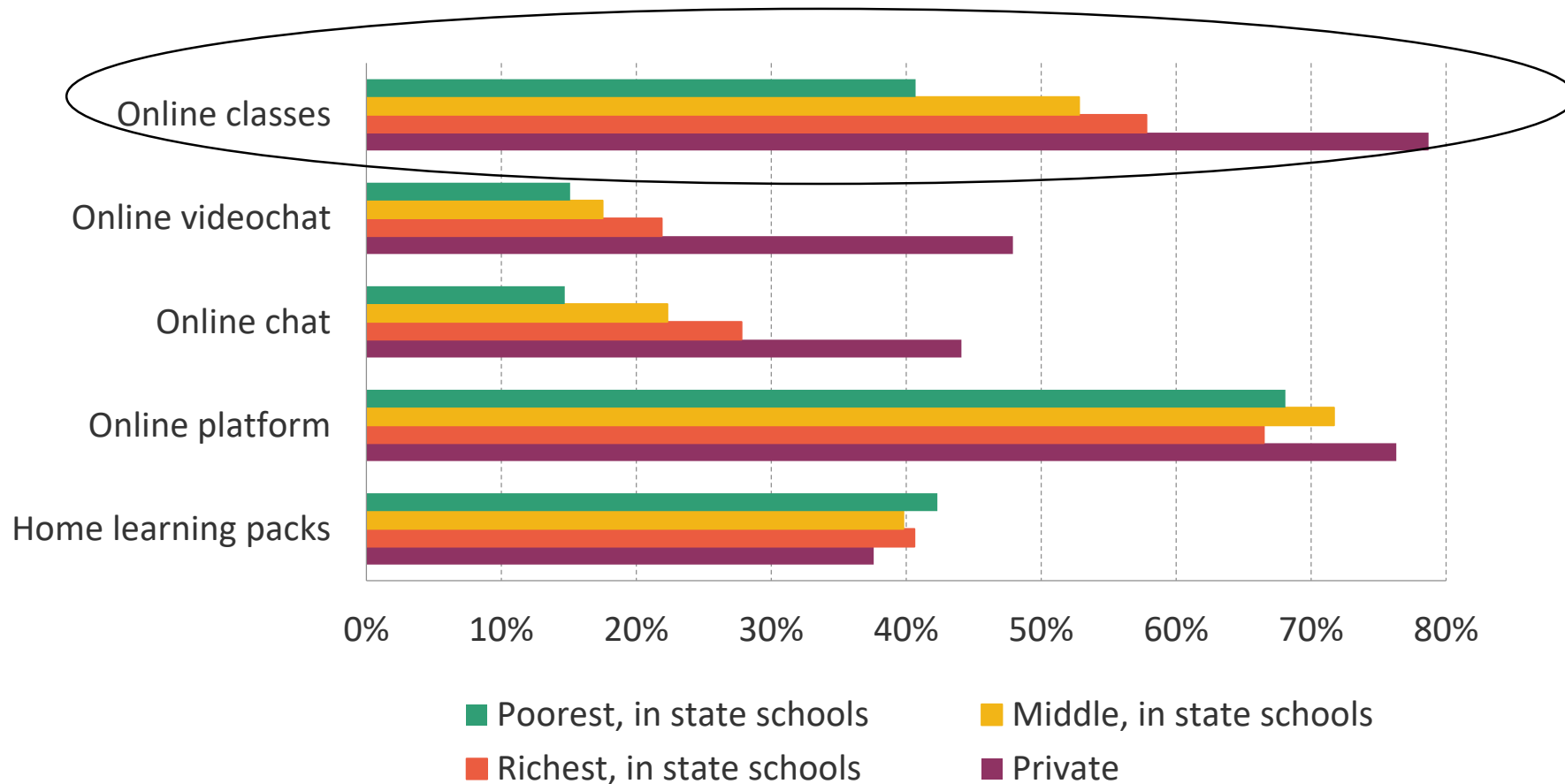
Source: Blundell et al. (2020)

Mothers more likely to have seen careers disrupted and bear most of additional child care

- Working mothers more likely to work in shutdown sectors or unable to work from home (Blundell et al., 2020)
- Mothers more likely to have had their careers disrupted (Andrew et al., 2020a)
- And are more likely to have born most of additional child care (Andrew et al. 2020a)

Source: Blundell et al. (2020)

School closures likely to exacerbate educational inequalities



Source: Andrew et al. (2020b)

Longer-term impact of Covid-19 on inequality?

- Crisis likely to leave many challenges legacies for inequality (Blundell et al., 2020)
 - Increased reliance on technology and home working may favor higher-income individuals
 - Younger generations could fall further behind
 - Wage progression of mothers could be further inhibited
 - Slow progress on social mobility could be set back
- But also opportunities to tackle some of most pressing longer-term inequalities inequality (Blundell et al., 2020)
 - Changes in attitudes – tipping point for changing social norms
 - Desire for large scale policies to address long-standing inequalities



Extra resources and references

Inequalities in the 21st Century: the IFS Deaton Review



How are different kinds of inequality related, which matter most, what are the big forces that combine to create them, and what is the right mix of policies to tackle them?

- An interdisciplinary panel of world leaders in economics, sociology, demography, philosophy, political science and epidemiology chaired by Nobel Laureate Sir Angus Deaton
- Initial research found online
- <https://www.ifs.org.uk/inequality/>

Some interesting resources



Your household's income: Where do you fit in?

https://www.ifs.org.uk/tools_and_resources/where_do_you_fit_in

Richard Blundell and Xiaowei Xu. Covid-19: the impacts of the pandemic on inequality (60mins)

<https://www.ifs.org.uk/publications/14878>

How “economic despair” affects high school graduation rates for America’s poorest students (2 mins) <https://youtu.be/wlHjPRho4A4>

David Autor – Did China eat America’s jobs? (40 mins)

<http://freakonomics.com/podcast/china-eat-americas-jobs/>

Ezra Klein and Matt Yglesias discuss US inequality and the rise in market power (50 mins) <https://www.vox.com/podcasts/2017/8/24/16189890/weeds-us-economy-inequality-trump>

Some interesting resources

Global data sources:

Gapminder (world income distributions) <https://www.gapminder.org/>

World Inequality Database (income shares, 90:10 ratios) <https://wid.world/>

Chartbook of Economic Inequality (disposable income)
<https://www.chartbookofeconomicinequality.com/>

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