

OUP Book Launch
27 March 2014 London

Changing Inequalities and Societal Impacts in Rich Countries: Thirty Countries' Experiences

Abigail McKnight, Brian Nolan, Ivo
Marx and Wiemer Salverda

Growing Inequalities' Impacts (GINI) project <gini-research.org>



- EU FP7 funded major international research project
- 3½ years (2010 – mid 2013)
- 6 Core country partners (**NLD**, IRL, BEL, ITA, HUN, UK)
- 30 Countries, 30 years (1980-)
- 27 Country reports
- 94 Discussion papers
- 200+ Researchers



Two volumes:

Changing inequalities in rich countries: analytical and comparative perspectives

Wiemer Salverda, Brian Nolan, Daniele Checchi, Ive Marx, Abigail McKnight, István György Tóth and Herman van de Werfhorst

Changing inequalities and societal impacts in rich countries: thirty countries' experiences

Brian Nolan, Wiemer Salverda, Daniele Checchi, Ive Marx, Abigail McKnight, István György Tóth and Herman van de Werfhorst

Presentation:

- Inequality trends – Abigail McKnight
- Societal impacts – Brian Nolan
- Policy effectiveness – Ive Marx
- Conclusions and reflections – Wiemer Salverda

Key findings on inequality trends

- **Income** (disposable, equivalised household)

General upward trend but considerable cross-country variation in the timing of increases, periods of stability or even decline in some countries.

- **Earnings**

The largest component of income and therefore the driver behind income inequality trends. Earnings inequality is higher at the household level than at the individual level due to the concentrations of paid hours worked within households

Key findings on inequality trends

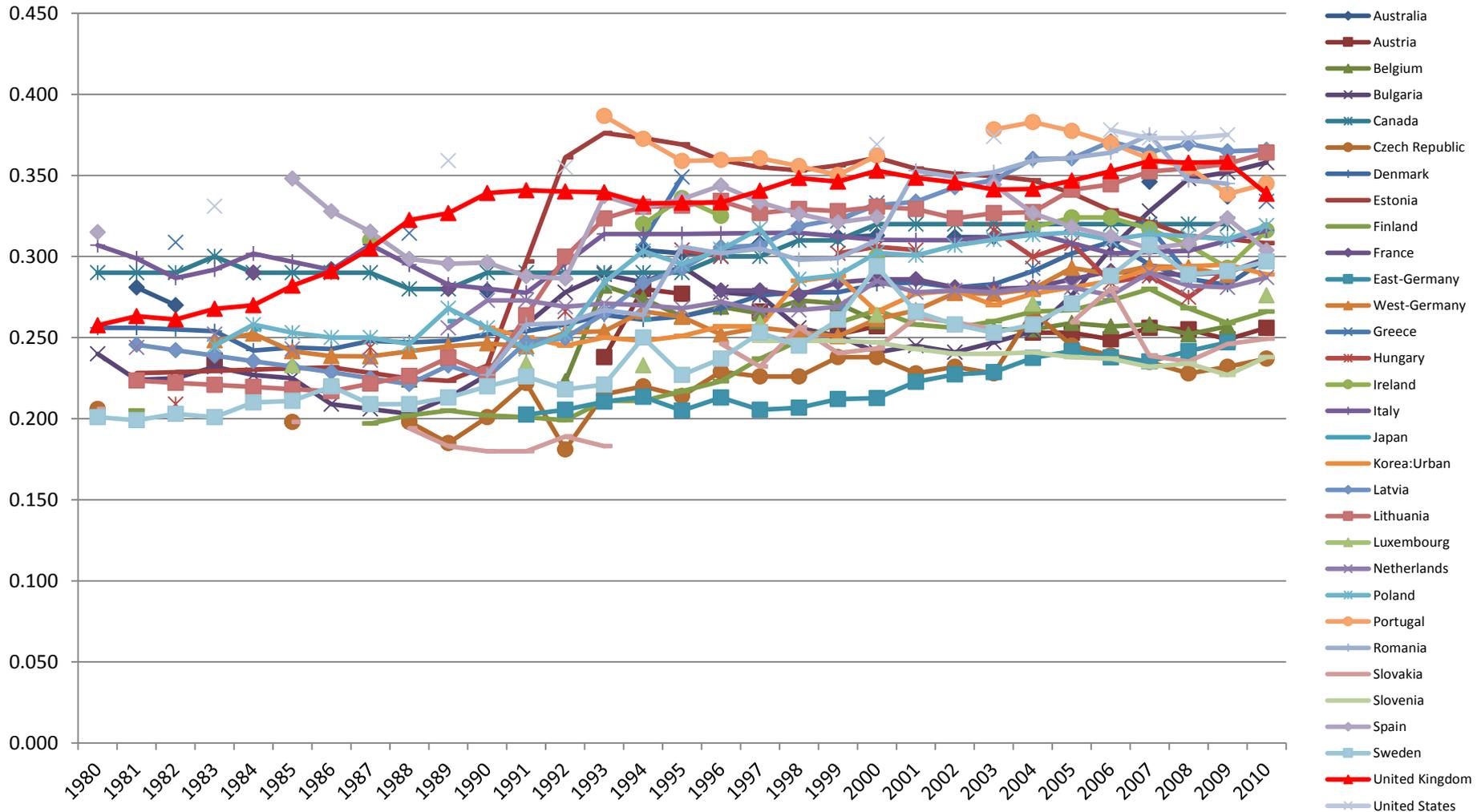
- **Wealth** (household)

Increases in absolute gaps and concentration of wealth amongst the wealthiest households in some countries and increases in debt

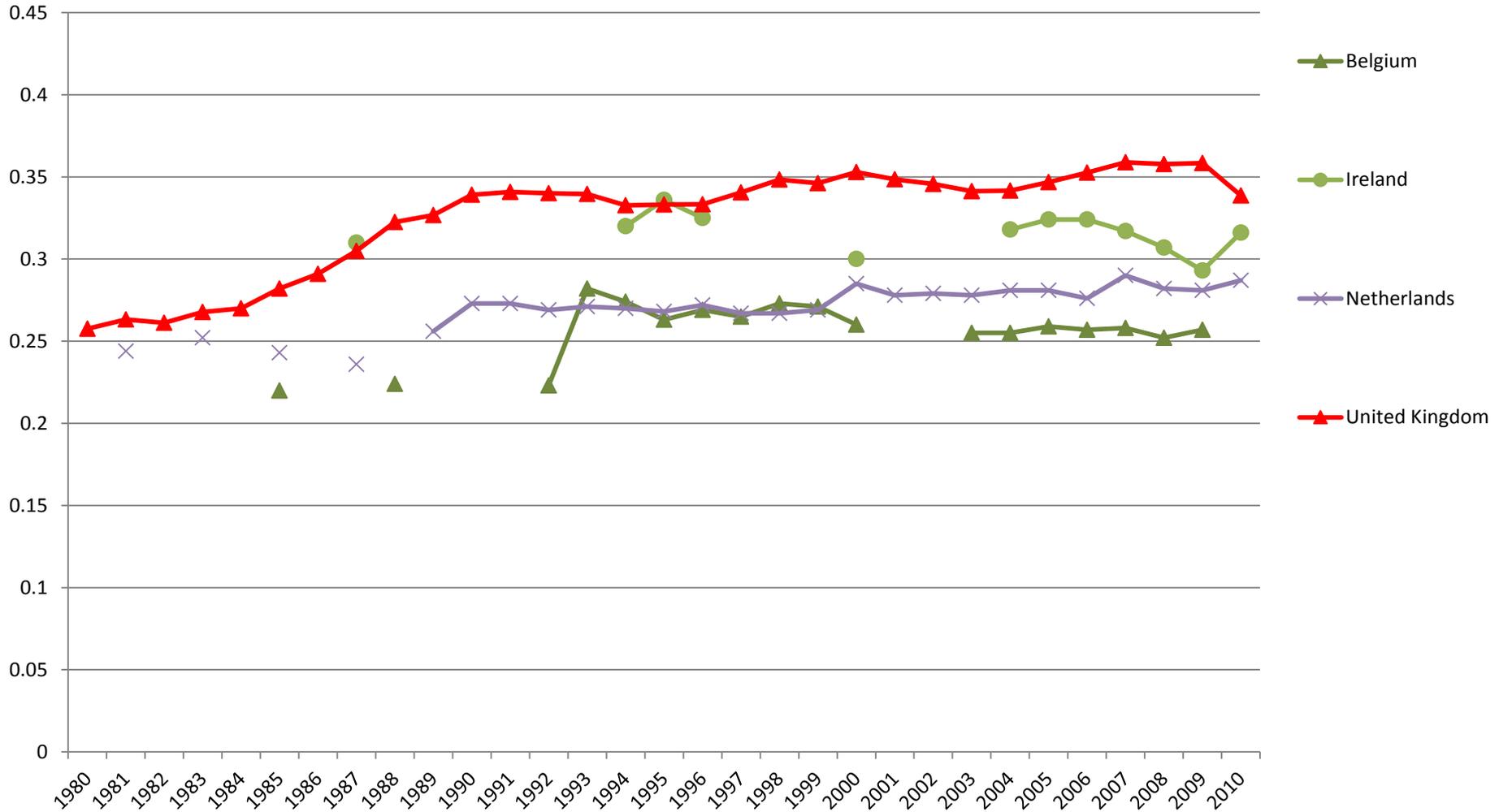
- **Education**

Educational inequalities have fallen as attainment (particularly at secondary level) has increased but strong social gradients remain

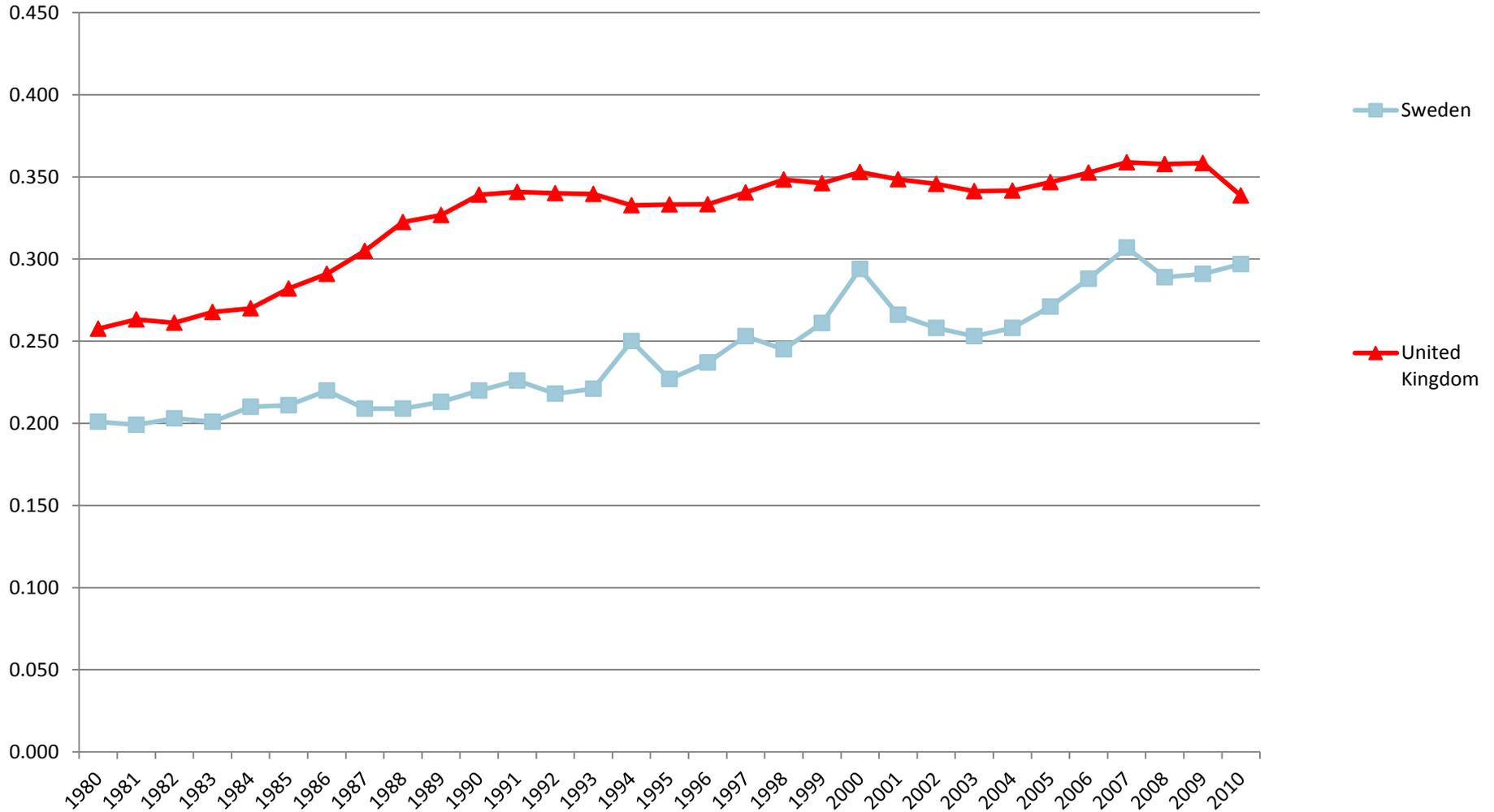
Income inequality trends



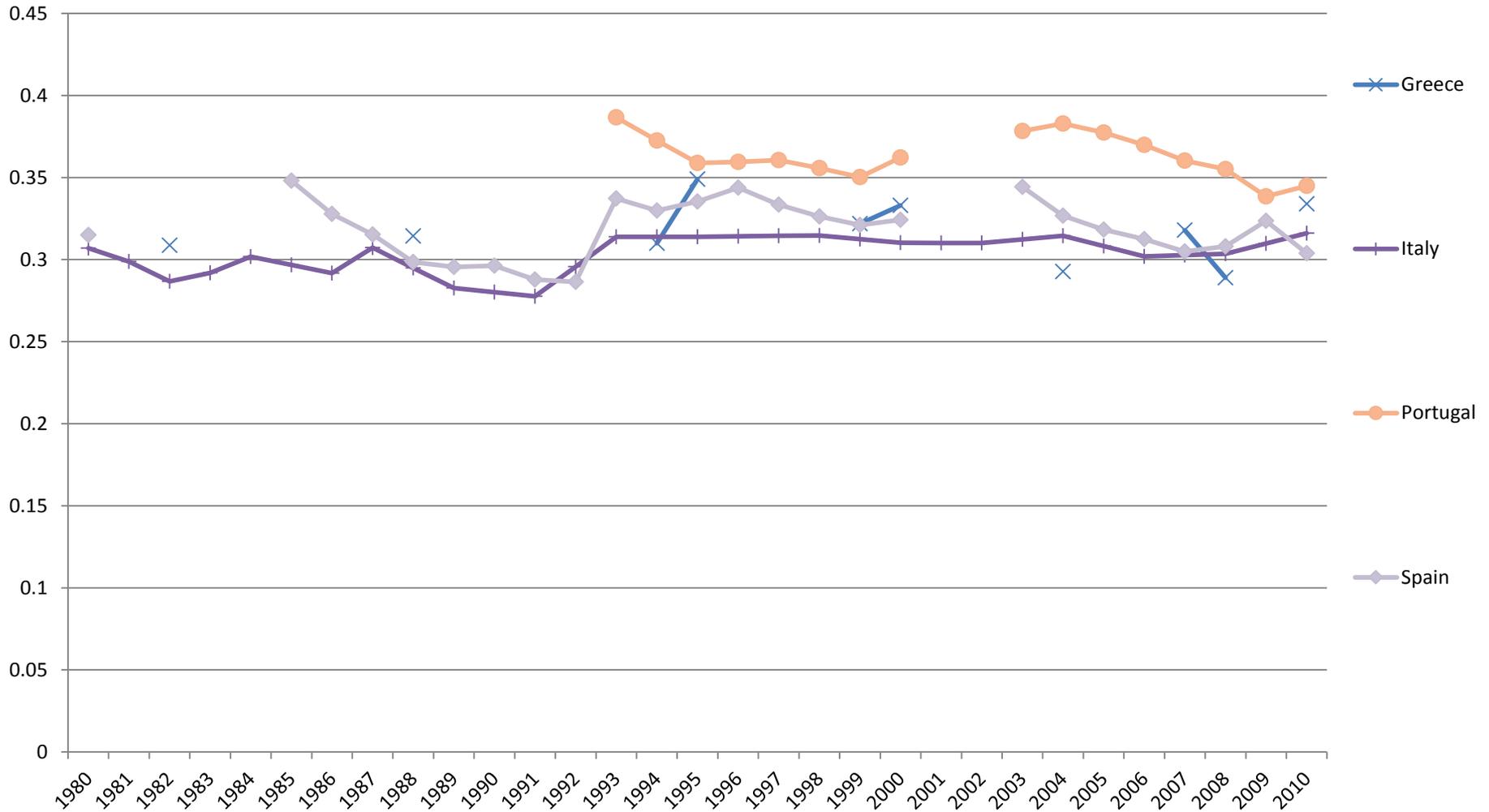
Income inequality trends



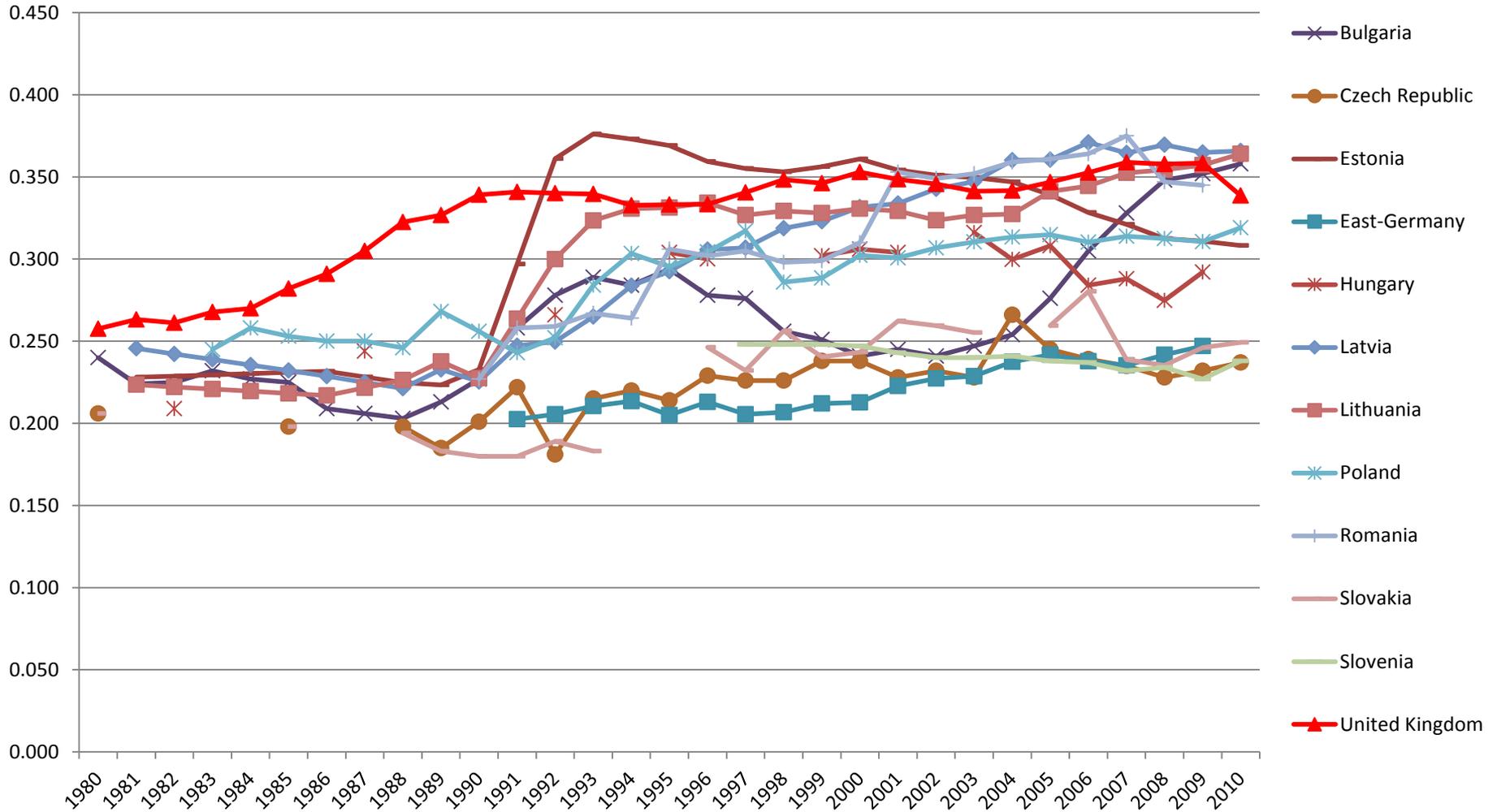
Income inequality trends



Income inequality trends



Income inequality trends



Income inequality drivers

- **SBTC, globalisation, institutions, *public policy***
- Redistribution from labour to capital
- Removal of capital taxation or at least preferential rates for capital (assets, gains, capital income, inheritance)
- Weakening of many labour market institutions
- Growth in flexible working, part time, dual earner households
- Less effective redistributive power of cash transfers
- Shifts in taxation towards indirect taxes, flat tax structures
- Transition from soviet-led economies to market
- Changing face of democracy and political power – the growth of the wealthy political elite
- Shift in policy consensus to pro-market reforms

Beyond Gini...

- Increasing concentrations among wealthy individuals and households in some countries (can occur even when the Gini is stable)
- Non-cash public expenditure
- The burden of financial debt



Inequality: Social and Political Impacts

OUP book launch, LSE, 27 March 2014

Brian Nolan
University College Dublin





Inequality and Social /Political Outcomes

- Key concern about increasing income inequality is potential impact on social outcomes and political processes
 - may lead to more divided societies with worse outcomes for (almost) all
- Across very wide range of social, political and cultural domains
- And with many potential channels of influence

Why Would Inequality Fuel Social 'Bads'?

- Higher inequality may go together with more poverty, weaker welfare state institutions and policies, and aspects of culture/history that exacerbate social problems
- Inequality in itself may be key driver
 - e.g. greater 'status anxiety' in more unequal societies may increase stress and lead to poor health, less solidarity and social cohesion, etc.



GINI Project Analyses

- Incorporated various domains
 - poverty, family, crime, health, social solidarity and trust, status anxiety, happiness, intergenerational mobility and transmission, political participation and legitimacy
- Looked at patterns across 30 countries over 30 years
 - Precise measures not always identical across countries, but could assess whether increasing income inequality was associated with worsening social outcomes



Findings

- Income inequality explains little of dramatic change in family structures in recent decades
- Crime rates not strongly linked to inequality, but more unequal societies may be more punitive
- Levels of social solidarity and trust at most weakly related to income inequality
- Economic stress not directly influenced by income inequality, deprivation is key
- Limited negative association between inequality and happiness (and not over time in USA)

Findings

- Health gradients/inequalities may increase with income inequality while population health outcomes improve
- Key interactions between income inequality and housing as homeownership encouraged
- Intergenerational mobility tends to be higher in lower-inequality countries, but limited evidence that increasing inequality has generated lower mobility over time

Findings

- Increasing inequality associated with increase in preferences/demands for redistribution
- ‘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
- Higher inequality associated with lower civic participation, lower turnout among poor
- Increasing income/wealth concentration => greater political influence for rich

Conclusions

- Potential causal channels from income inequality to social and political outcomes are many and various
- Very difficult to reliably identify impact of income inequality, rather than other features of welfare state or social stratification
- Countries studied show very wide variety of patterns over time
- Causal mechanisms need to be better specified and tested
 - ‘Too many theories, too few data-points’



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



What if we care about inequality and poverty?

OUP book launch, LSE, 27 March 2014

Ive Marx
Centre for Social Policy, University of Antwerp
IZA, Bonn



Policy within GINI

- If limiting income inequality is desirable, in its own right or as a means to mitigating the potentially negative consequences of inequality, how is it then best done?
- Main focus has been on what policy can do to help those at the bottom end of the distribution
- We have looked at direct redistributive policies
- And at policies that seek to affect the income distribution in more indirect ways: education, employment and social investment

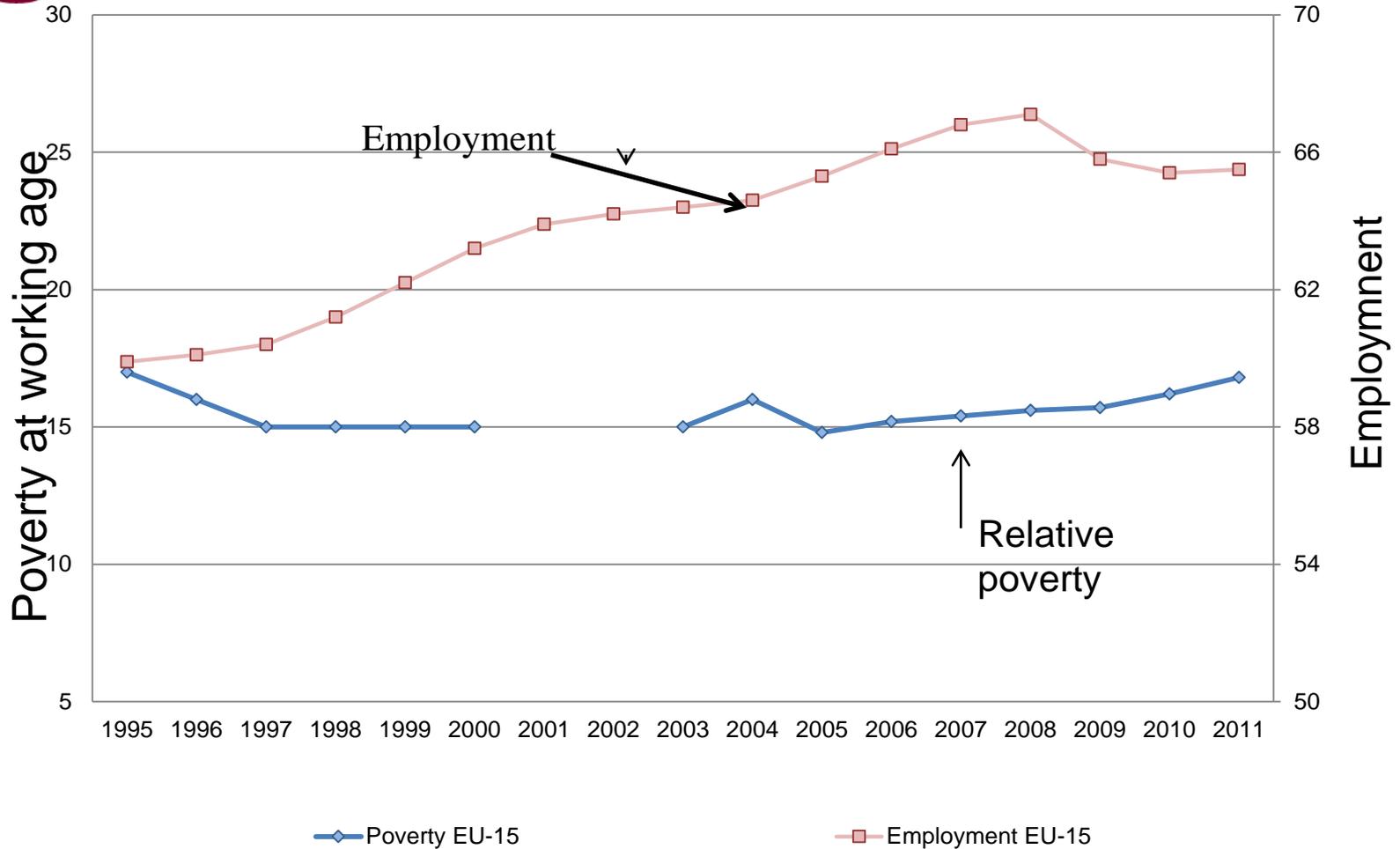


One slide summary to social policy thinking during the 1990s-2000s...

- Late 90s: Blair's "Third Way", "Active Welfare state" and associated doctrines
- EU: Lisbon Agenda, Kok Report 'Jobs, jobs, jobs.'
- **Core idea: more people in work is key to social inclusion and poverty reduction**
- EU OMC processes: clear employment targets, no social inclusion targets (unlike the UK child poverty targets), only monitoring of outcomes (including income inequality)
- The underlying assumption was that one thing would bring the other...



But job growth did not bring lower poverty (or inequality for that matter)





Why did more people in work not bring fewer people in poverty?

- The poor did not tend to be the first beneficiaries from job growth: job growth generally brought stronger increases in work-rich households than reductions in work-poor households
- At the same time the adequacy of 'passive' income protection declined
- Having/getting a job does not always mean a life free from the risk of financial poverty: in-work poverty
- Poverty line dynamics and other second order effects brought by employment growth (and the macro policies conducive to such growth, e.g. wage moderation) + other dynamics (socio-demographic,...)



Europe 2020

- Employment: target of 75% to be reached by 2020
- But also new “poverty” target: 20 m fewer people socially excluded on *one* of three indicators (poverty, hh work intensity, deprivation)
- OMC remains principal EU governance instrument
- But minimum income protection has regained prominence
- EU’s Integrated Guidelines call for ‘modern and adequate social protection’
- Social Investment Package

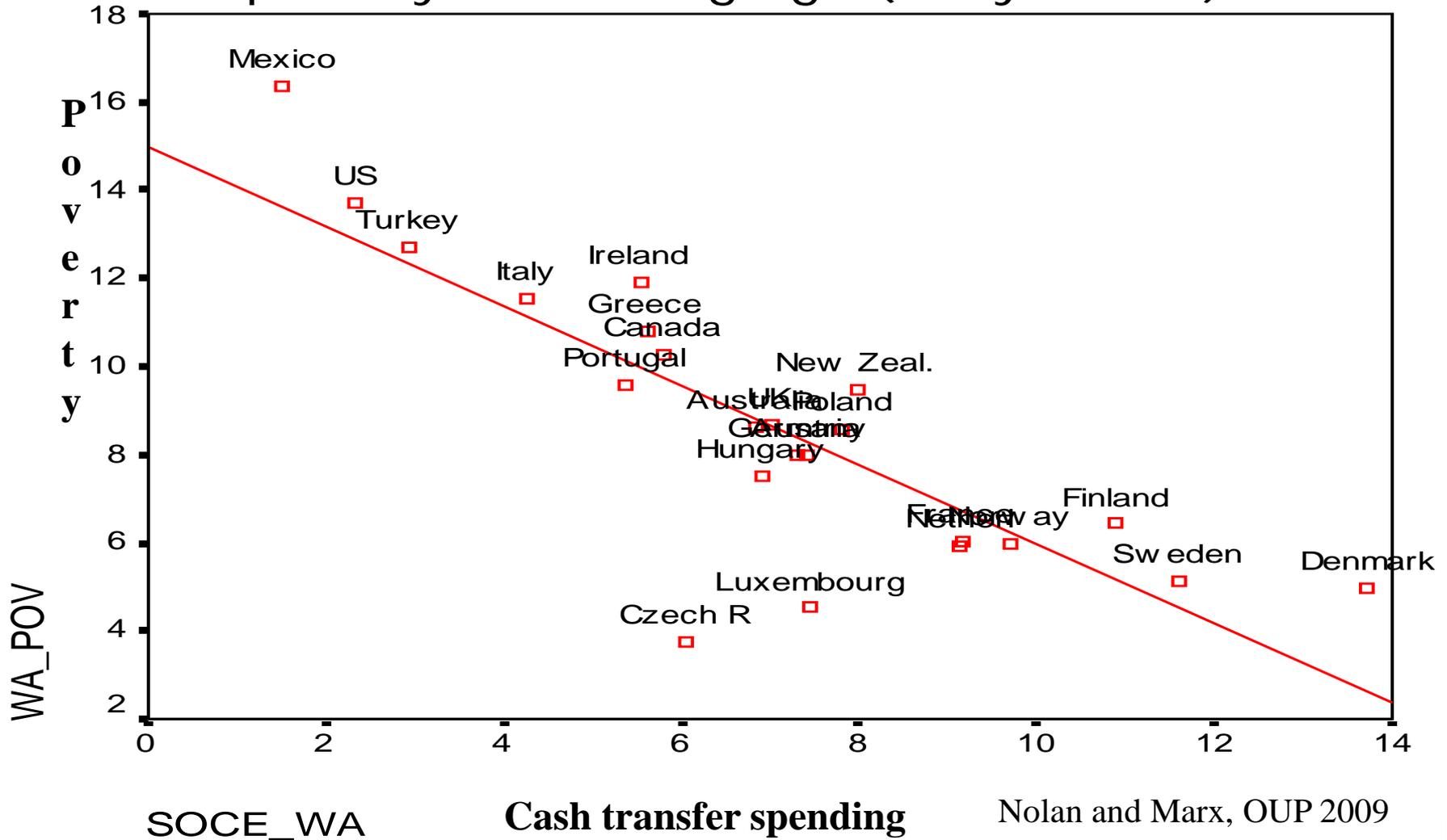


Why cash transfers matter...

- People at working age in jobless households face extremely high poverty risks, typically upwards of 40 per cent (60% in the UK)
- But even households mainly reliant on earnings face significant poverty risks
- And since these make up the majority, poverty is to a large extent concentrated among relatively high work intensity households
- Throughout the EU most poor children grow up in households mainly reliant on earnings



Size matters: spending on cash transfers and relative poverty at working age (early 2000s)

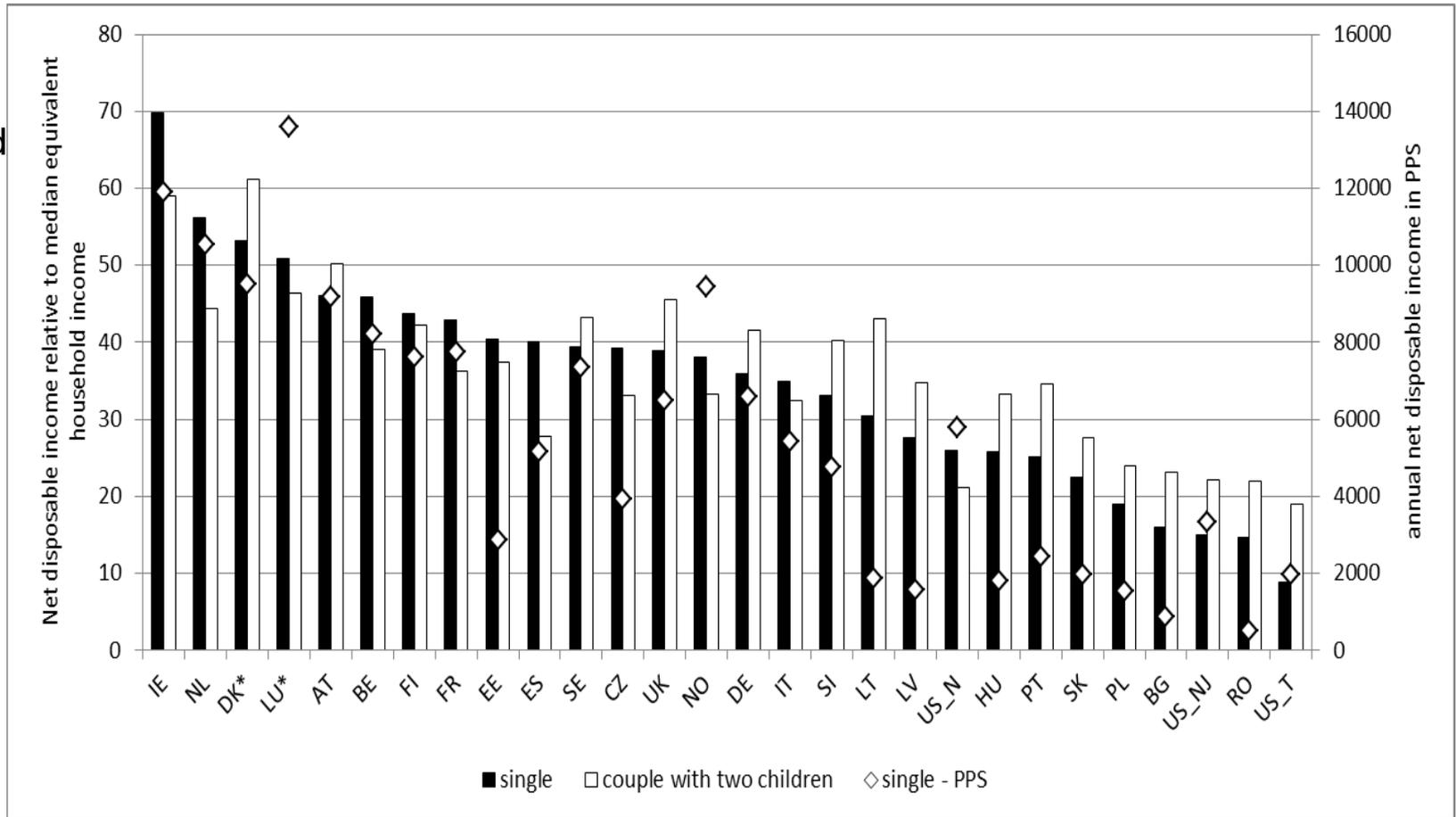


Nolan and Marx, OUP 2009



But despite heavy welfare spending, minimum income provisions in the EU fall well short of national poverty thresholds

National poverty threshold
→





Limits to poverty relief?

- Social safety nets are by and large (grossly) inadequate in most European countries
- The recent crisis made this painfully clear in some countries..
- Yet, this is probably as much a problem of systemic limits as a lack of political will or resources...



Can more be done (with less)?

- In its last Inequality Report (“Divided We Stand”) the OECD calls for “well-targeted benefits”, EU mentions need for transfer efficiency
- Targeted benefits and programmes also very strongly advocated by World Bank, IMF
- Austerity context is forcing universalist welfare states towards more targeting



More targeting of efforts?

- Heavy opposition to targeting among some academics, on various grounds
- Empirical evidence now shows that 'targeting within universalism' appears to work best
- Work incentives in MIPs have been drastically remodelled and some targeted systems are now integrated systems of support for the non-employed and low-paid workers alike
- Yet longer term effects remain to be scrutinized..



Social investment

- Some leading voices are calling for 'a radical **shift** from cash to social investment spending (education & training, child care, early childhood education, ALMPs,...)
- Europe 2020 Integrated Guidelines: "efforts should concentrate[...]on access for all to high quality, affordable, and sustainable services, especially in the social field"..."empowering people[...] will help fight social exclusion"
- Commission's "Social Investment Package"
- There can be no doubt that such policies matter if structural advances are the objective



A note of caution

- For some in-kind provisions (for example child care, education) we often see very strong social gradients in take up, even if these are designed to be pro poor
- We still do not fully understand the causes of these persistent social gradients: design or context ?
- We still need to ascertain what this means for longer term 'returns', especially for the most vulnerable
- Direct income redistribution appears to be an essential supporting pillar for effective social investment



From the conclusion to Volume 1

“By and large, the best performers among the rich countries in terms of economic, employment, social cohesion and equality outcomes have one thing in common: a large welfare state that does several things at the same time, investing in people, stimulating and supporting them to be active and also adequately protecting them and their children when everything else fails...”



GINI

GROWING INEQUALITIES' IMPACTS

Conclusions and some reflections

Abigail McKnight, Brian Nolan,
Ive Marx, and **Wiemer Salverda**



Overall conclusion

- *Income inequality has generally been increasing, but with marked country differences in inequality trends and timing*
- *Highlights important role of politics (episodes), institutions and policies, including education, which need to be better understood*
- *Political sphere most at risk of high inequality*

Structural drivers of inequality

- *Earnings from labour*
 - *individually increasingly skewed (CEO pay & bonuses; little growth for many others)*
 - *increased importance at the top of the household income distribution*
- *Demise of the single breadwinner and secular rise of dual & multiple-earner households*
- *Thinning of households: many singles and smaller high-income households*

Inequality and redistribution

- *Growing primary inequality – even extended redistribution cannot keep pace with that*
- *Puts spotlight on market incomes distribution*
- *Top pay – taxation helps (Piketty & Saez)*
- *Improve minimum wage*
 - *extend to all EU countries (.. Germany)*
 - *put focus on the labour market and look forward*

Inequality and redistribution

- *Find a way to cope with demise of the single breadwinner: consider EITC-type targeting*
- *Minimum wage helps containing the costs*
- *Multiple-earner households combine lower earnings > rethink taxation and solidarity*

Beyond GINI

- *Beyond Gini coefficient*
 - *Neglects the tails of the distribution (negatives)*
 - *Single aggregate measure may be hiding more than it reveals*
- *Have more and better EU data*
 - *Cover all income concepts; break down by major sources; add new series: top-income shares, minimum-wage employment*

Finally

*The GINI project was a wonderful cooperation of
200 scholars worldwide and a dedicated
coordinating team*

Thank you (and the LSE)



Decile averages of net incomes, €-2011, Netherlands, 1977-2011

