

Session on *“Inequality Trends Around The World”*

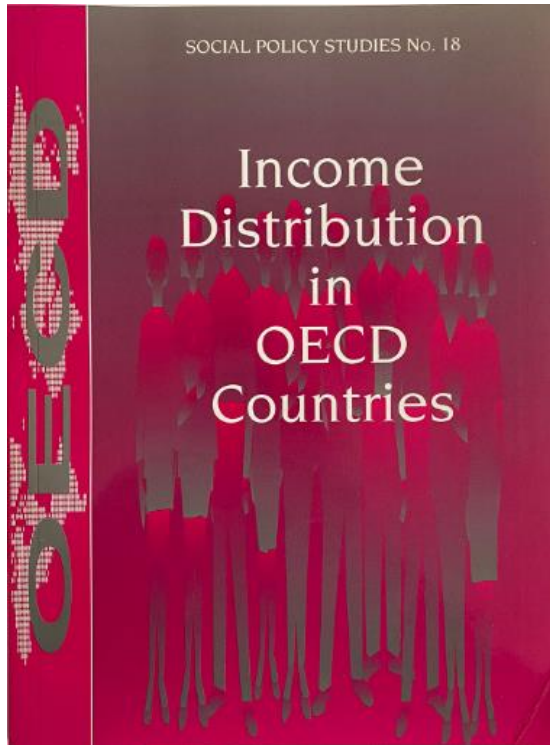
Comments and Complements to Tim, Janet and Markus

Michael Förster

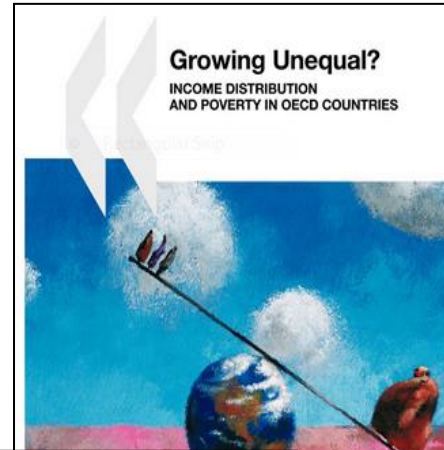
University of Antwerp and SciencesPo, formerly OECD

LIS – at the origins of successive OECD work on inequality, and a change in narrative

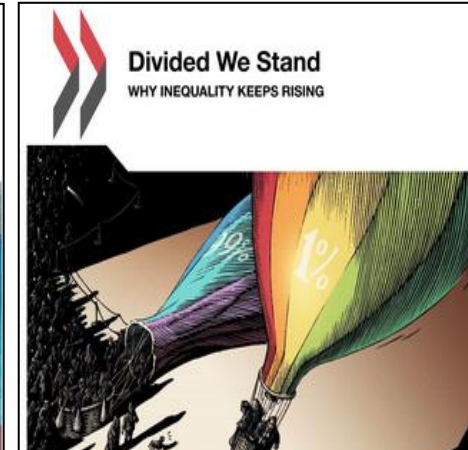
1995



2008



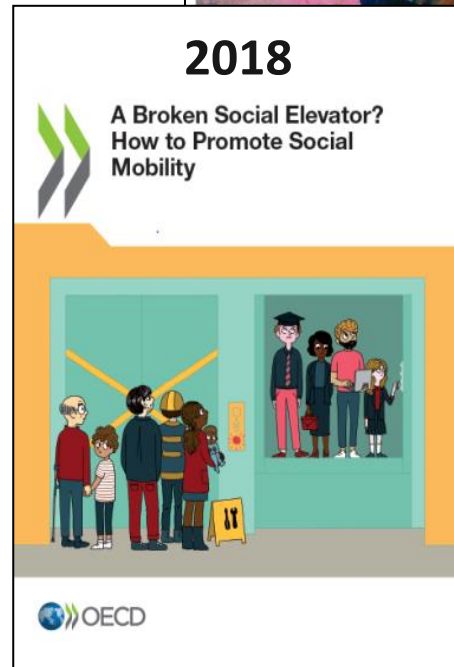
2011



2015



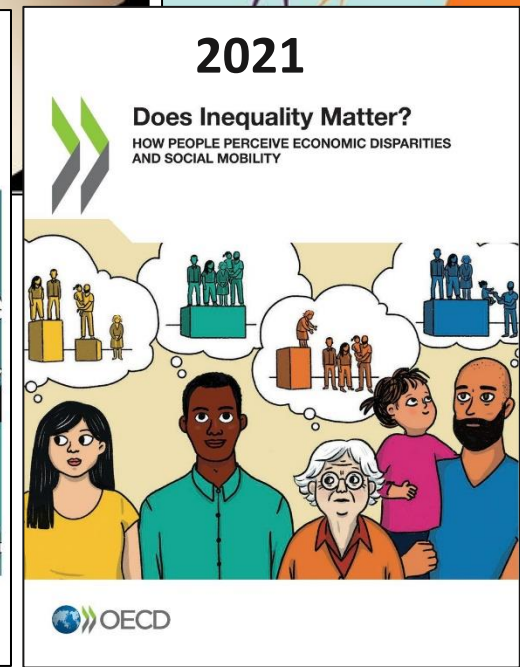
2018



2019



2021



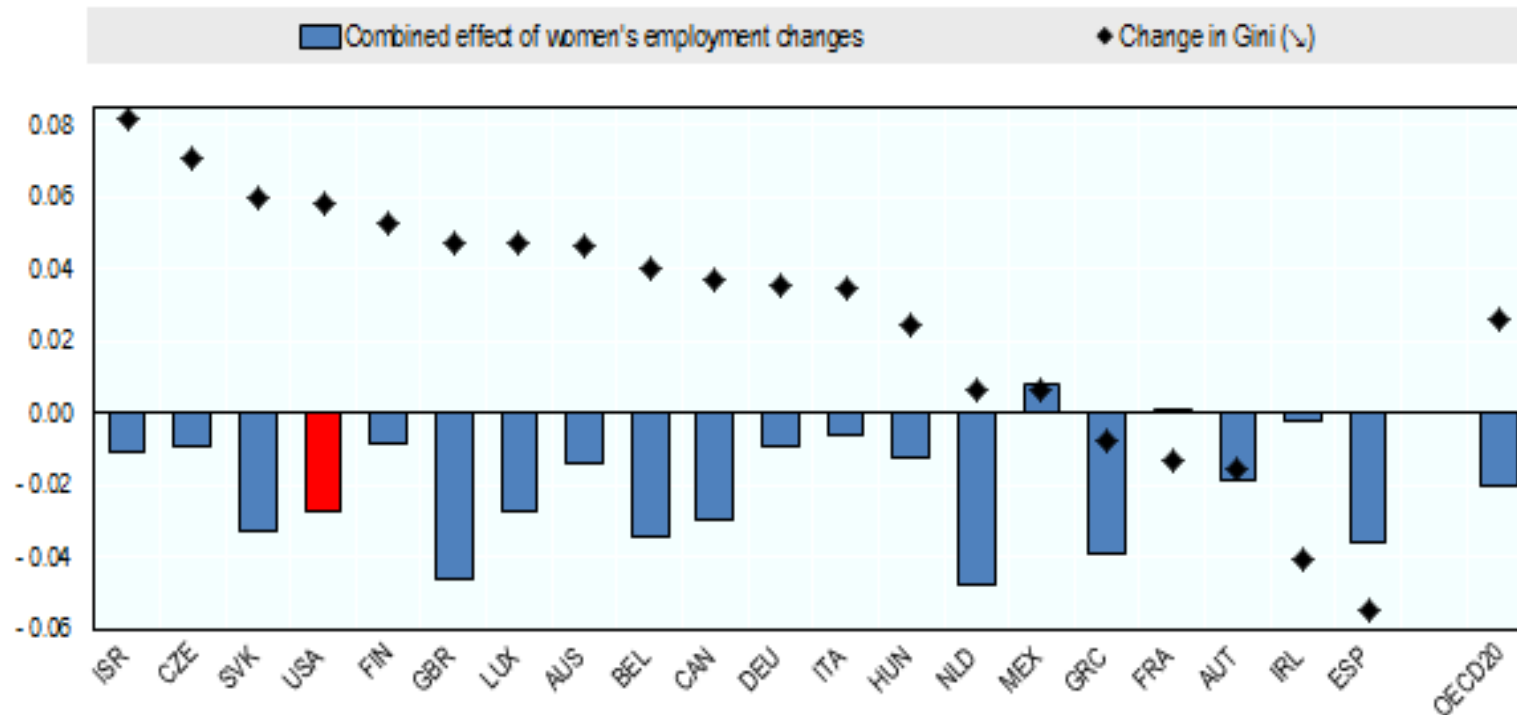
LIS and LIS data supported the long-standing OECD reflections and analyses on income and wealth distribution

- Apart from the last report, app. **half of the chapters** in each of the above flagship reports were partly (sometimes entirely) based on analysis from LIS micro data
- These reports contributed to a change in narrative: objectives of economic growth (*Going for Growth*) were underpinned by distributive objectives (*Growing Unequal?*) → **inclusive growth**
- Such change **took time**; only from 2013, the “country profile” data on p.1 of the bi-annual OECD Country *Economic Surveys* added Gini coefficients and (relative) poverty rates, along the traditional indicators
- The following slides are **examples** of four topics worthwhile to pursue with LIS/LWS data, based on Janet’s, Tim’s and Markus’ (+1) suggestions

Topics to pursue I (Janet's point): women's employment outcomes and income inequality

Trends in women's employment and earnings put a brake on increasing inequality

Contribution of composition and wage structure effects (women) to point changes in Gini of household disposable income, mid-1990s to late 2000s



- In the absence of changes in women's employment patterns, the OECD Gini would have increased by 5 points, rather than 3
- Increased employment **rates** accounted for 1 Gini point less
- The impact of increased **working hours** and higher **relative wages** (incl. lower pay gaps) added another brake of 1 point

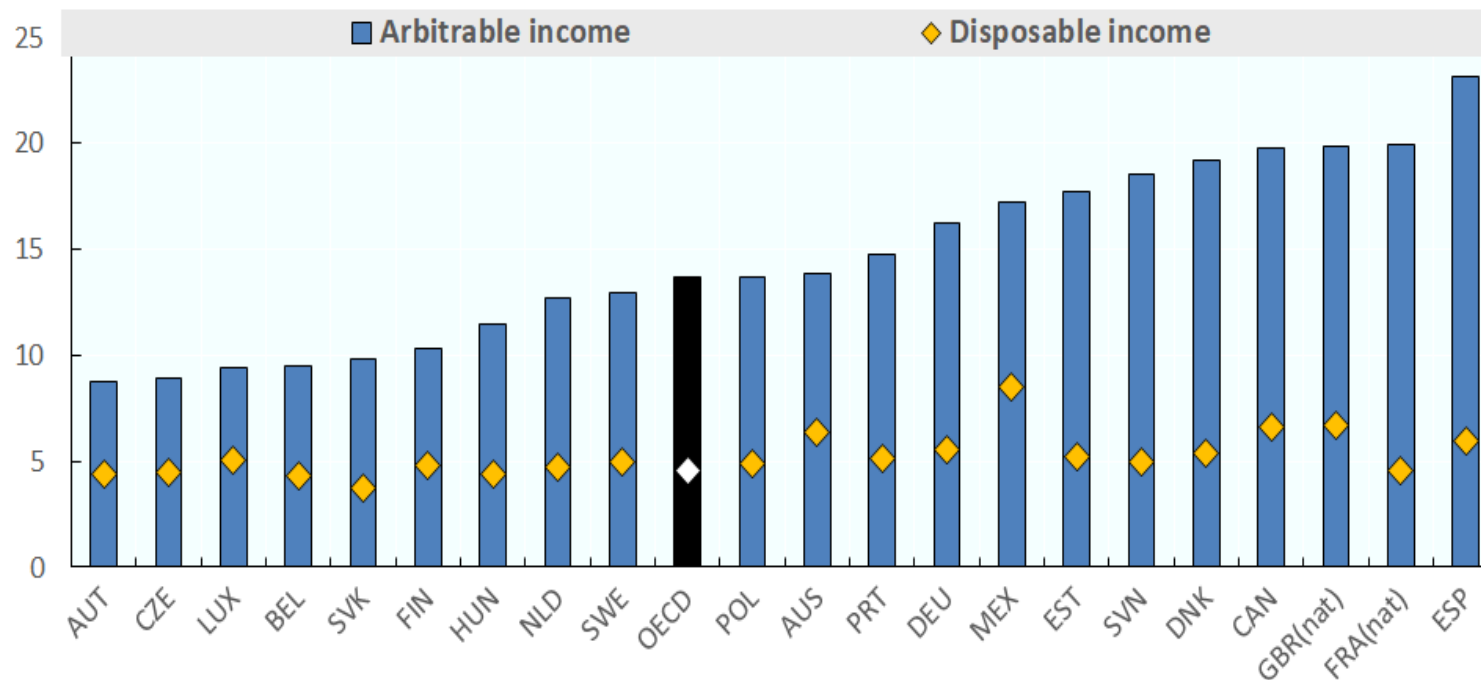
Source: OECD (2015), "In It Together", based on calculations from the Luxembourg Income Study (LIS)

Note: Data refer to working-age (25-64) households. Decomposition results are based on Recentered Influence Function (RIF) regressions. Combined effect of women's employment changes include both the composition and wage structure effects, each combining three covariates: participation, work intensity and job skill nature.

Topics to pursue II (Tim's point): income + consumption + wealth distribution

I + C: Looking at distribution of **arbitrable income**, i.e. the income that remains after deducting essential and pre-committed **consumption expenditures**

S80/S20 ratios, mid-2010s



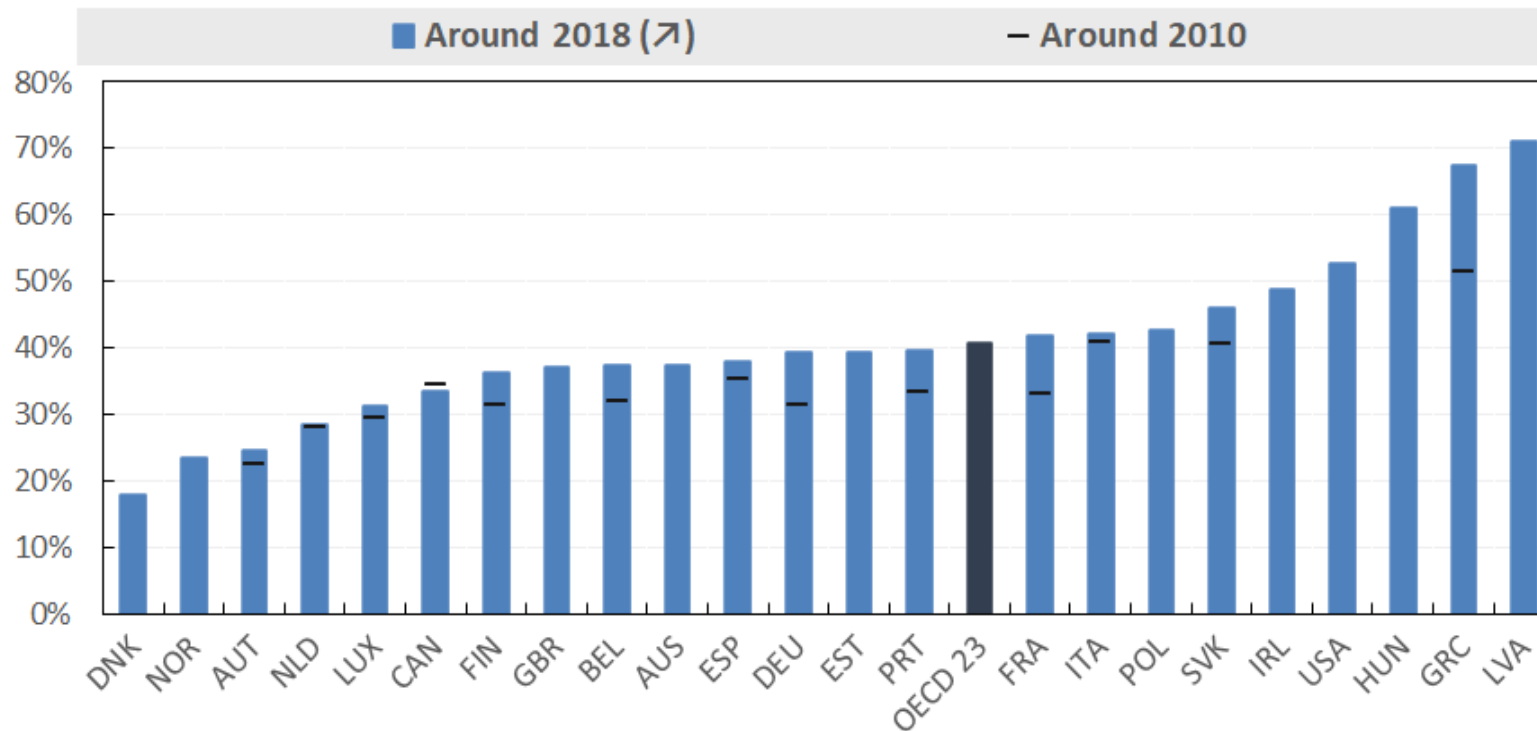
- Arbitrable income is distributed (much) more unequally than disposable income
- Furthermore, inequality levels are more diverse across countries than those of DPI

Source: Balestra and Oehler (2023), based on EG ICW matched data

Topics to pursue II (Tim's point): income + consumption + wealth distribution

I + W: Financial **wealth** as a buffer for **low-income** households

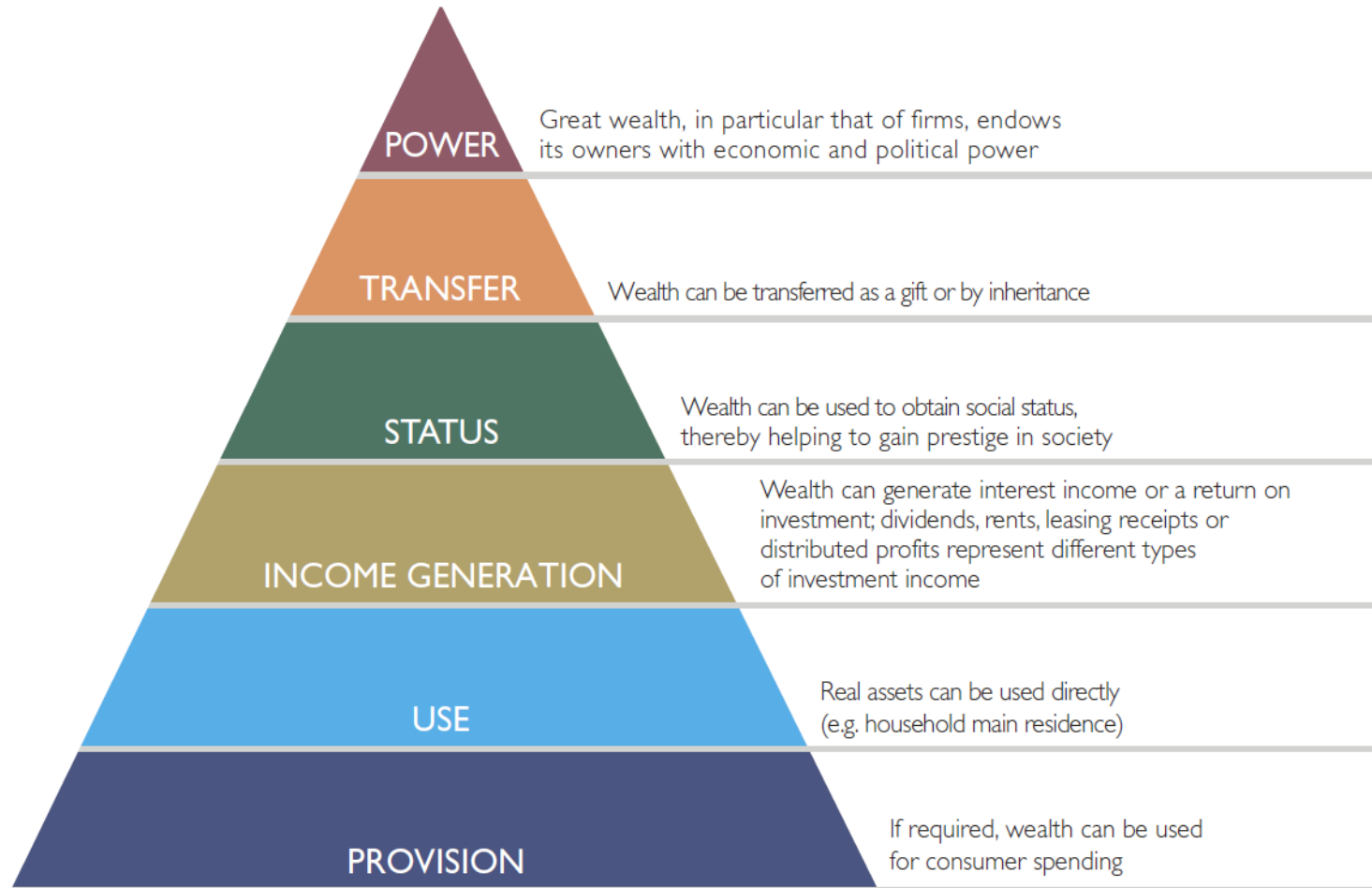
Share of lower-income individuals who lack liquid financial buffers to cope with a three weeks' loss of income



- In the run-up to the pandemic, two out of five lower-income individuals did not have sufficient **emergency savings** to draw on to cover a potential loss of income
- **Younger** people, those in **larger** households, and **single parents** were less likely to be able to absorb short-term income shocks

Source: [OECD](#) 2021, based on computations from LWS, OECD WDD and HFCS. Note: Liquid financial buffers are the sum of currency and deposits; bonds and other debt securities; mutual and other investment funds; and other non-pension financial assets. Lower-income individuals refer to individuals in the two bottom quintiles of the disposable income distribution

Topics to pursue III (Markus' point): The different purposes and functions of holding wealth

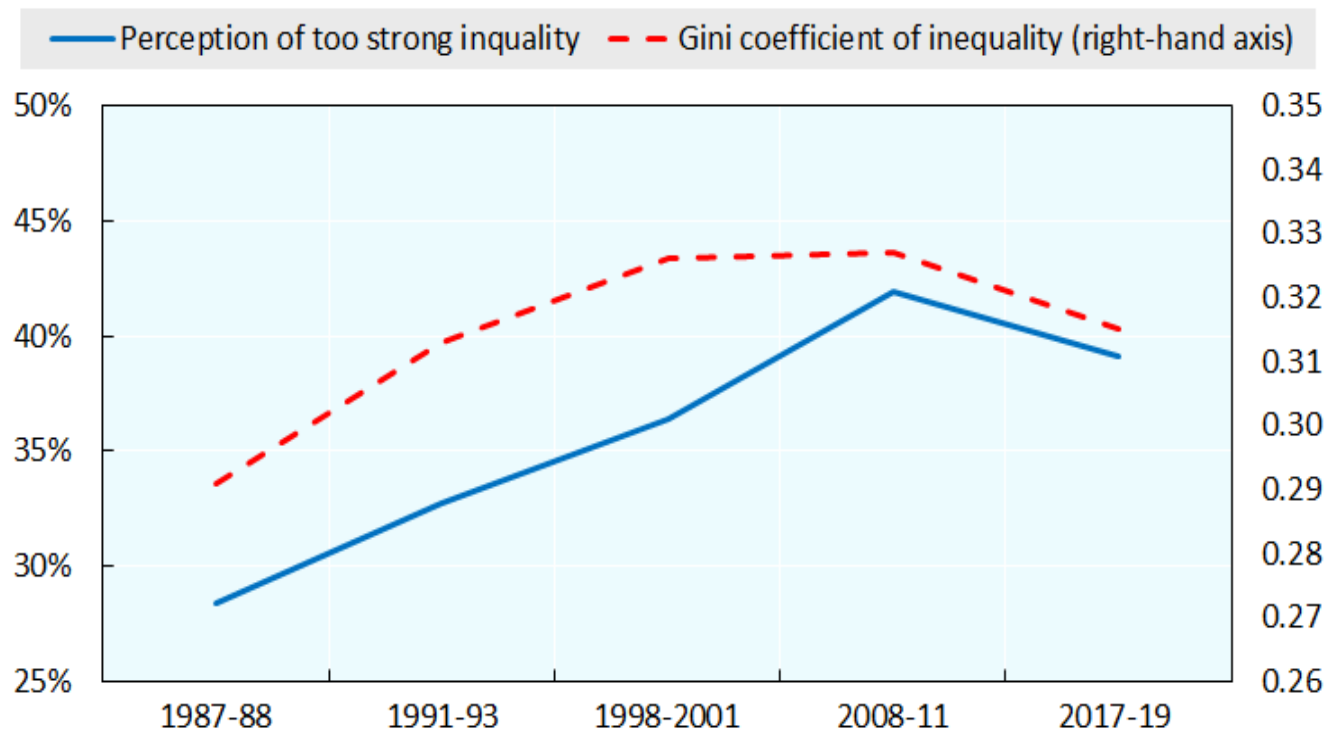


- Research objectives need to be explicit about which functions of wealth the analyses will address
- Overall inequality indicators à la Gini are not well suited for analysis of wealth concentration

Topics to pursue IV: perceptions of inequality

Peoples' perceptions and concerns about inequality are **not disconnected from reality**

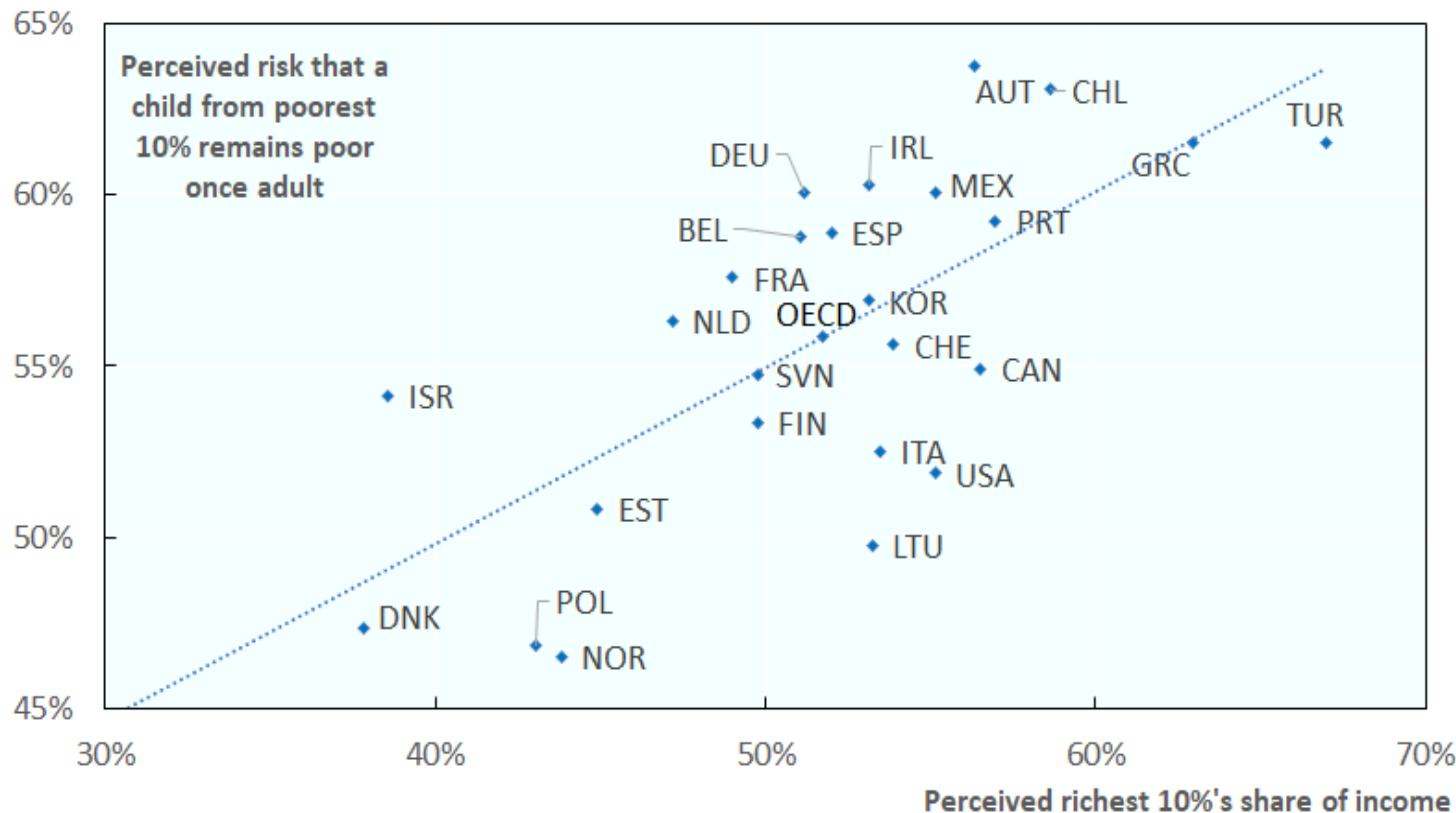
Share of people who strongly agree that income differences in their country are too large, and Gini coefficient of disposable income, OECD average



- In countries where statistical indicators of income inequality grew the most, so did people's **concern** over inequality
- There is a weak (though significant) positive association between **perceptions** and measures of top shares across countries, and over time

Topics to pursue IV: perceptions of inequality

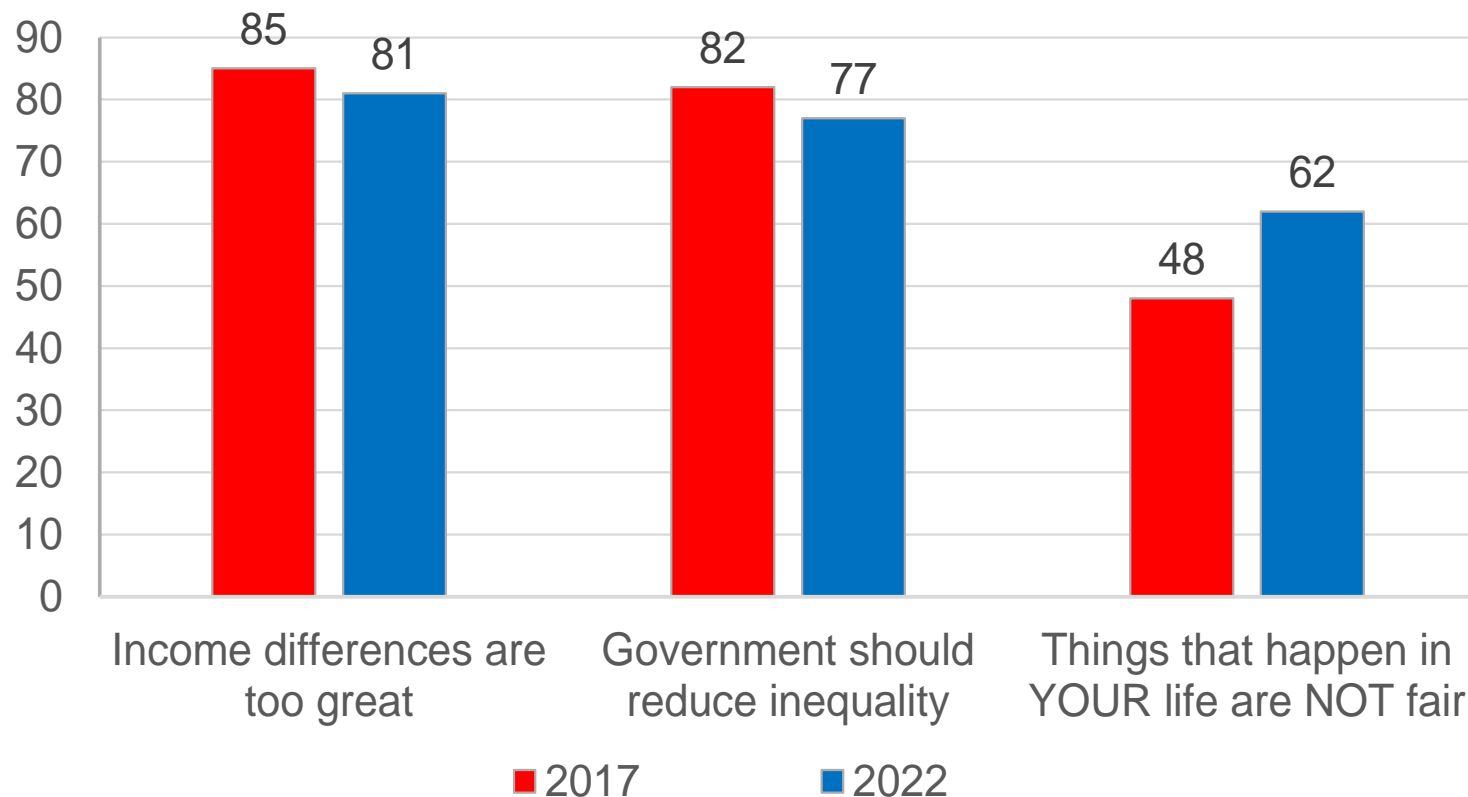
Perceptions of inequality of outcome and of opportunities are closely related, too:
The “perceived Great Gatsby” curve, year 2020



- People’s perceptions of intergenerational mobility are in line with the “Great Gatsby Curve”, whereby **greater inequality** spells **less intergenerational mobility**
- **Both** perceived inequality of outcomes and of opportunities drive preferences for inequality-reducing **policies**
- For instance, they influence to almost **equal** degrees the demand for greater public expenditure on education and health

Topics to pursue IV: a recent shift from ‘collective’ to ‘private’ concerns about inequality?

Shares of population concerned about income inequality,
EU average, 2017 and 2022



- The decrease of concerns on average is **reasonable**: conventional measures of inequality did not increase, neither (e.g. [Clark et al](#))
- But did the public opinion shift from “**public concerns**” (about inequality for the overall society) to “**private concerns**” (about fairness for the single individual)?
- Importantly, the decrease in concerns and the weaker demand for redistribution is driven by **middle- and older** people (45 +) while perceived personal unfairness increased predominantly among **youth** (15-24)

A number of reasons for the continuing success of LIS

- Flexibility and openness to new research questions and challenges
- Quality of data, and its standardization
- Excellency of the LIS team and the extended international LIS research network

→ **HAPPY ANNIVERSARY, LIS !!**