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
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

Source: OECD (2021), *Does Inequality Matter? How People Perceive Economic Disparities and Social Mobility*
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

Source: OECD (2021), *Does Inequality Matter? How People Perceive Economic Disparities and Social Mobility*
Topics to pursue IV: a recent shift from ‘collective’ to ‘private’ concerns about inequality?

- 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)

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

- Income differences are too great
- Government should reduce inequality
- Things that happen in YOUR life are NOT fair

Source: Ciani (forthcoming), based on Eurobarometer 2017 and 2022
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 !!