Income Inequality: Does it Matter and How?

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The Big Picture

Golden Age

- Catch-up growth / Prosperity
- Fordism
- Corporatism (Continental Europe)
- Keynesianism
- State intervention as the default option
  → Upward mobility (BB generation), decline in income differences

Oil shock

- Slower growth,
- De-industrialization
- Erosion of corporatism
- Monetarism
- Pressure on taxation and decline in discretionary spending
  → Stability of social mobility rates, growing income differences, high unemployment among sub-groups of the labor force.

Neo-liberal Age

WWII
Trends in income inequality in Advanced Capitalist Countries

P90-P10 LIS_2

Year: 1970 to 2012

- Australia
- Linear Regression for Australia
- Israel
- Linear Regression for Israel
- Spain
- Linear Regression for Spain
- UK
- Linear Regression for UK
- US
- Linear Regression for US
Trends in income inequality in Advanced Capitalist Countries
Trends in income inequality in Advanced Capitalist Countries

P90-P10 LIS_3_2

Graph showing trends in income inequality in various countries from 1970 to 2012.

- Denmark
- Linear Regression for Denmark
- France
- Linear Regression for France
- Netherlands
- Linear Regression for Netherlands
- Norway
- Linear Regression for Norway
- Switzerland
- Linear Regression for Switzerland
Trends in income inequality in Advanced Capitalist Countries

P90-P10 LIS_2_2

- Canada
- Exponential Regression for Canada
- Greece
- Linear Regression for Greece
- Ireland
- Linear Regression for Ireland
- Italy
- Logarithmic Regression for Italy
Trends in income inequality in Advanced Capitalist Countries

Canada-Top 1% income share
Canada-Top 1% income share-LAD
Ireland-Top 1% income share
United Kingdom-Top 1% income share-married couples & single adults
United Kingdom-Top 1% income share-adults
United States-Top 1% income share
Trends in income inequality in Advanced Capitalist Countries
Trends in income inequality in Advanced Capitalist Countries

![Graph showing trends in income inequality from 1955 to 2011 for various countries.]

- France: Top 1% income share
- Italy: Top 1% income share
- Spain: Top 1% income share
- Germany: Top 1% income share
- Germany including capital gains
- Switzerland: Top 1% income share
Trends in income inequality in Advanced Capitalist Countries

The dollar amounts on the vertical axis refer to a household with one person; for a household with four persons, multiply by two. Source: Christopher Jencks and Lane Kenworthy, *Should We Worry About Inequality?* (forthcoming), using data from the Luxembourg Income Study Database.
Figure 2.3. Average real incomes since 1979 (GB)

Note: Incomes have been measured before housing costs have been deducted.
Source: Authors’ calculations using Family Expenditure Survey and Family Resources Survey, various years.
Figure 8 Changes in earnings deciles in the United Kingdom 1977–2006
who experienced some increase in average equivalent income as they aged (although still ending with less real income than the earlier cohort at the same age).

As Figure 2a illustrates, the incomes of the top ten percent of each Canadian cohort have risen over time, and relative to the income of earlier cohorts at the same age. The 1914-1929 cohort experienced a drop in their income with retirement and the income profile of the 1930-1945 cohort is one of the few age/income profiles to have the nice quadratic shape so beloved in labor economics texts. However, if affluent Canadians looked only to their own history, or that of the previous generation, they would have grounds for quiet satisfaction.

FIGURE 1b
Mean Equivalent After-Tax Income (Bottom Quintile)
UK and Sweden

Generation X (born 1960–75) = X; boomers (born 1946–59) = B; pre-boomers (born 1930–45) = PB; golden agers (born 1915–29) = GA; Canada = C, United States = US; United Kingdom = UK; Sweden = S.
However, affluent Canadians have only to look south of the border to find grounds for envy. The top decile of each cohort of Americans has done much better than their counterparts in Canada—both relative to their initial incomes and relative to earlier cohorts. And envy only intensifies if affluent Canadians should compare themselves to the top decile of Britons (Figure 2b), whose income increase has been truly spectacular. To the extent that Canadian elites live in the cultural periphery of the United States and the UK, one may expect to see greater elite dissatisfaction in Canada.

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The Question

Does Inequality Matter?
A mechanical “resource-dependent” effect
Existing Theories: A Typology

- A mechanical “resource-dependent” effect
- A PSYCHOsocial effect
Existing Theories: A Typology

- A mechanical “resource-dependent” effect
- A PSYCHOsocial effect
- A psychoSOCIAL effect
Existing Theories: A Typology

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- A PSYCHOsocial effect
- A psychoSOCIAL effect
- A (indirect) behavioral effect with macro consequences (i.e. an emergent effect)
A mechanical “resource-dependent” effect

Source: Adapted from Gravelle 1998.
A PSYCHOsocial effect

- Impact of relative deprivation and status anxiety on happiness and health (Wilkinson and Pikett 2006)
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- Impact of relative deprivation and status anxiety on happiness and health (Wilkinson and Pikett 2006)
- Impact of relative deprivation and "frustration" on crime and riots (e.g. interpretations of recent events in Sweden)
- **Impact of relative income on support for redistribution** (Meltzer and Richard 1981, Acemoglu and Robinson 2001)
Causal Pathways

Macro

Inequality → Demand for Redistribution

Disaggregation mechanisms:
- geographical sorting
- comparison to peer group
- Experience on the labor market
- exposure to information about inequality

Re-aggregation mechanisms:
- vote
- opinion polls

Perceived relative income → Individual demand for Redistribution

Micro

Individual-updating vs Cohort effect
“Income inequality (seems to be) strongly and systematically related to the character of social relations and the nature of the social environment in a society.” (Wilkinson)
A psychoSOCIAL effect

Increase in inequality

Social affinity
Social distance
Social Cohesion
Social Capital
Solidarity
Cohesion
Tolerance
...etc...

P10

Increase cost of collective action and decision making

Bitterness and resentment

Decrease in public goods provision

Decline in trust in democracy, in political participation
"Micro-social entities generate effects at the macro-social level that they do not perceive, nor a fortiori aim at. Part of the generative process is external to their minds. We may define as emergent any effect implemented upon (inter)acting micro-social entities but not incorporated into them."
An emergent effect

Source: Christopher Jencks and Lane Kenworthy, *Should We Worry About Inequality?* (forthcoming), using data from the Luxembourg Income Study Database, the World Top Incomes Database, and the OECD.
An emergent effect

Association Between Income Achievement Gap and Poverty/Inequality Index
Wealthy OECD Countries, 2001-2009 (pooled PIRLS and PISA data)

- Fitted Line (Precision-weighted)
- Fitted Line w/o US (Precision-weighted)
- Fitted Line (Unweighted)
Most of these theories are tested using cross-sectional data (over time analysis is VERY rare).

Empirical predictions are made and tested at the macro-level, few enquiries into the micro-assumptions and into the micro-macro relationship.
“Welfare policy is expected to ‘lean against the wind’ in the sense that the greater inequality of pre-tax and transfer income, the greater the electoral support for government policies that redistribute from rich to poor” (Moene and Wallerstein 486)
Does it?

purposes here, we are interested in going further and asking whether, as economic fortunes have diverged for these two groups, redistributive attitudes have followed suit. There is no sign of this in our data: the opinion gap remains stable with no divergence in attitudes over this time period.

Figure 1: Trends in redistribution from and redistribution to by income quintile.

Figure shows average scores on the “Redistribution to” and “Redistribution from” attitude scales by income quintile. The top income quintile is depicted as a solid line, the bottom quintile as dashed. Scores are computed as a sum of responses to questions (ref. Table 1) in the attitude scale, rescaled to 0-1 where 0 depicts the most liberal response possible and 1 the most conservative response possible.
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The Dissertation

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Demand for Redistribution

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Perceived relative income

Individual demand For Redistribution

Micro

Individual-updating vs Cohort effect
Predicted probabilities of ideological dealignment (incl. 95% C.I.)

- 1997 massive liberal dealignment
- Clear mass trend away from pro-redistributive social preferences
Predicted probabilities of liberal realignment based on changes in material interest (incl. 95% C.I.)

(a) Liberal Realignment (Centrist in t-1; Liberal in t)
Predicted probabilities of liberal dealignment based on changes in material interest (incl. 95% C.I.)

(b) Liberal Dealignment (Liberal in t-1; Centrist in t)
Thank you!