

Challenges for social policy and social policy research, with a focus on economic inequality

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Let us turn back the clock for a moment to the early 1970s



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26 September 2024

- .. emerging from a couple of decades of economic growth – the “golden age of capitalism”



- .. And a couple of years of students' protestations

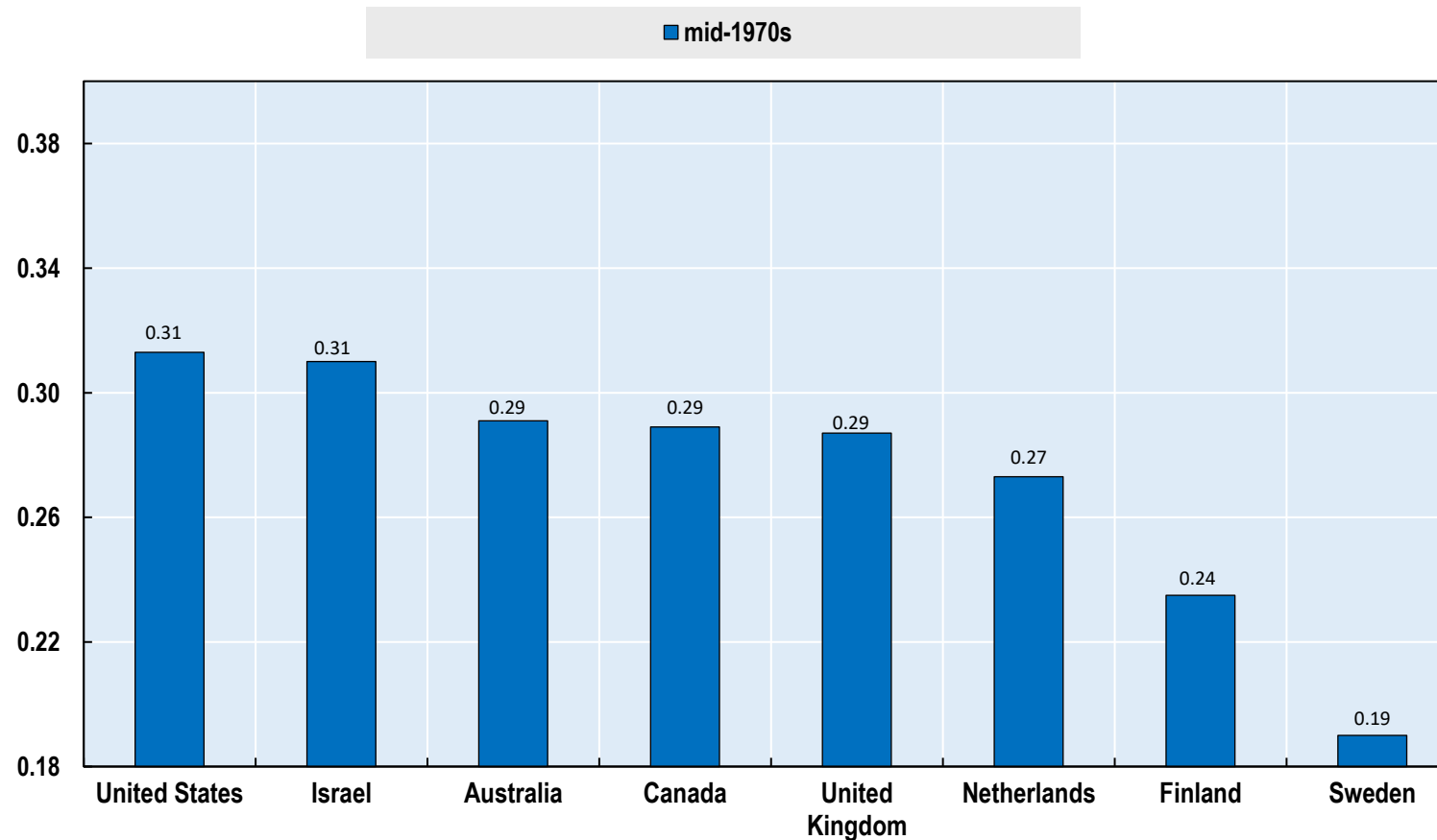


A snapshot of inequality in the early 1970s



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Levels of income inequality in some OECD countries with available data



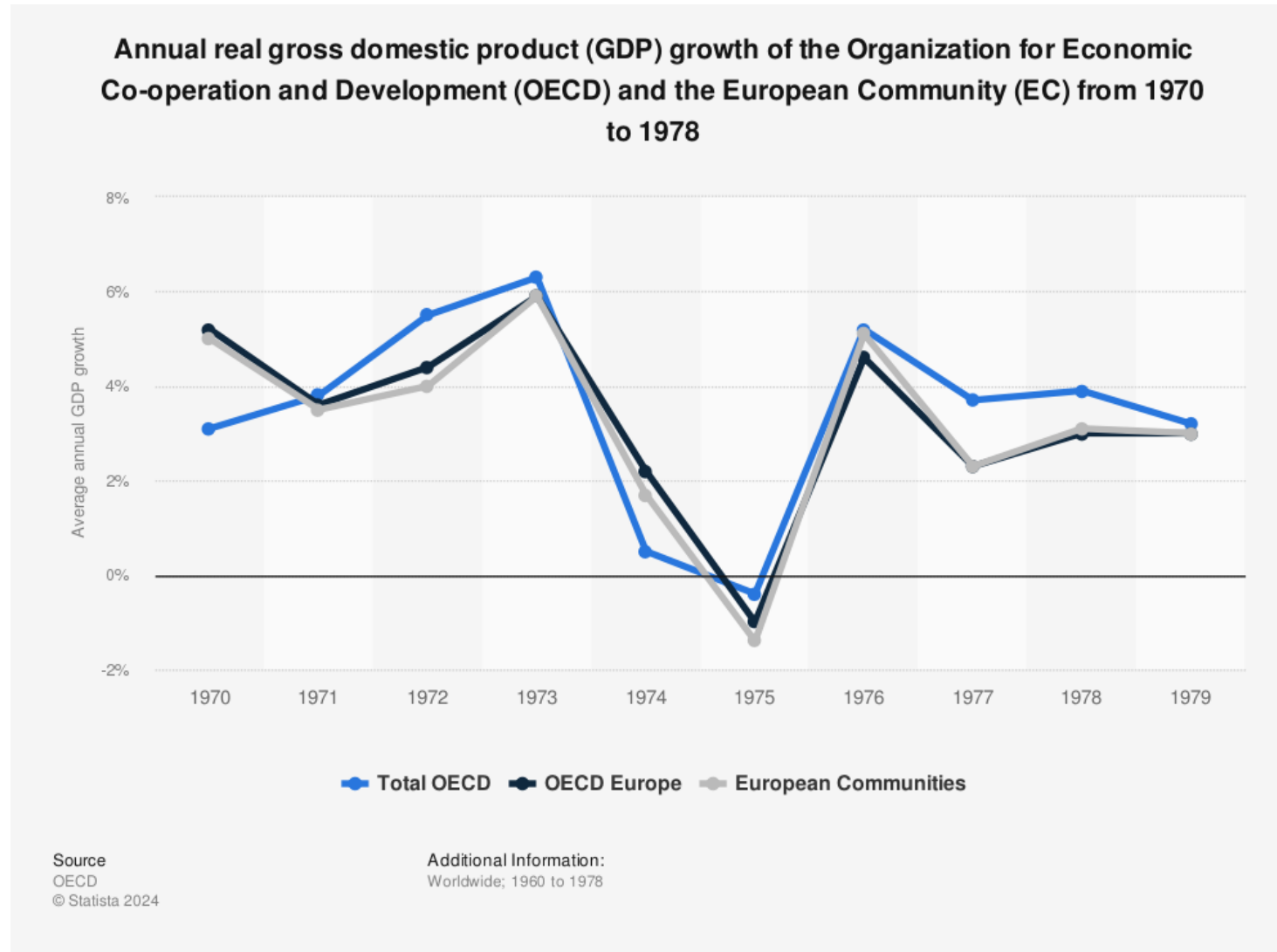
Source: OECD Income Distribution Database, <https://oe.cd/idd>, as at 1-Sep-2024

Note: the Gini coefficient ranges from 0 (perfect equality) to 1 (perfect inequality). Income refers to cash disposable income adjusted for household size.

.. and then, hit the first economic recession since WW II (so-called “oil crisis”)



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How did economic and social welfare policies react?



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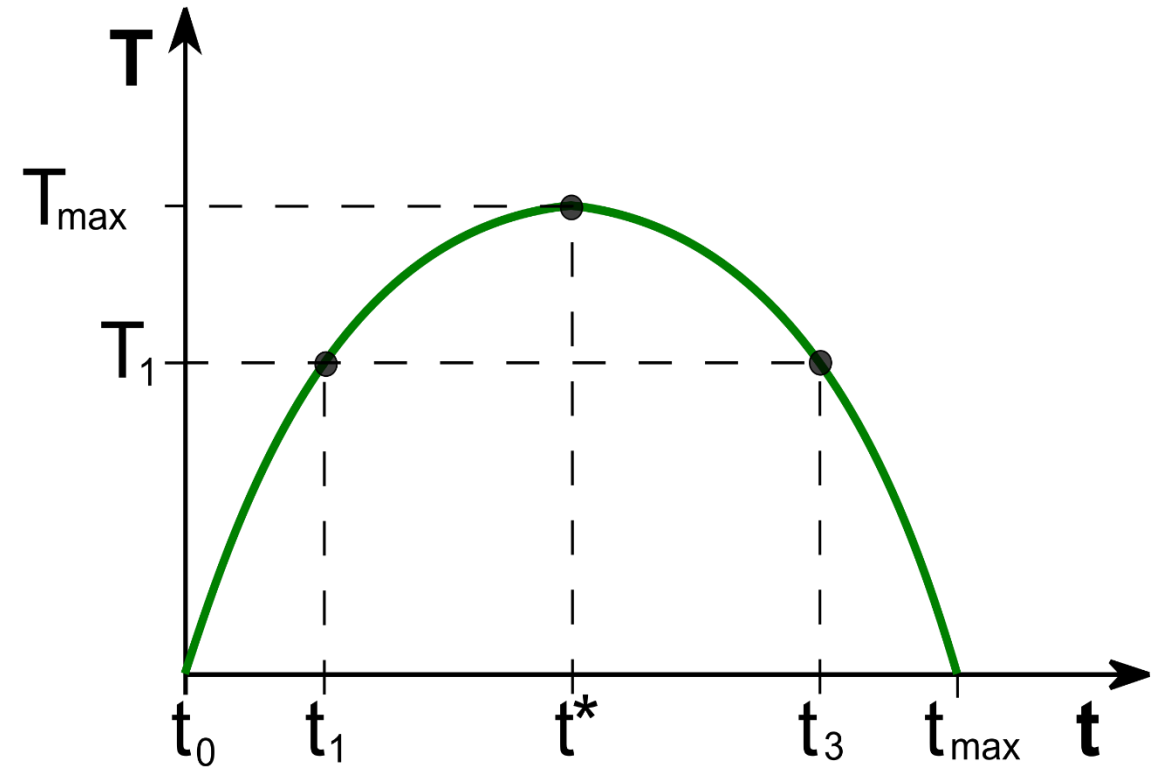
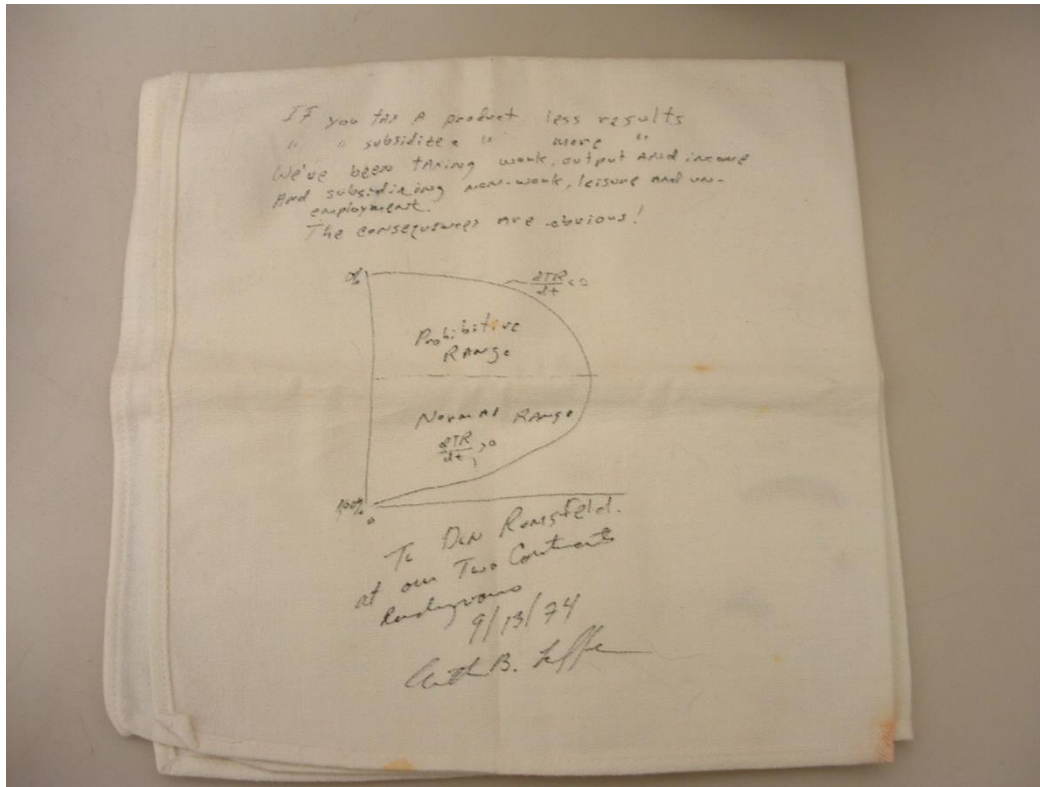
- Often – though not always – with post-Keynesian recipes, and spending programmes
- *“A few more billions of public debt give me fewer sleepless nights than a hundred thousand unemployed people”*

(Bruno Kreisky, 1973)

- Creation of European Centre for Social Welfare Policy and Research fell into that period: September 1974



Another event that took place that very same month, September 1974



The Laffer curve → A signal for the beginning dominance of neoclassic economics and related economic policies

Inequality research and policies during the peak rule of the neoclassical paradigm



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For the next 25-30 years, inequality and related policy recommendations largely remained in the dark :

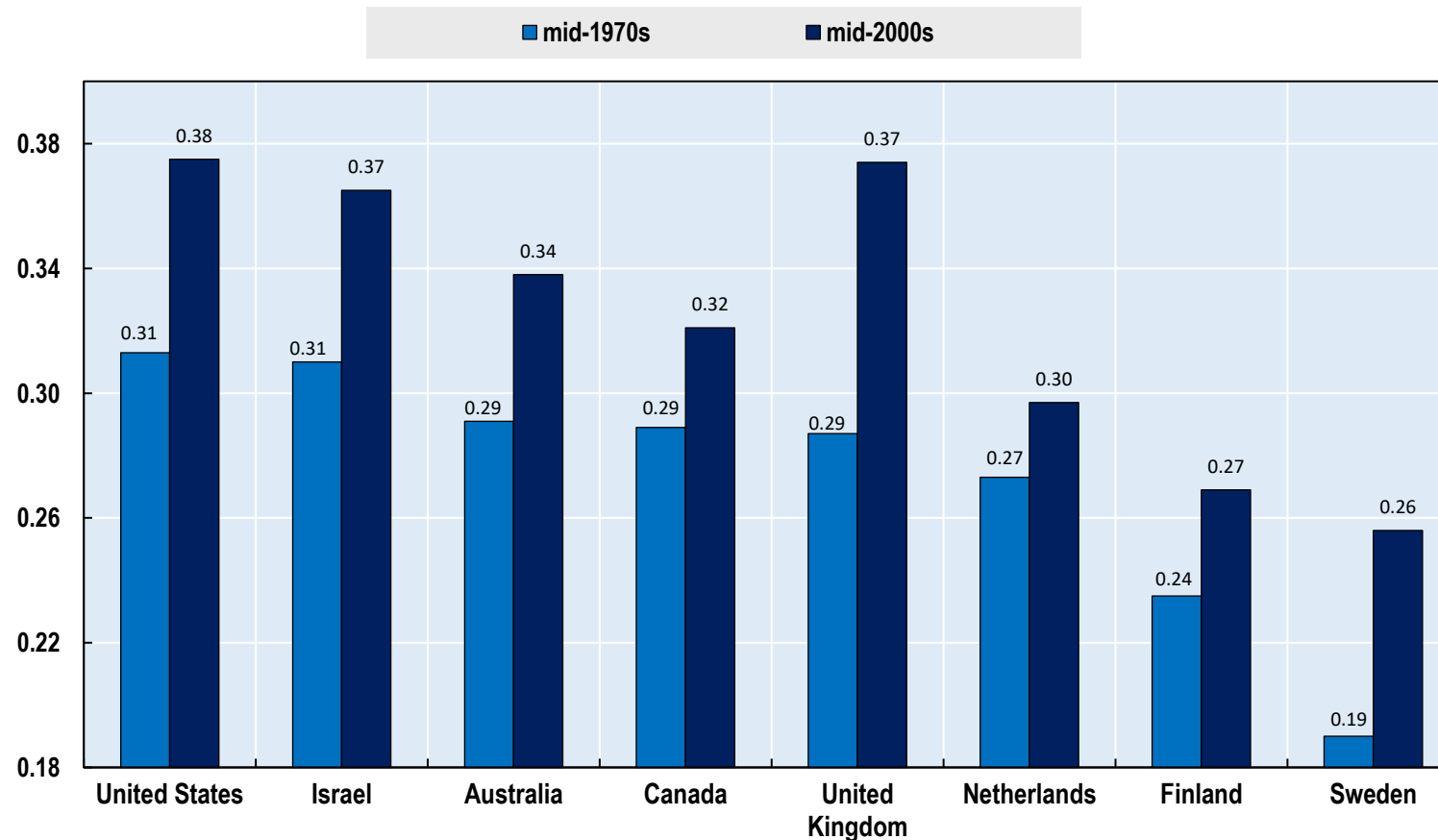
- Until 1989, “Cold War economics” imposed a straitjacket of ‘classlessness’ and ‘rational agents’ (cf. Milanovic 2023)
- Continuous believe in Bowley’s law (stability of factor shares)
- Efficiency considerations dominated equity considerations also in terms of broader social welfare policies

... despite the evidence: observed (very) substantial increases in inequality



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... and despite an explosion of inequality studies and pleas from the research community



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- Tony Atkinson's plea in his Presidential Address to the RES 1997
- International research networks like LIS (*Luxembourg Income Study*) publishing 200+ WPs over the 1990s
- National and international think tanks providing evidence based arguments for the urgency of the distributive issue, OECD, EC, IMF, UNDP, European Centre...

The
**ECONOMIC
JOURNAL**
MARCH 1997



The Economic Journal, 107 (March), 297-321. © Royal Economic Society 1997. Published by Blackwell Publishers, 108 Cowley Road, Oxford OX4 1JF, UK and 238 Main Street, Cambridge, MA 02142, USA.

**BRINGING INCOME DISTRIBUTION IN FROM
THE COLD***

A. B. Atkinson

I. INTRODUCTION: THE SUBJECT OF INCOME DISTRIBUTION

The title of this Presidential Address is chosen to highlight the way in which the subject of income distribution has in the past been marginalised. For much of this century, it has been very much out in the cold. There are signs that in the 1990s it is being welcomed back, and I shall be referring to recent research, but I would like to use this occasion to give further impetus to the re-incorporation of income distribution into the main body of economic analysis.

The peripheral nature of income distribution has long been a concern. In 1920, Hugh Dalton wrote in the Preface to his book *Some Aspects of The Inequality of Incomes in Modern Communities* that:

The 2008 global financial crisis all of a sudden changed the policy discourse, and eventually the policy focus



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Policy makers were concerned about rising inequality post 2008:

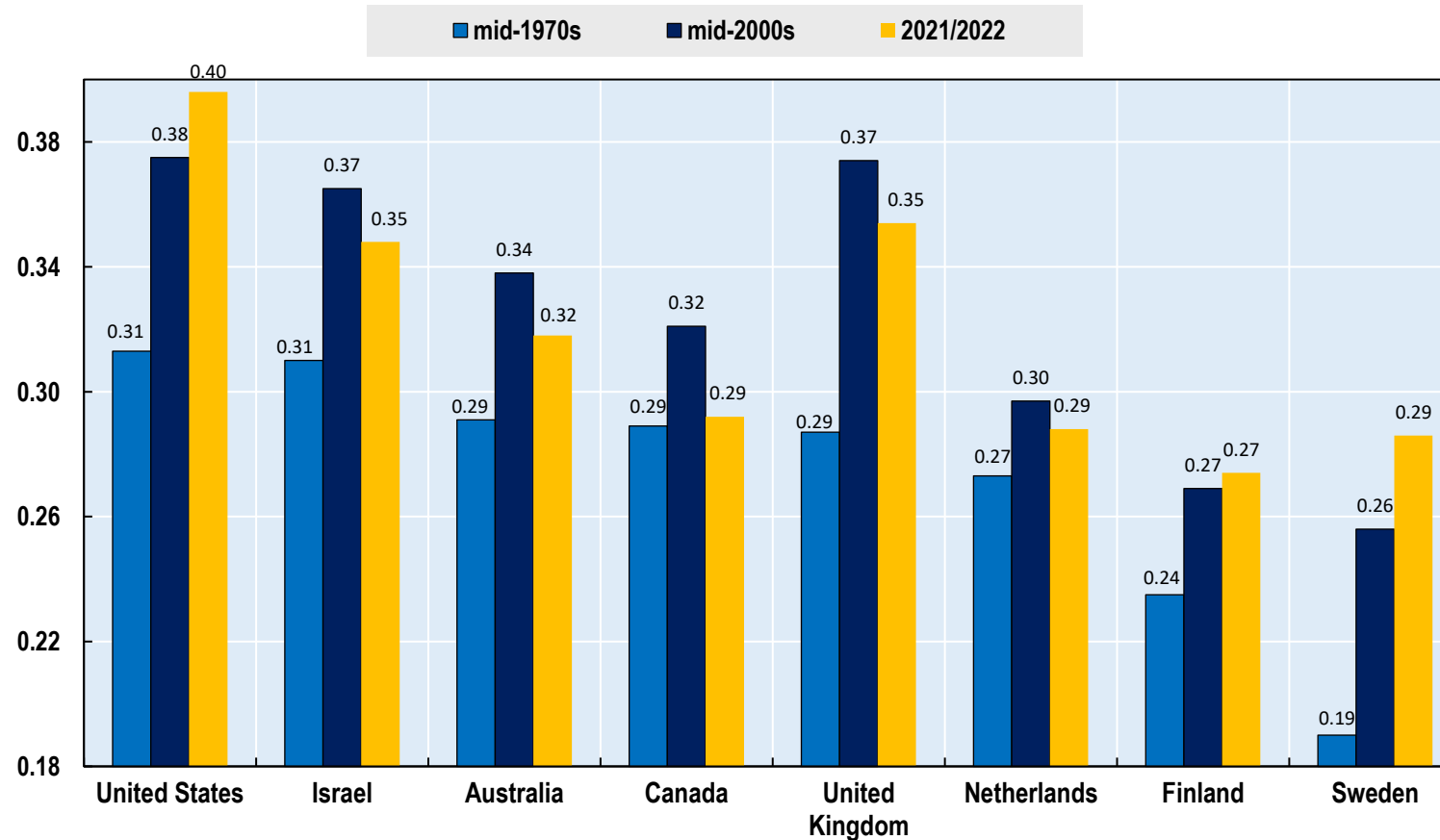
- ✓ *“Inequality can no longer be treated as an afterthought. We need to focus the debate on how the benefits of growth are distributed” (A. Gurría, OECD)*
- ✓ *“The crisis has added to the long-term trend of rising inequalities” (J-C. Juncker, European Commission)*
- ✓ *“This is the first time that the World Bank Group has set a target for income inequality” (Jim Yong Kim, World Bank)*
- ✓ *“Reducing excessive inequality is not just morally and politically correct, but it is good economics” (C. Lagarde, IMF)*
- ✓ *“Inequalities between rich and poor around the world threaten to sow bitterness and despair” (Ban Ki-moon, UN)*
- ✓ *“Inequality is the defining issue of our time” (B. Obama)*

At the same time, further changes in inequality since the financial crisis 2008 were less substantial



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New challenges: broadening the focus

- Hence, inequality became centre stage of public debate and policy relevant in a period when, at least income inequality did not change much, *and not* when it should have become relevant: in the run up to the financial crisis
- With focusing attention so much on inequality today, do we get it wrong more recently?
- No.
 - First, it may well be that the insistence on distribution and related policies did influence and shape the policy agenda of governments – see reactions to Covid crisis
 - Second, while looking at *income* inequality and redistributive policies remains indispensable, it is increasingly insufficient
- The main issue is to *enlarge* our focus and research and policy advice on the blind or blinder spots of economic inequality:
 - 1) The concentration of wealth
 - 2) The economic inequalities brought by the digital transition
 - 3) The distributive impact of climate change and climate policies

Blind(er) spot #1: The increasing importance and concentration of private wealth



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- Private household wealth is distributed much more unequally than income:
 - >50% accrue to the top 10% and close to zero to the bottom 40%
- The (very) long-term trend to increasing wealth concentration at the top (documented by Piketty et al.) continued during the past decade
- Today, people accumulate wealth later in life than 20 years ago
- The importance of bequests has been increasing
- The evidence base for wealth studies has improved a lot lately (though still not ideal, and conceptually sound)

Blind(er) spot #2: The unequal effects of digitalisation



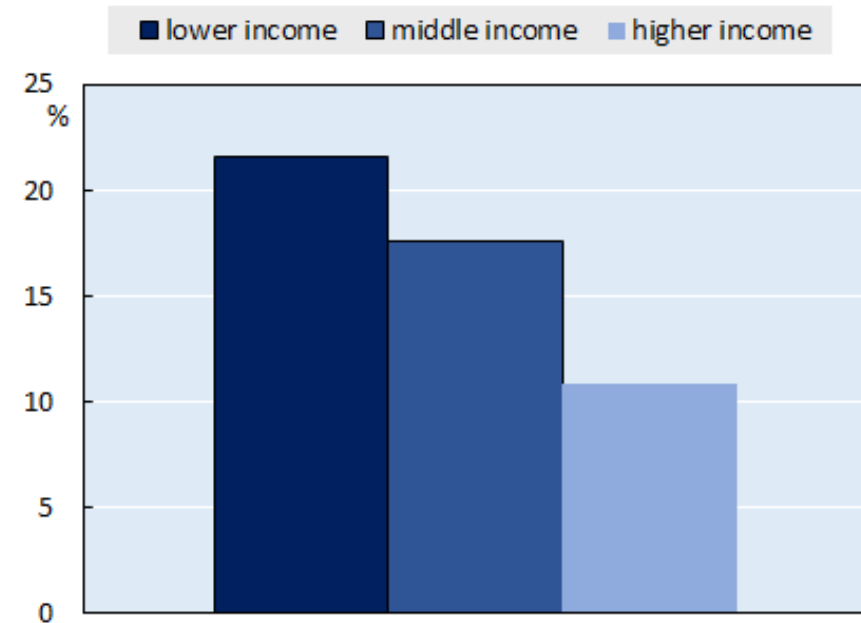
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How will AI affect inequality?

- AI may be associated with *lower* wage inequality within occupations – because it reduces productivity differentials between workers (OECD 2023)
- AI could *increase* wage inequality by giving a stronger productivity boost to already highly-paid knowledge workers versus lower-paid workers (Brookings 2024)

What we do know is that lower- and middle-income workers have a higher risk of experiencing their job being automated

Share of workers in occupations at high risk of automation, by income class



Source: OECD 2019

OECD

Blind(er) spot #3: Inequality of climate change

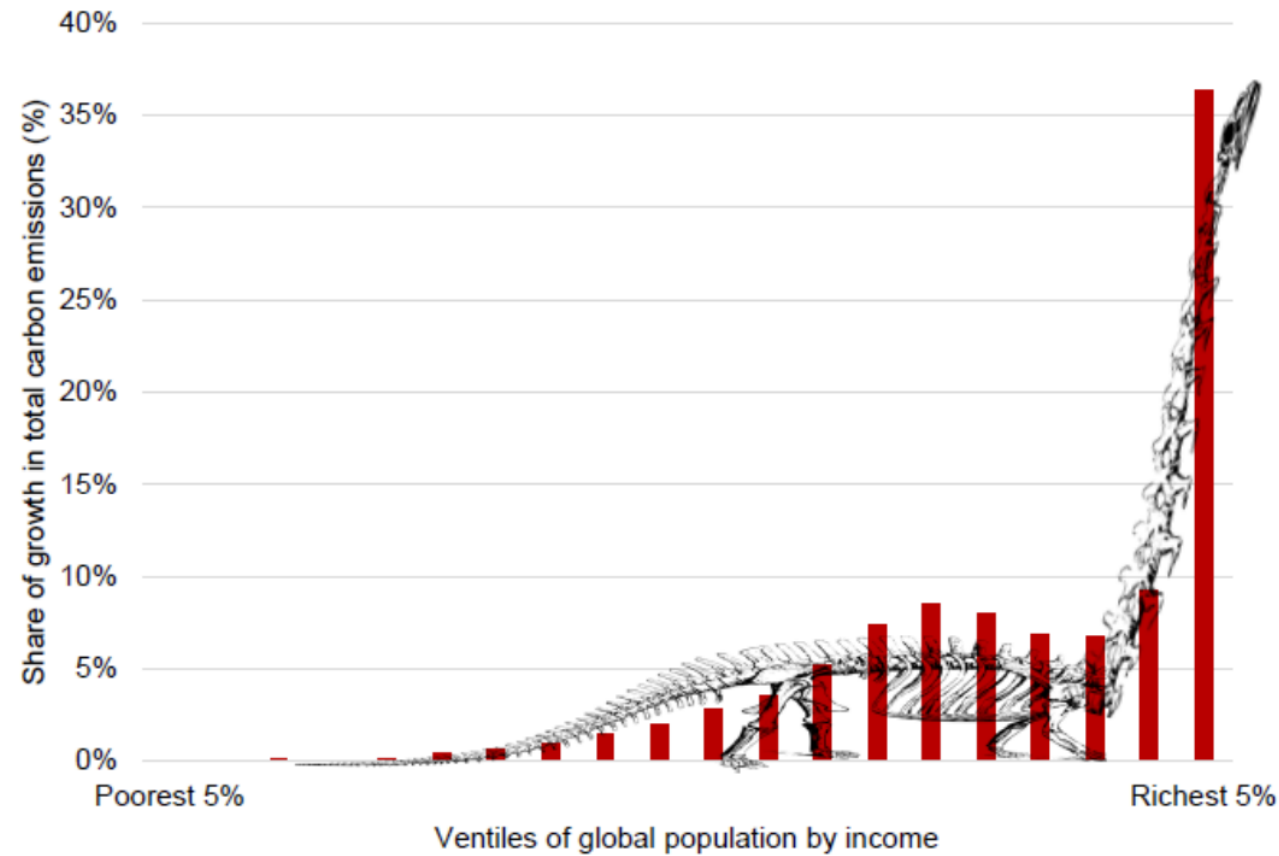
- The major challenge: develop concepts and methods to understand and quantify how economic inequality is interwoven with the climate emergency
- Four inequality dimensions of climate change and policies reinforce each other:
 - 1) Climate change hits the poorest and most vulnerable first and hardest
 - 2) Richer households tend to contribute more than poorer ones to greenhouse gas emissions
 - 3) Richer groups in society have a greater opportunity to deal with disruptive effects from climate change by adapting and mitigating strategies
 - 4) Several climate change mitigation policies put a high burden on poorer segments of the society and have a regressive impact

Unequal carbon footprint: the carbon inequality 'dinosaur' of emissions growth



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Share of growth in emissions between 1990 and 2015 by income

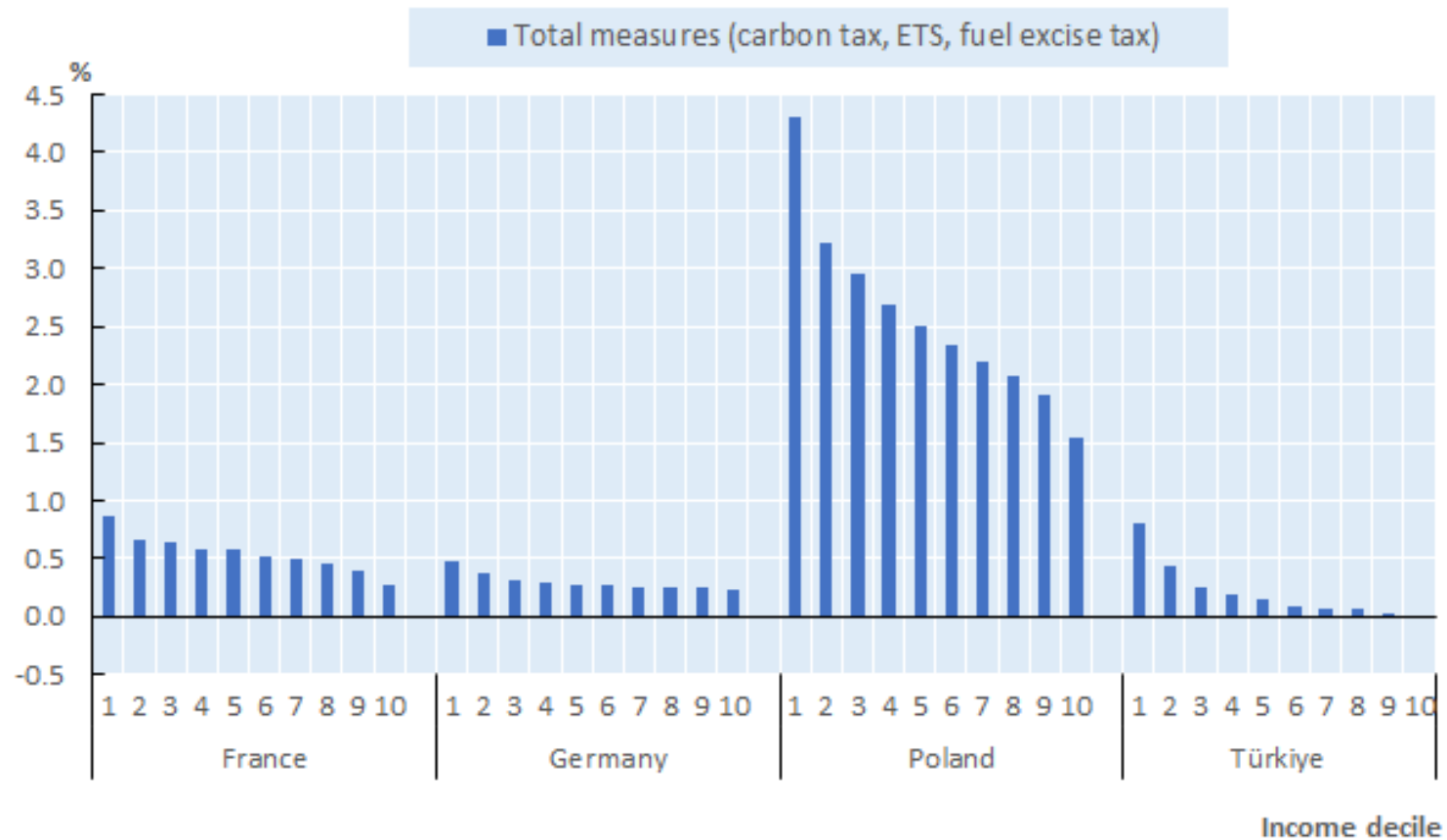


Source: Büchs et al. 2024, "Inequality and Climate Change", based on Kartha et al. 2020, "The Carbon Inequality Era"

Note: The world's population is arranged by income ventiles, from the poorest to the richest 5%. The bars show each ventile's increase in total emissions (as a percentage of total global emissions increase).

Burden of carbon pricing measures for households differ by income groups

Burden of carbon pricing measures 2012-2021, percentage of income



Source: OECD Employment Outlook 2024

Note: Changes in the cost of household-specific consumption baskets, as a share of disposable household incomes. ETS: Emission Trading Systems. Changes are computed against the status quo, and do not account for the distributional impacts of inaction.

A huge agenda to meet these challenges

- The European Centre is well placed to contribute to and advance on this agenda, with both research and policy advice in these three major areas!
- Happy anniversary !!

