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Working towards reducing income and wealth inequalities

What can policymakers learn from Dynamics of Inequality Across the Life-course (DIAL) research?

Key Findings

- A widening gap between those with 'advantaged' and 'disadvantaged' employment and family trajectories has led to increased wealth inequality over time in the US.
- Those who have a genetic propensity to obesity earn less, especially the poorest, and women.
- Those in lower income groups are likely to suffer the greatest long-term economic effects from Covid-19.
- Lower income groups are more vulnerable to unemployment – but not to its long-term effects.

Contributing Projects

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About DIAL

Dynamics of Inequality Across the Life-course (DIAL) is a multi-disciplinary research programme consisting of thirteen European projects. The projects examine the sources, structures and consequences of inequalities in contemporary societies. The programme is funded by NORFACE for the period 2017–2021.

dynamicsofinequality.org

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NORFACE NETWORK

Policy background

There is growing interest in income inequality in Europe and elsewhere, among both researchers and policymakers. The third principle of the European Pillar of Social Rights[1] sets out the right to equal opportunities for all, and several indicators in the accompanying Social Scoreboard address policy relating to rising income inequality.

Traditionally, inequality has been analysed in individual countries, but attention is now focusing on inequality between individuals across countries. In the EU this means looking at Europe as an entity where economic and social progress in member states depends on developments in others, and on how EU institutions and policies can affect inequality.

EU income survey data shows inequality among EU citizens is significantly lower than among those in the US but slightly higher than in countries with established welfare models such as Australia and Japan.[2]

Drivers of wealth inequality

DIAL research[4] has examined differences in accumulated wealth at age 35 in the US between Baby Boomers (born between 1957 and 1964) and Millennials (born between 1980 and 1984). By constructing detailed family and employment trajectories for each cohort, researchers were able to identify both intergenerational changes and the factors which influenced them. They found the poorest Millennials had less wealth than their Baby Boomer counterparts at age 35, but the wealthiest had more.

The major driver of increased wealth inequality was a widening gap between those with 'advantaged' and 'disadvantaged' employment and family trajectories. Those with middle class trajectories – spending longer in education, gaining higher-status jobs and marrying later – saw increased financial returns over time. For those from a less advantaged 'baseline' group, the distribution of wealth changed little between generations.

Overall, Millennials were less likely to enter high-status occupations and more likely to work in low skilled service jobs.

The research advocated policies to enable young families to build assets and attain economic security, which could kickstart a process of cumulative advantage. These could include tax reform, increases in the minimum wage, access to stable housing and health insurance, and strengthening worker's rights, it found.

Drivers of income inequality: family

Several DIAL studies have focused on how family structure and family breakdown can affect incomes and income inequality.

One of these[5] mapped parenthood wage gaps for men and women aged 20–45 in the US. It found women with large families earned less: white mothers in their late twenties with two or more children earned 20–30 percent less than their childless peers, and there were similar gaps for Black and Hispanic women. But for men, the opposite was true – fathers earned more than their childless peers.

The research indicates a need to dig deeper into other factors which might be at play, such as discrimination, work and family preferences, or access to affordable childcare.

Two further DIAL studies examined the links between income inequality, poverty and divorce. The first of these[6] looked at the issue from two angles: Were the lower educated more vulnerable to divorce, and did they suffer more from it in terms of economic poverty? Using administrative data from the Netherlands, it found that the lower educated divorced more often and were also hit harder by it. Among the childless, the first of these factors played a greater role. Among mothers, both factors played their part but for fathers, divorce was unrelated to poverty.

Similarly, a study[7] analysing the US, UK, Germany, Australia and Switzerland examined how family size affected the persistence of poverty after divorce. It found that six years after divorce women with larger families were affected more than the childless. However, these differences disappeared in the medium term and the researchers concluded that over time children might even bring benefits to divorced families.

Drivers of income inequality: obesity

Earlier research has shown that obese men do not suffer significant income penalties. But DIAL research[8] has confirmed the opposite is true for women. Analysing data from 50–65-year-old Americans, the study looked at individual incomes and household wealth.

Those whose genes made them more likely to be obese tended to earn less and to have lower household wealth, with the effect being greater for wealth than for income. In both cases, the effect was greater for women than for men.

This may be explained by discrimination in the labour market. But another pertinent factor was that a high propensity to obesity was associated with a relatively low level of education.

Inequality, Communism and Capitalism

One study[9] looked at the evolution of inequality in Poland from the late 19th Century to the early 21st Century, combining tax, household survey and national accounts data. It found inequality was high before WWII, fell abruptly after the introduction of communism in 1947, and remained low during the communist period. There was a sharp rise with the return of capitalism in 1989.

The authors found official survey-based measures strongly under-estimated the rise of inequality after 1989, and economic success largely benefited top income groups. Within one generation, Poland transformed from being one of the most egalitarian countries in Europe to one of the most unequal. While Polish history was unique, the study spoke to the central role of policies and institutions in shaping inequality in the long run, the authors said.

Inequality and Covid-19

DIAL research[10] has looked at who was likely to suffer most from the effects of Covid-19 in the UK. Those affected by lockdowns were disproportionately female, young and low-paid, they said, while mothers were more likely to have quit, lost their job or been furloughed. Workers under 25 were twice as likely to work in a shut-down sector than older workers, and those in the bottom 10 per cent of the earnings distribution were seven times more likely than those in the top 10 per cent to do so. Ethnic minority groups including Pakistani and Bangladeshi workers were also likely to be among the hardest hit. Without a well-thought-out policy response, the post-Covid world could see inequalities worsening further. But there were also opportunities – the right changes could foster a more resilient economy with a fairer system of rewards.

How we measure wealth and income inequality

Inequality of wealth is different from inequality of incomes: in some European countries such as Austria, the Netherlands and Germany, income inequality is quite low but wealth inequality – which includes capital - has been increasing. In general, wealth is more unequally distributed than income because of inheritance and rising property prices. [3]

Income inequality can be measured using the 'Gini Coefficient,' which condenses the entire income distribution for a country into a single number between 0 and 1: the higher the number, the greater the degree of income inequality. Another common measure compares the average income of the 10 or 20 per cent richest with the 10 or 20 per cent poorest.

Measuring wealth inequality is complex, not least because many families have negative wealth, with debts such as loans and mortgages outweighing their assets. A common way of measuring inequality of net wealth is by comparing the mean (average) with the median (the value at the centre of the distribution) level in a society: so if a few people control most of the wealth, the difference between the mean and median will be larger.

Inequality and unemployment

Are lower income groups more vulnerable to the consequences of being unemployed? DIAL research[11] looked at loss of income two years after unemployment in the UK and in Switzerland and found lower income groups were more vulnerable to becoming unemployed – but not necessarily more vulnerable to the consequences.

Using longitudinal panel data from both countries, the researchers looked at the loss of income caused by unemployment and how that was mitigated by state benefits.

Income losses did not differ much across social classes, they found, and if anything were smaller in the working class. The researchers concluded that, contrary to expectation, individuals in advantageous class positions were just as vulnerable to the consequences of unemployment. However, there were large country differences in how the unemployed were buffered against falling incomes. While the Swiss welfare state reduced income loss the British welfare state provided minimal protection. Unemployment in the UK was a critical life event in which the state offered little help and which exposed people from all social backgrounds to great economic insecurity.

DIAL research[12] also examined the effects of introducing a minimum wage in Germany. The study found the reform raised wages but did not lower employment, and it also led to movement of low-wage workers into larger, higher-paying and more productive establishments.

Inequality, migration and politics

Migration may also influence income inequalities. A study from Germany[13] used economic data modelling to look at whether the arrival of large numbers of refugees in 2015–16 depressed wages among unskilled workers.

It showed net wages did suffer in the short term as workers were forced to compete with largely unskilled refugees. But in an ageing population the net effect would be positive because the new arrivals – who tended to be young – would continue to work and make contributions to the welfare system for decades to come.

Income inequalities can also influence political behaviour, sometimes in conjunction with other processes such as changes in economic opportunities and migration patterns.

A study from Sweden[14] investigated links between unemployment and support for radical right-wing political parties. It showed that for every layoff notice among low-skilled native-born workers, support for the country's radical right party the Sweden Democrats increased by 0.17 to 0.45 votes. This relationship was stronger in areas with a high proportion of low-skilled immigrants and in areas with a low proportion of high-skilled immigrants.

At the individual level, low-skilled voters who reported their job was 'at risk' were more likely to vote for the Sweden Democrats, while the opposite was the case for high-skilled voters.

DIAL research[15] asked if the 2016 election of Donald Trump – and his failed re-election bid in 2020 – were linked to lower levels of community engagement and rising inequality. But it found the rise in votes for Trump was more likely the result of long-term economic and population decline in areas with strong community engagement.

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