The IFS Deaton Review: Inequalities in the 21st Century

Panel Discussion at World Congress

Oriana Bandiera, LSE
Richard Blundell, IFS and UCL
Jan Eeckhout, UPF
Pinelopi Goldberg, Yale, CEPR and NBER
Debra Satz, Stanford
An ambitious 5-year study of inequality.

Bringing together the best available evidence from across the social sciences to answer the big questions:

- Which inequalities matter most?
- How are different kinds of inequality related?
- What are the underlying forces that come together to create them?
- What is the right mix of policies to tackle adverse inequalities?
- For developed economies with the UK as the running example, but comparative in nature....
Inequality is not just about income

- Income inequality is important, but so are inequalities in wealth, wages, consumption, health, family life, political voice, ….

- Need to look at inequalities between groups as well gender, ethnicity, generations, places, ….

- The focus is on understanding the drivers of these inequalities and the best policy mix to mitigate their adverse impacts.
The IFS Deaton Review: An International Panel

Chair

Angus Deaton
Princeton University

Panel

Orazio Attanasio
IFS & Yale

James Banks
IFS & Manchester University

Lisa Berkman
Harvard University

Tim Besley
London School of Economics

Richard Blundell
IFS & UCL

Pinelopi Goldberg
Yale University & World Bank

Paul Johnson
IFS & UCL

Robert Joyce
IFS

Kathleen Kiernan
University of York

Lucinda Platt
London School of Economics

Imran Rasul
IUC & IFS

Debra Satz
Stanford University

Jean Tirole
Toulouse School of Economics
Format of the Review

Much like the IFS’s *Mirrlees Review of Tax Reform*, this Review will be published in two volumes:

I. A volume of commissioned studies and commentaries
detailed studies on different aspects of inequality, with
commentaries that offer perspectives or alternative views.

II. A book written by the panel, aimed at the general public
sets out what has happened to inequality, why, and what can
be done.

- Country studies from Europe and North America.
Commissioned studies and areas - with commentaries and workshops…

1. What’s wrong with inequality?
2. Political economy and political polarisation
3. Attitudes to inequality
4. History of Inequality
5. Trends in Economic Inequalities
6. Gender
7. Race and Ethnicity
8. Immigration
9. Health
10. Geography and spatial inequality
11. Family dynamics and social mobility
12. Early child development
13. Education systems and access
14. Labour markets
15. Firms and market power
16. Trade and globalisation
17. Corporate, capital and top taxes
18. Transfers, tax and tax credits at the bottom
For more information, please visit:

https://www.ifs.org.uk/inequality/

And for updates, including last year’s presentations at the European meeting of the Econometric Society, go to:

https://www.ifs.org.uk/inequality/updates/
Debra Satz is the Dean of the School of Humanities and Sciences, and Professor of Ethics in Society and Professor of Philosophy at Stanford University. She is a member of the American Academy of Arts and Sciences. Her research focuses on the ethical limits of markets, the place of equality in a just society, theories of rational choice, feminist philosophy, and ethics and education.

WHAT’S WRONG WITH INEQUALITY?
OUTLINE: WHAT’S WRONG WITH INEQUALITY?

1. Conceptual Distinctions: Sufficiency, Priority, Equality

2. What, if Anything, is Wrong with Economic Inequality?
   • Causes
   • Consequences:
     • A. Social Welfare Argument
     • B. Inequality of Opportunity
     • C. Inequality of Opportunity for Political Influence
Jan Eeckhout is ICREA-GSE research professor of Economics at UPF Barcelona. He is a fellow of the Econometric Society and of the European Economic Association, and a member of the Academia Europaea. He has teaching and research interests in macroeconomics, with a special emphasis on the labor market. He studies the macroeconomic implications of market power, as well as unemployment and inequality.
Effect of Market Power on Inequality

- Rise of Market Power: fast technological change and change in market structure (M&A)

- Average firm (but: heterogeneity!):

  \[ P_iQ_i = \frac{W_iL_i}{\Pi_i} + \Pi_i + X_i \]

  \[ \text{Ratio } \frac{W_iL_i}{\Pi_i} \text{ from 12 to 2.5: shift from labor income to capital income (profits)} \]

- Mechanism: how does Market Power affect labor income \( W_iL_i \)?
  1. Monopsony \( \rightarrow \) Wages \( (W_i)\): no sharp decrease
  2. Labor force participation \( \rightarrow \) Employment \( (L_i)\): \(-9\%\)
  3. GE effect \( \rightarrow \) Aggregate Wages \( (\bar{W})\): \(-20\%\)
• Inequality:
  1. Labor Income vs Capital Income: espec. large firms
  2. Rise in Wealth Inequality
  3. Rise in Wage Inequality: Skill Premium
     • Differential rent sharing $H$ and $L$ skilled
     • Wage decline without technological regress

• Market Power is inefficient ⇒ Policy:
  1. Antitrust: especially to tackle technological change
  2. Optimal Taxation of wages, profits and final goods
Oriana Bandiera is Professor of Economics at the London School of Economics, and a fellow of the British Academy, the Econometric Society, CEPR, BREAD and IZA. She is co-editor of Econometrica and vice-president of the European Economic Association. Her research focuses on how monetary incentives and social relationships interact to shape individual choices within organisations, how this shapes labor markets, the allocation of talent and, ultimately, living standards.
Gender Inequalities

Oriana Bandiera

with Alison Andrew, Monica Costa Dias and Camille Landais
This is the earnings gap in the UK
We unpack this gap
to document between and within inequality
- across the income & skill distribution
- over the life cycle
to investigate whether these can be explained by comparative advantage, or whether they lead to misallocation
The wage gap is closing only at the bottom of the skills distribution, but that's because men are earning less.
The gap opens up in the late 20s and it always did
The gap opens when a child arrives

Participation, hours and wages all fall
Women who earned more do the same paid work and housework as their husbands.

But they do the same childcare as women who earned less.
What’s the link between women and children?

Not biology (Kleven et al 20), possibly social norms
Professor Richard Blundell
Member of the Panel

Richard Blundell is Director of the ESRC Centre for the Microeconomic Analysis of Public Policy and David Ricardo Chair of Political Economy at University College London. He is the Principal Investigator on the research grant from the Nuffield Foundation underpinning the Deaton Review. He has studied the relationship between taxation, family labour supply and consumer behaviour and developed new microeconometric tools for the study of dynamic panel data models and the nonparametric analysis of individual decisions.
Inequalities after Covid-19…

Risks, opportunities and policy challenges

Richard Blundell (UCL & IFS)

- Far from pushing inequality and redistribution down the agenda, we have seen how the pandemic has exacerbated existing inequalities
  - in wages, employment, health, gender, ethnicity, education, and across generations…
  - and has opened up new fissures along dimensions that were previously less significant – working at home, home schooling, use of public transport,…
  - The loss of earnings has brought the effectiveness of the safety net into sharp focus.

- There are many policy challenges but there are opportunities too
  - not only to address some of the most adverse impacts of the pandemic, but also to tackle some of the most pressing underlying longer-term inequalities.

- Will there be a new emphasis on building a fairer society?
  - despite the challenge of doing so while facing unprecedented levels of (peace time) debt.

- To answer these questions requires an understanding of the array of different inequalities in society and how they interact with each other
  - exactly the IFS-Deaton Review!
Where are the risks?

- **Wage and employment inequality**
  - Low earners are mostly in shut-down sectors, furloughed and at risk of unemployment.
  - Those with insecure work arrangements more likely to report negative impacts.
- Increased reliance on technology and home working favours the highly educated.

- **Generational inequalities**
  - Younger workers more likely to have lost their job and experienced a reduction in earnings.
  - Those who would have entered work this year face long-term scarring.
  - After a tough decade, this could knock the younger generation back once more.

- **Gender inequalities**
  - Childcare and housework has fallen far more on mothers than fathers,
  - Could further inhibit wage progression, when progress in closing the gender gap has already stalled.

- **Educational and family inequalities**
  - Children in poorer families have lost more from school closures,
  - This could put back years of slow progress on social mobility.

- **Additional risks from enhanced health inequalities and impacts on ethnic minorities**
  - Of course, some inequalities may be reduced but most of the changes are pointing the other way.
Workers in lockdown sectors are lower paid and less likely to be able to work from home

Notes: IFS calculations. UK LFS for the years 2018-19, adults aged 20-60. Pay in Dec 2019 prices. O-net data used to identify occupations that are amenable to work from home. Use classification in Dingel and Neiman (2020) to identify occupations that cannot be worked from home.
But there are opportunities ....

1. Changes in attitudes – tipping point for changing social norms
   - More people will have experienced the welfare state, which could change attitudes.
   - The large numbers of young lower earners coming out of lockdown could force a rethink of training, focusing on skills to complement new technologies.
   - The experiences of people working from home could provide the tipping point for a change in the way we work, which might spread prosperity more evenly across the country.
   - Women are more likely to be key workers, and any pressure to increase the pay of key workers could help reduce gender inequalities, as well as income inequality overall.
   - The experiences of childcare among many more men could provide a change in social norms to generate an even balance in childcare that has been so hard to achieve to date.
   - Health, economic and educational disadvantage come together in pockets of local deprivation, giving urgency for place-based policies that build resilient communities.

2. A desire for large scale policies to address long-standing inequalities
(Some) policy challenges

• Wage inequality?
  • Will there be pressure to enhance wages of low paid ‘key workers’?
  • Or will e-commerce/IT dominate with increased premium for educated & work from home?

• Human capital?
  • Children, especially poorer children, will need additional teaching post crisis.
  • Re-think vocational training to focus on skills that match/complement wage progression.

• A ‘just system of rewards’?
  • More people will have experienced welfare state, will this change attitudes?
  • A new emphasis on social insurance?

• Will firms consolidate power?
  • Rethinking competition policy?

• Financing the deficit and fair taxation.
  • A new social contract?
  • Enhancing fiscal capacity and trust in government in a time of populism?
Thank you! And again:

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