

Dimensions of Inequality: Reflections from the Deaton Review

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Marshall Paley Lecture

Festival of Economics

University of Bristol

October 3rd 2024

IFS-Deaton Review: Inequalities in the 21st Century

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



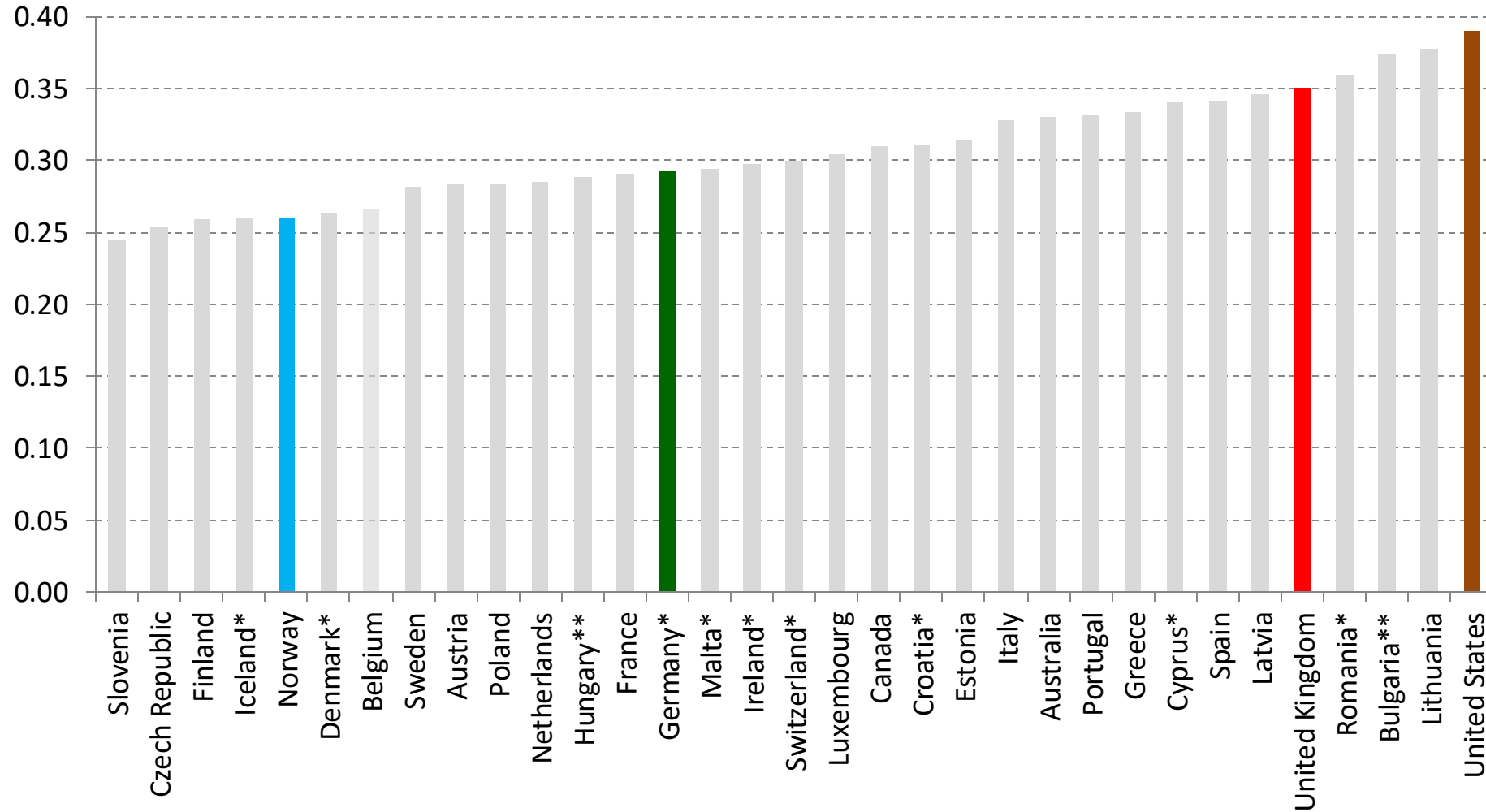
The IFS-Deaton Review: Inequalities in the 21st Century

A 5-year study, independent of government, chaired by Angus Deaton with an interdisciplinary panel, 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 the adverse impact of inequalities?
- For developed economies with the UK as the running example, but comparative in nature.... the US and other economics in northern Europe been the main comparators...

Measured by the Gini, the UK is unequal by European standards

Gini coefficient of equivalised net household incomes in selected countries



Data from the OECD. Data on other countries are from the World Bank.



Inequality

The IFS Deaton Review

Inequality is not just about income... or the Gini

- Income inequality is important but so are inequalities in
 - wealth, work, wages, productivity, consumption, education, health, family background, political voice,
- Need to look at inequalities between groups as well
 - gender, ethnicity, race, generations, geography and place, ...
- Launched in 2019, and then Covid-19 came along....
 - but the pandemic highlighted many existing inequalities – at the same time, opening up new inequalities – working at home, digital access, space at home,...
- The Review is (luckily) a comparative study with an interdisciplinary panel,....

An International and Interdisciplinary 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



Paul Johnson
IFS & UCL



Robert Joyce
IFS



Kathleen Kiernan
University of York



Lucinda Platt
London School of Economics



Imran Rasul
UCL & IFS



Debra Satz
Stanford University



Jean Tirole
Toulouse School of Economics

Commissioned studies with commentaries

1. Why inequality, what inequality?
2. Political economy and political polarisation
3. Attitudes to inequality
4. History and technology
5. Gender
6. Immigration
7. Health
8. Race and criminal justice
9. Geography and place
10. Families
11. Early child development
12. Education systems and access
13. Social Mobility
14. Labour markets
15. Firms, innovation and market power
16. Trade and globalisation
17. Corporate, capital and top taxes
18. Transfers, welfare and tax credits

All available online
<https://www.ifs.org.uk/inequality/>

Format of the Review

Much like the *IFS Mirrlees Review on Tax Reform,*

I. Two volumes of evidence:

- over 90 commissioned studies and commentaries on different aspects of inequality – on the IFS Deaton website and was published open access by OUP in July.

II. An accessible monograph written by the panel:

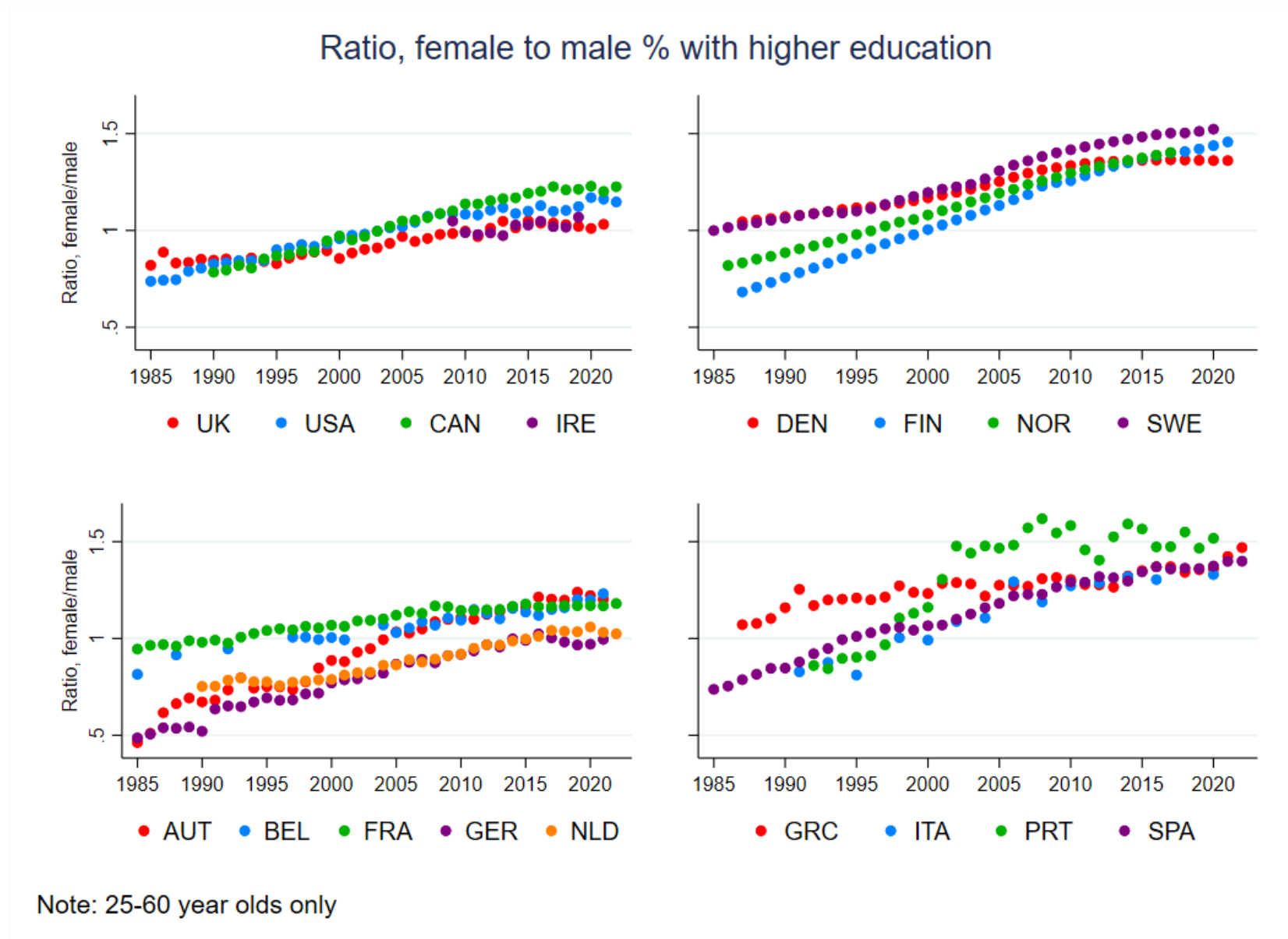
- sets out what has happened to inequality, why, and what can be done – published end 2024.

III. Country studies across Europe and North America:

- 17 countries drawing on key researchers & statistics offices just published open access

Many positive trends over the last decades in the UK and elsewhere... education expansion, reduction in gender gap, but..

Women overtaking in higher education

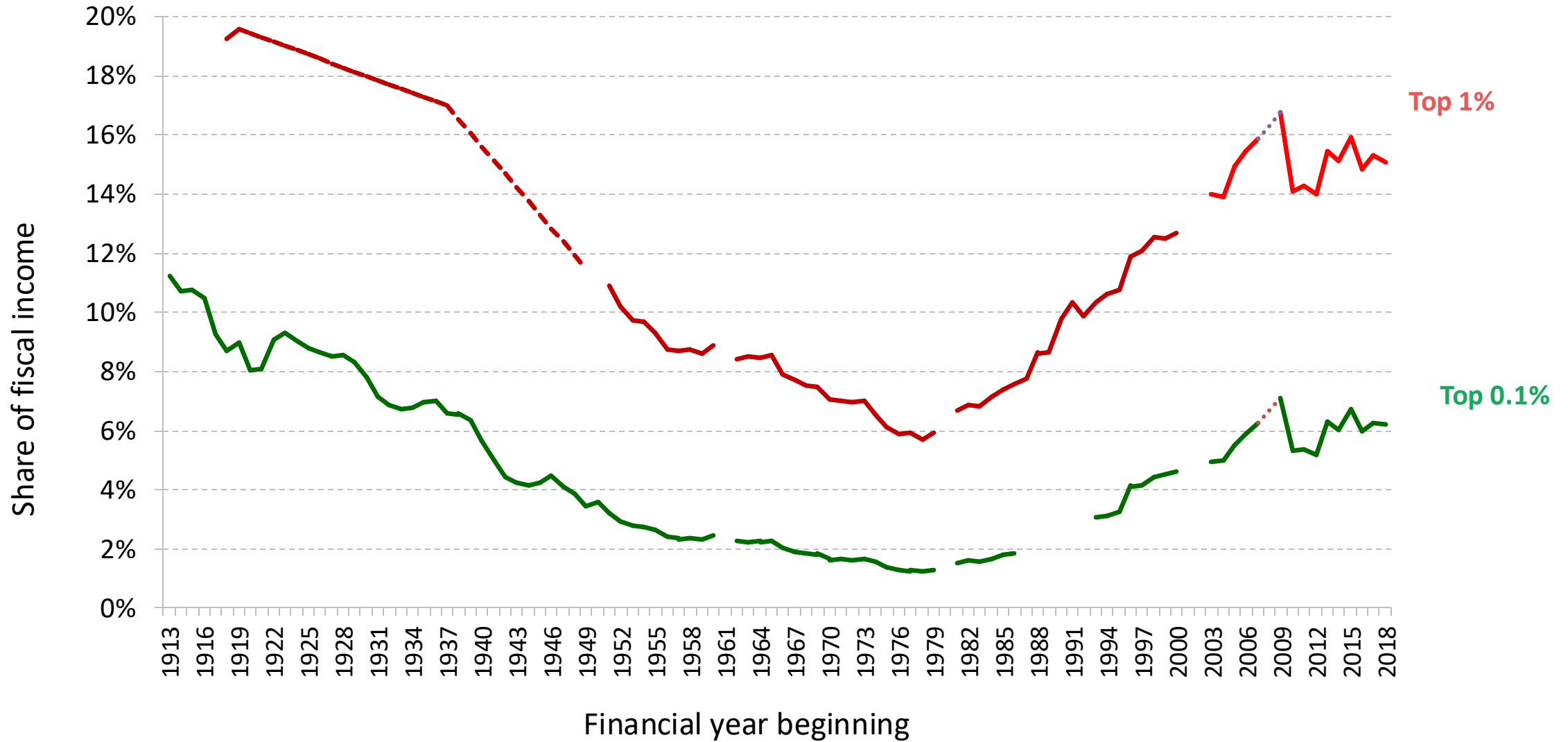


Source: IFS- Deaton review: Country Studies (2024)

Many longer-term inequality challenges remain - focus here on working life

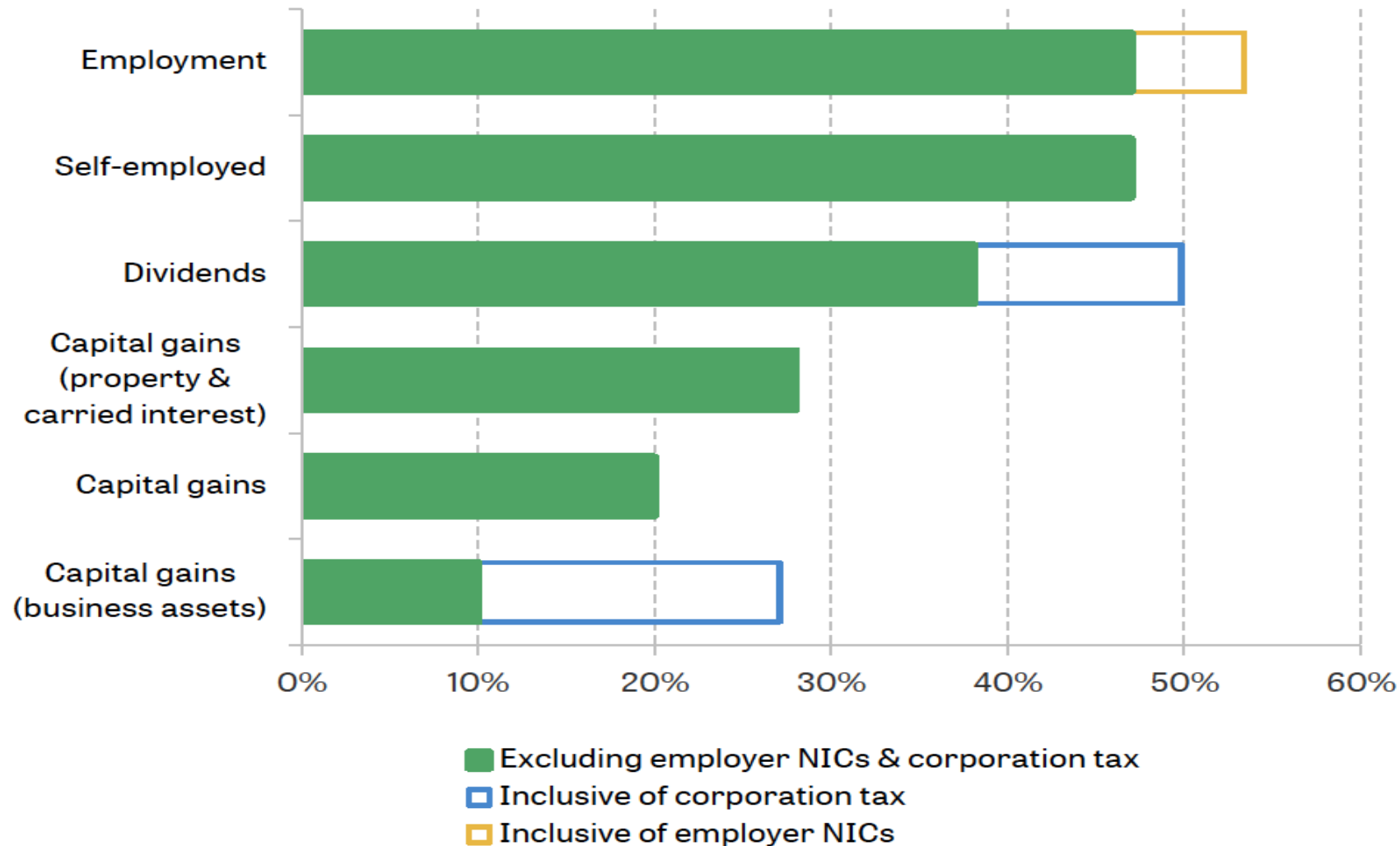
- Improvements in (female) employment - but stagnant real earnings and a growth in 'in-work' poverty with employment no longer enough to escape poverty.
- A large rise in the minimum wage - but poor wage progression at the bottom and strong growth in low wage solo self-employed, part-time jobs, platform work and outsourcing.
- An increase in education levels - but falling levels of in-work training and fewer routes to 'good jobs' for those not going to university.
- A rise in female participation in HE and in the paid labour force - but stalling gender pay gap with high levels of part-time work and low levels of progression for mothers.
- Small group of top 'super star' firms - but high mark-ups and, for the rest, a long tail of low productivity firms.
- Thriving cities in some regions – but increasing contrast to 'left-behind' areas with low education outcomes, low productivity firms, poor wage progression, and low mobility.
- Growth in top incomes – but concentrated in finance and paid as business income which attracts lower taxation; capital is taxed lower than labour....

Inequality at the very top returning to early 20th century levels



Delestre, Kopczuk, Miller and Smith (IFS Deaton Review, 2024)

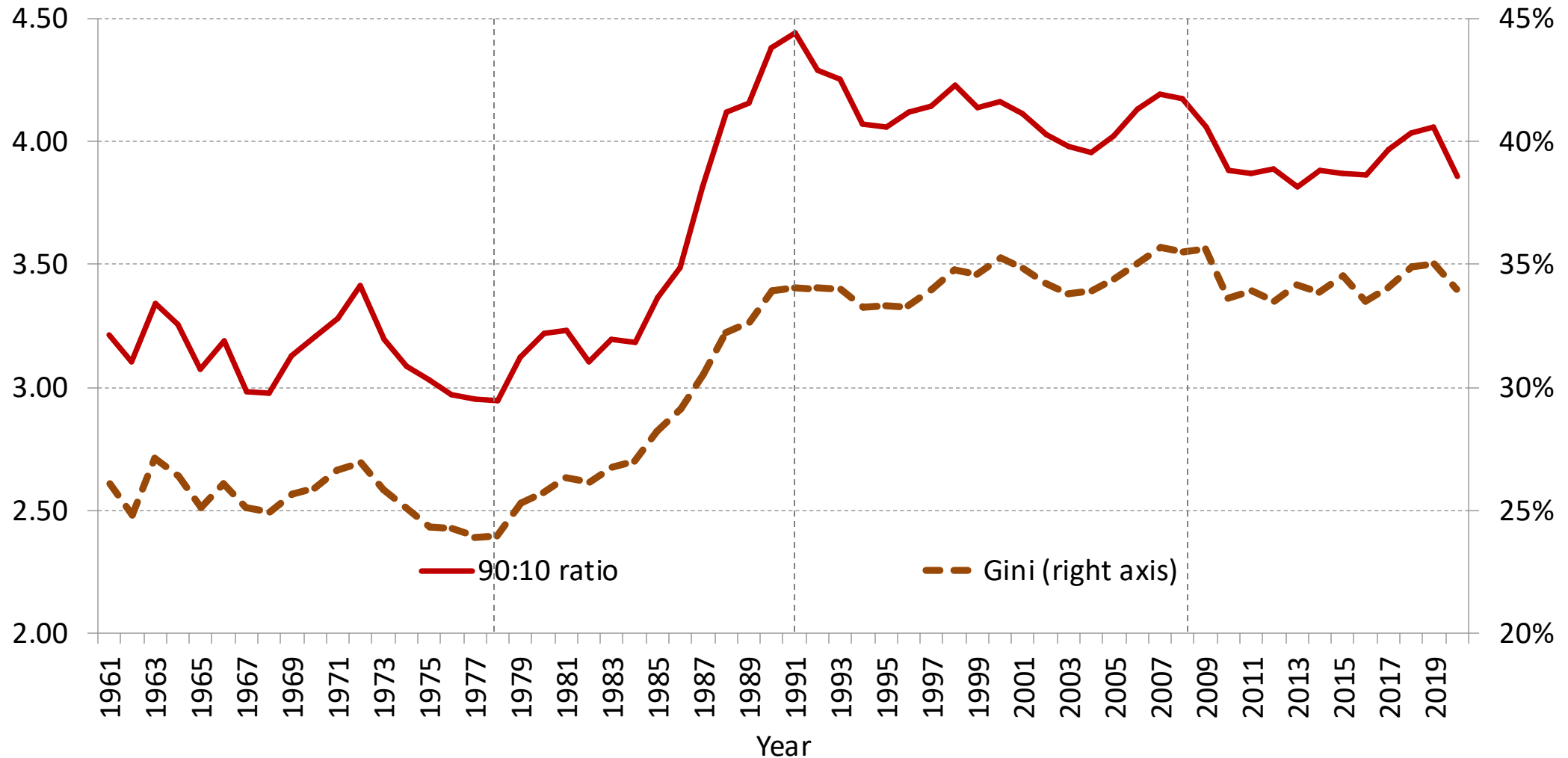
Taxes lower on capital income: Top marginal statutory tax rates, UK 2021–22



- At the top capital gains becomes a key area for reform... look back to Mirrlees Review!

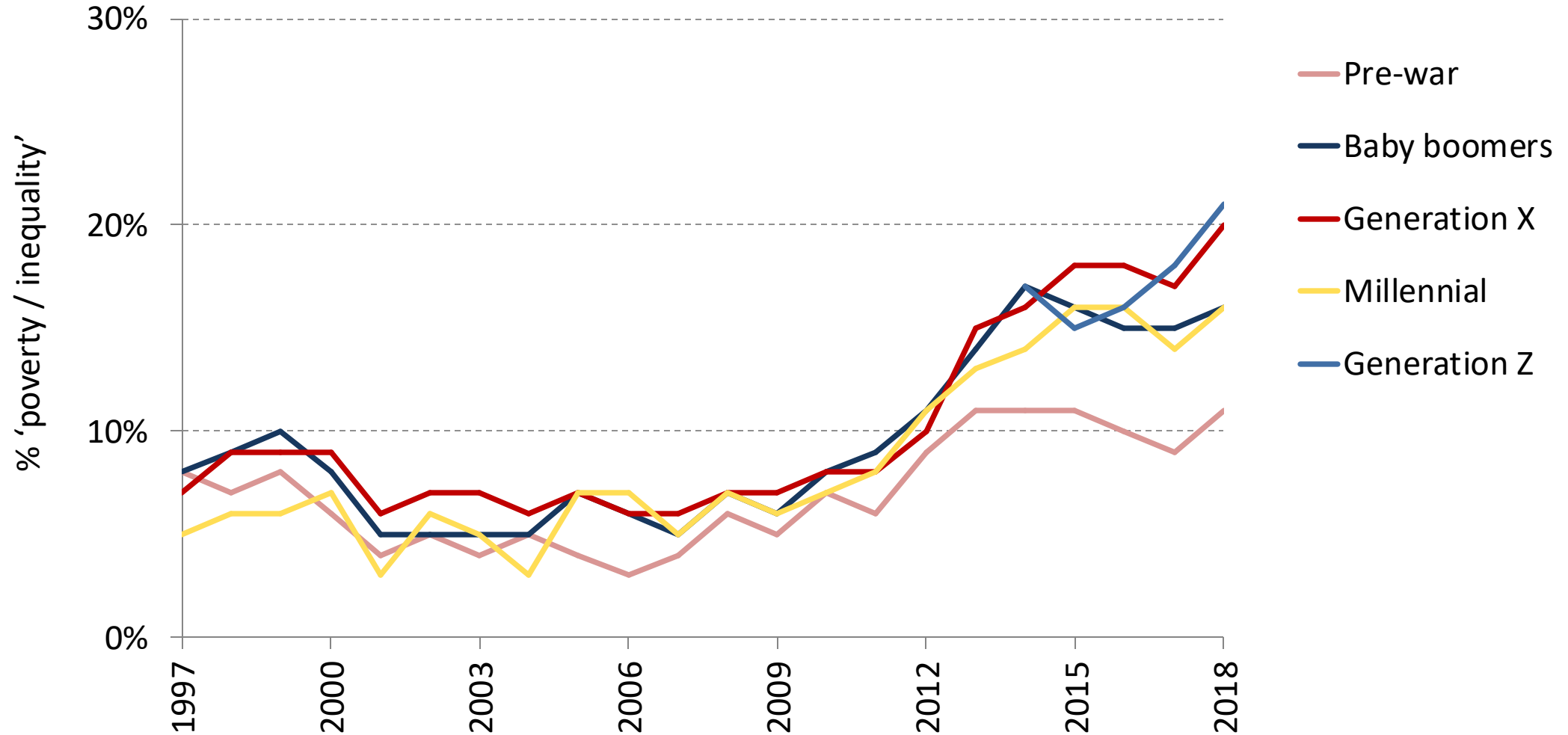
Household income inequality: 90/10 and Gini

- Inequality in net household income in the UK, 1961–2020



Concern over inequality rising, despite little change in Gini

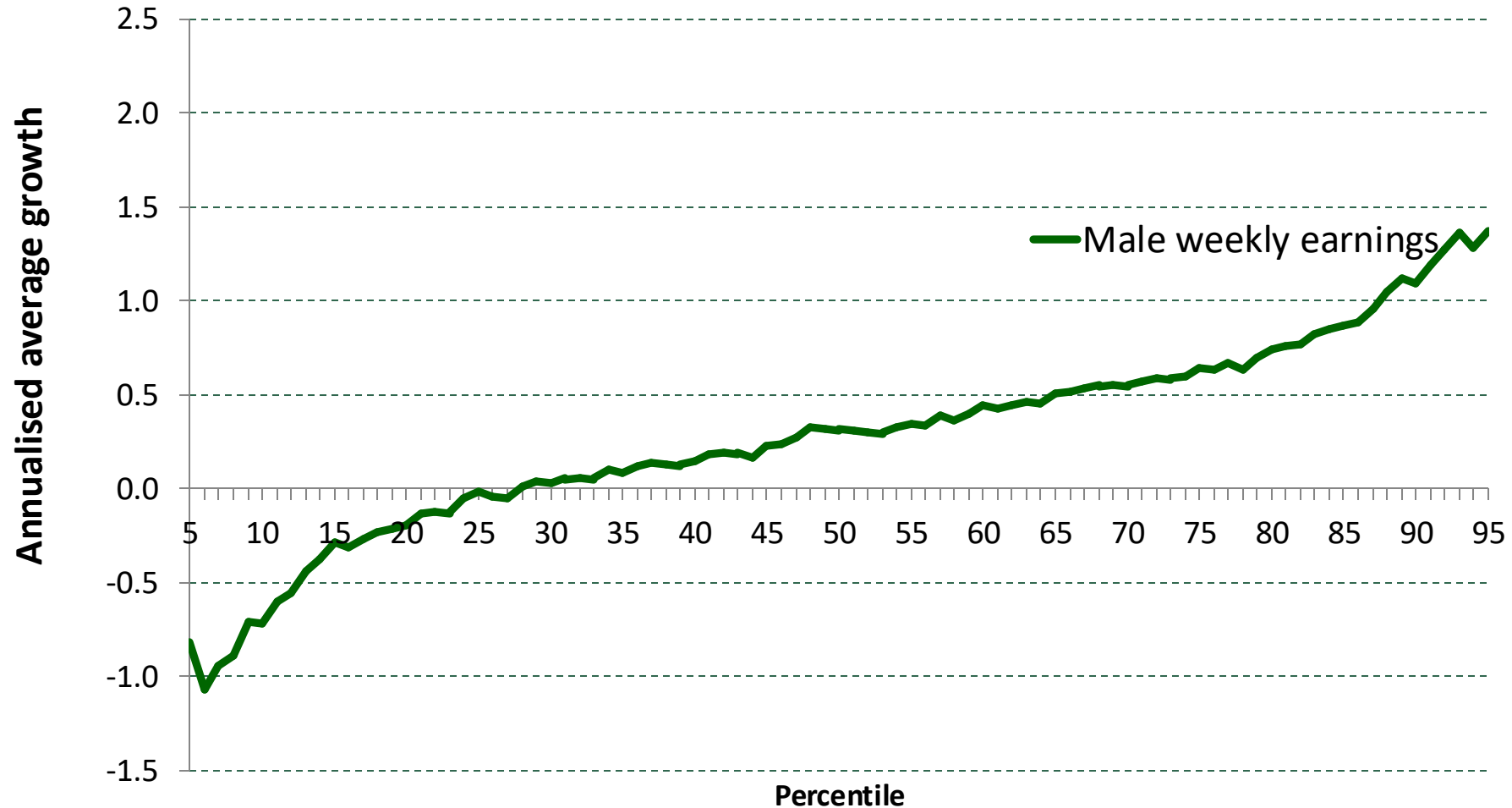
- % who think that poverty/inequality is most important issue facing Britain



Source: Benson, Duffy, Hesketh and Hewlett (IFS Deaton Review, 2024)

Let's unpack the overall income inequality statistics: Growth in male weekly earnings:

UK 1994/95 – 2018/19



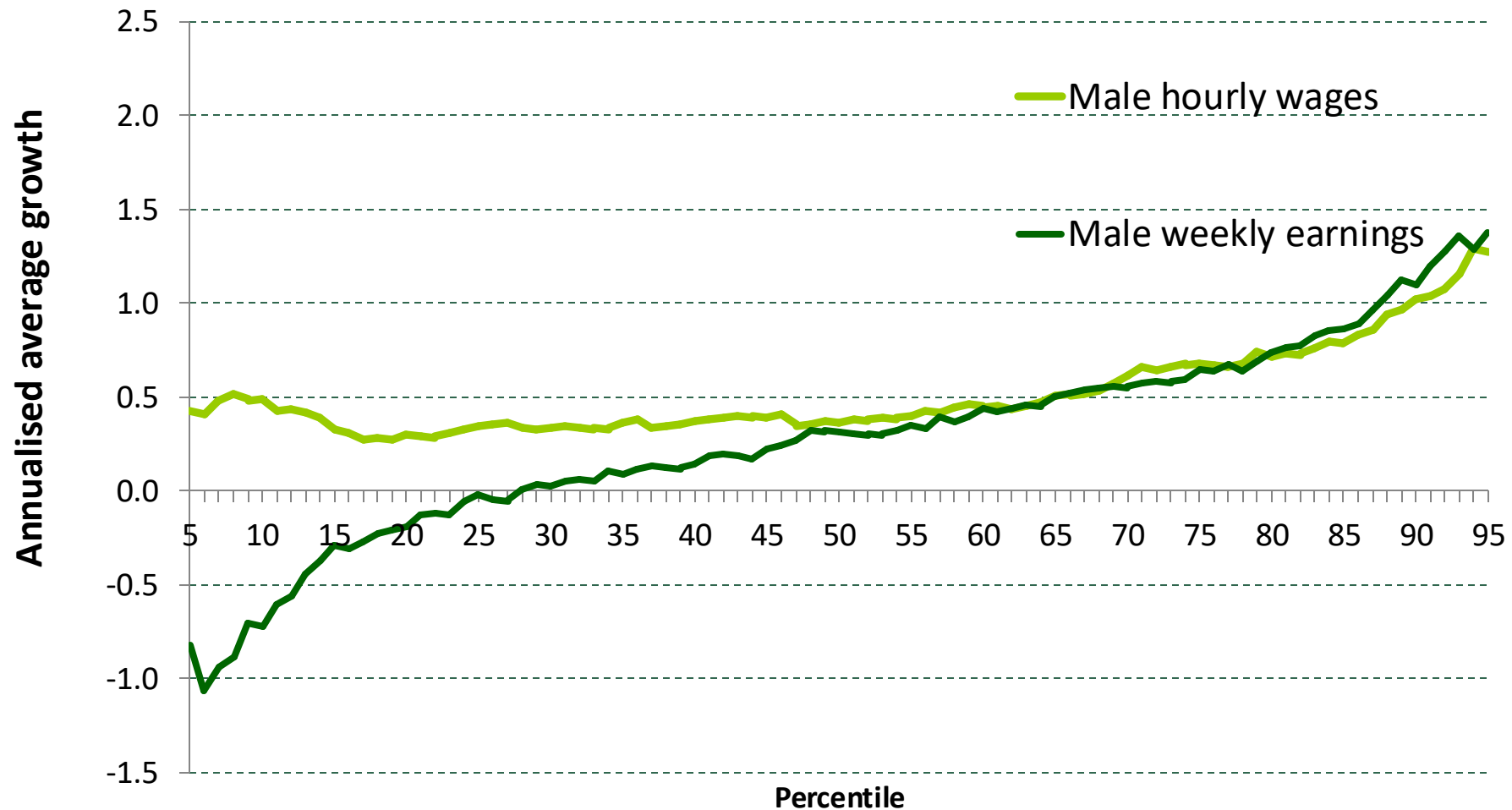
- Similar figures for other European countries, US and Canada

Source: Blundell, Joyce, Norris Keiller and Ziliak (2018, updated)

Data used is UK FRS 1994-95 and 2016-17, not in full time education and aged <64

Growth in UK male weekly earnings and hourly wages:

1994/95 – 2018/19



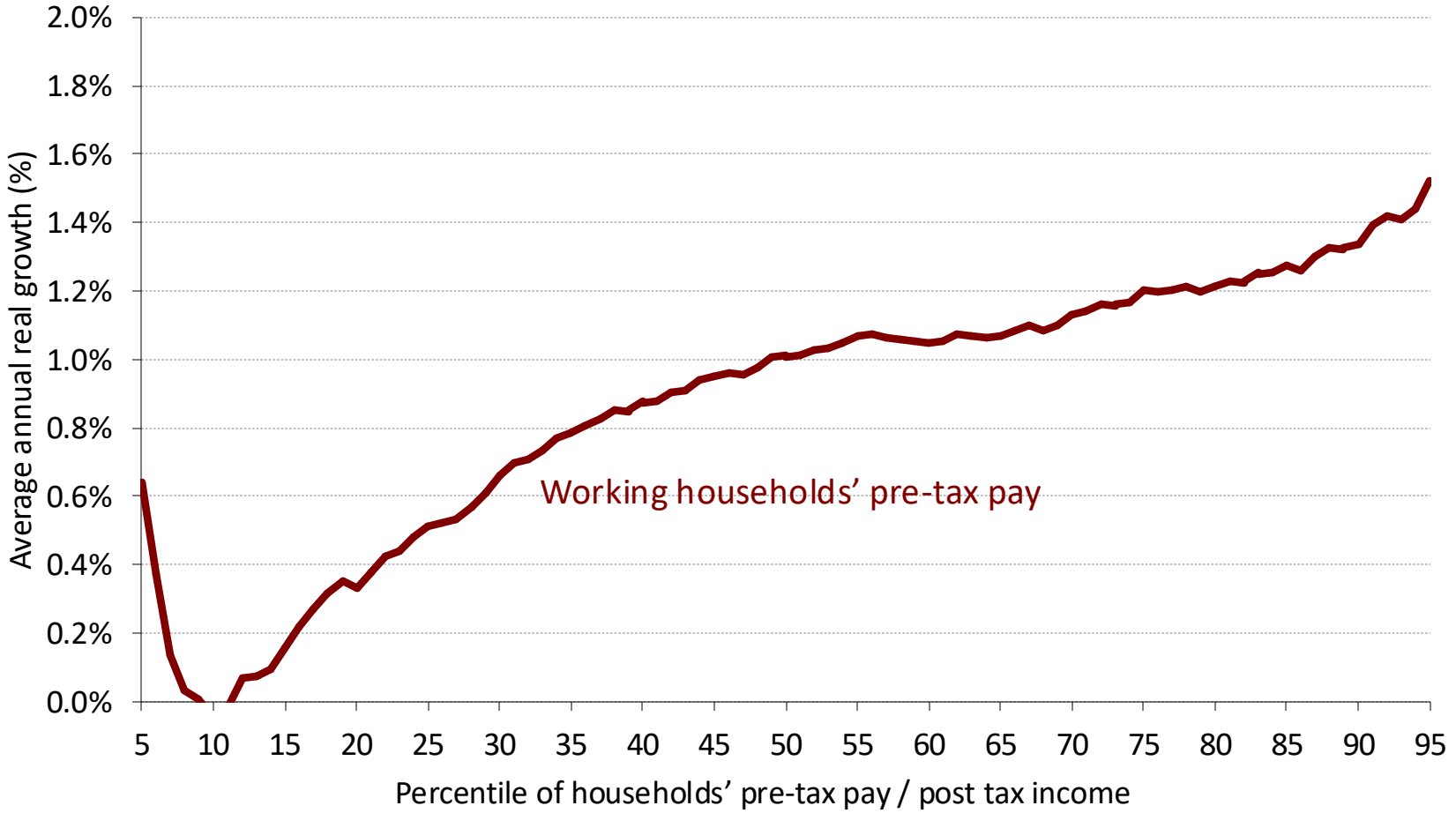
-> Stronger growth of PT work for low wage men, especially solo self-employed where there has been a growing rate of low earning solo self-employed and part-time hours.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2018, updated)

Data used is UK FRS 1994-95 and 2016-17, not in full time education and aged <64

Growth in Family Earnings:

UK 1994/5 to 2018/9



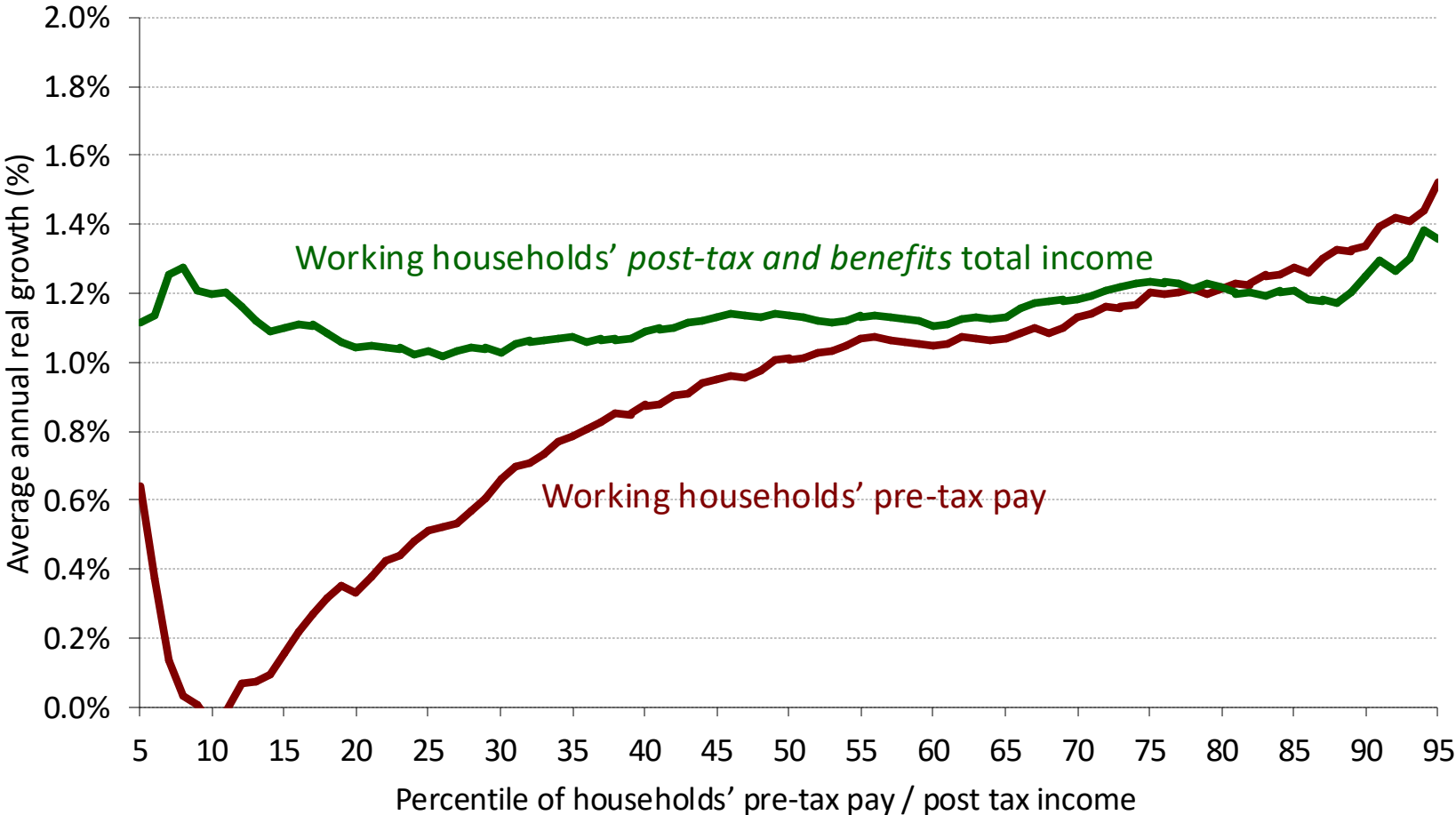
Notes: Includes self-employment income and self-employed households. Family Resources Survey.

All income measures are equivalised.

Source: Blundell, Joyce, Norris-Keiller and Ziliak (2018, updated)

Growth in Family Earnings and Family Incomes:

UK 1994/5 to 2018/9

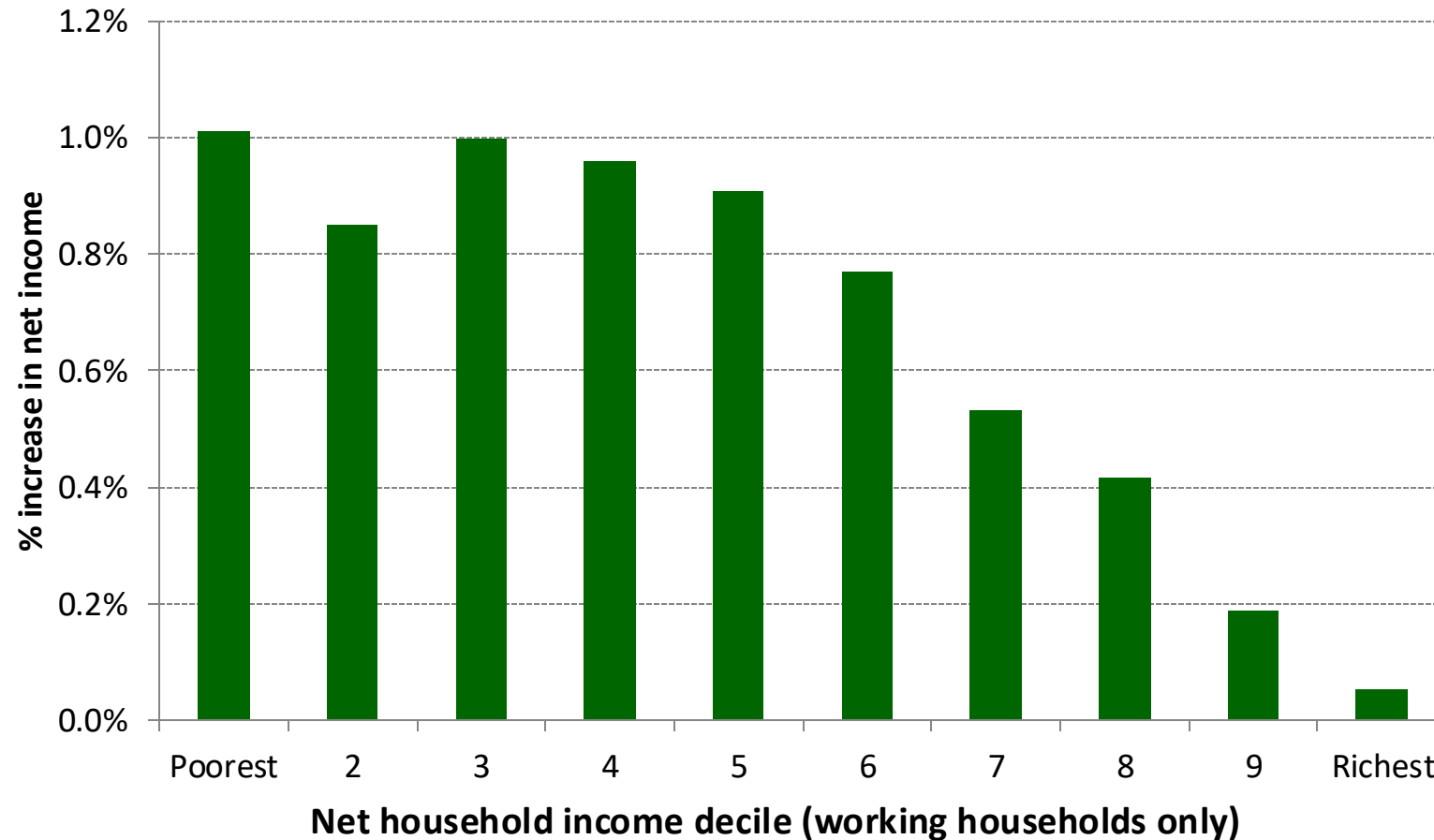


In work welfare support increasingly replaced by increases in the minimum wage

Notes: Includes self-employment income and self-employed households. Family Resources Survey. All income measures are equivalised.

Source: Blundell, Joyce, Norris-Keiller and Ziliak (2018, updated)

Higher minimum hourly wage targets the lowest-wage people, *not* necessarily the lowest-earning households

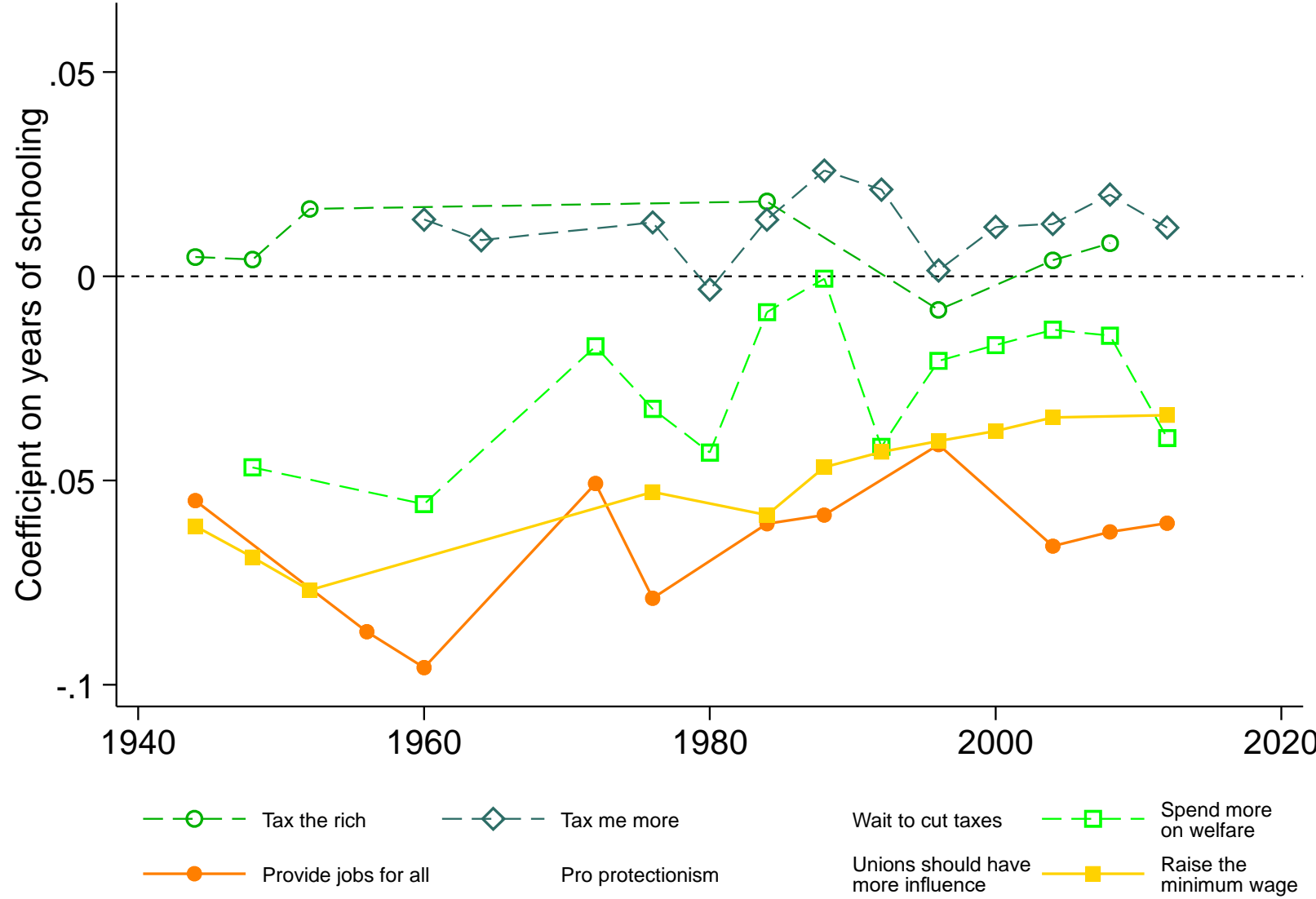


- Min wage should be a complement rather than a substitute for tax credits – and both are a cover for deeper concerns
- **Need to move policy beyond tax credits and the minimum wage... a good jobs agenda**

Note: Shows mechanical increase in net income (2018-2020 min wage increases), allowing for interaction with tax payments and benefit entitlements.
Source: Cribb, Joyce and Norris Keiller (IFS, 2020)

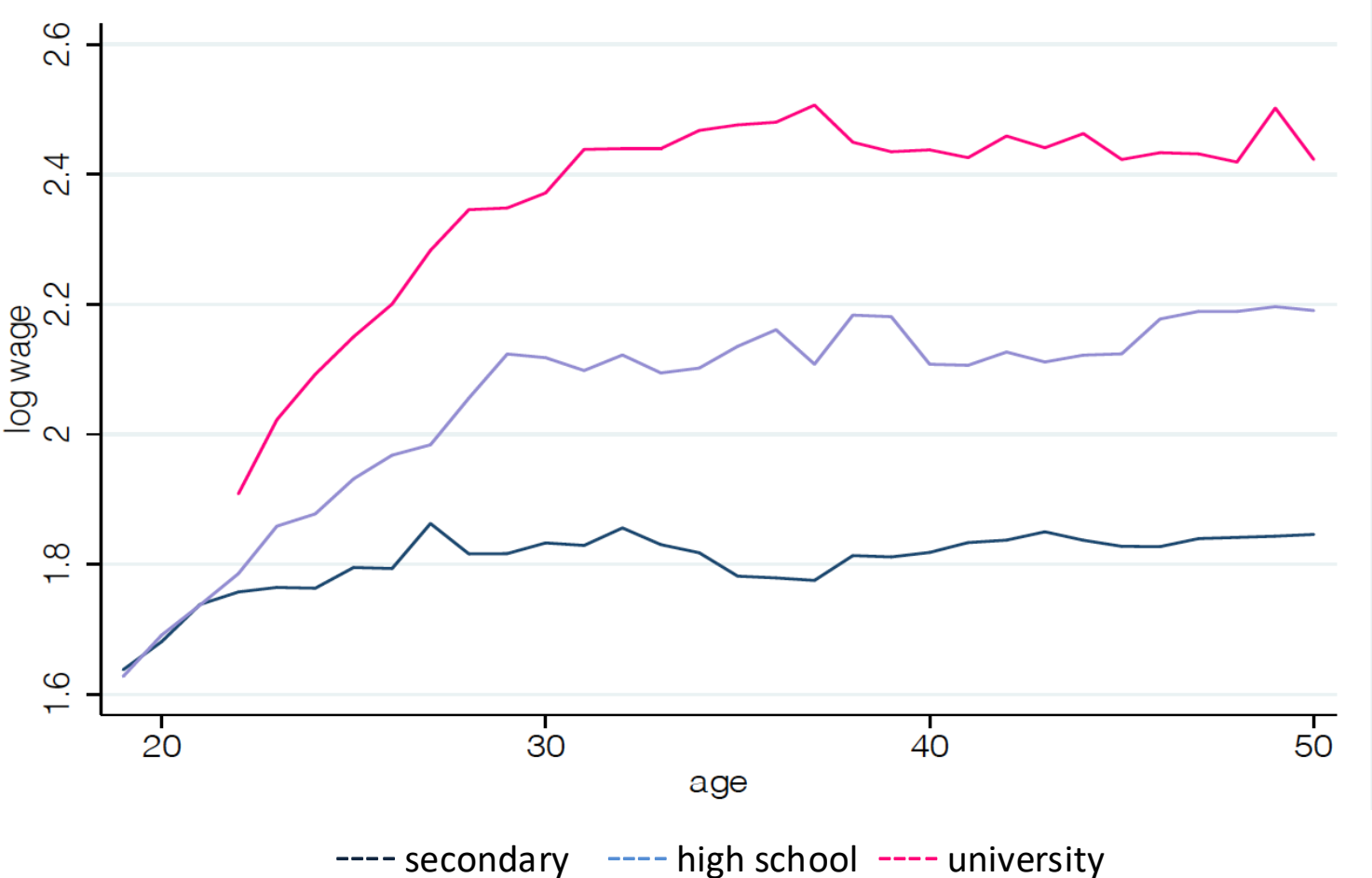
Highly educated favourable to redistribution; lower educated seem to prefer “pre-distribution”

Preferences for pre- and re-distribution by education



Source: Kuziemko et al (2023); Figure 1, regression coefficients. Data: ANES, Gallup, and GSS.

Low pay and poor wage progression strongly correlates with education



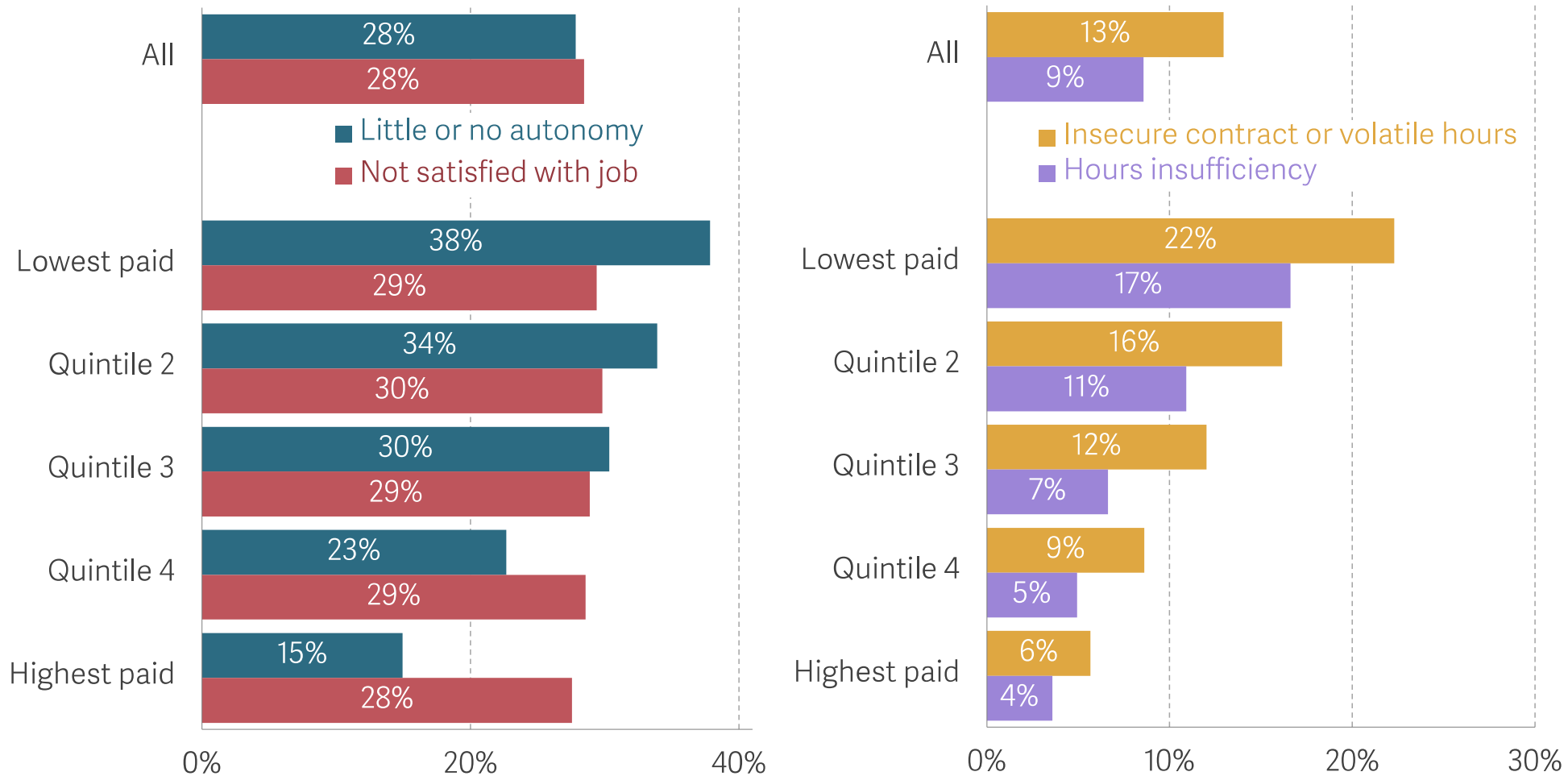
See similar for UK men, similar profiles in US and many other economies.

Source: Blundell, Costa-Dias, Meghir and Shaw (2016, updated)

Notes: Average log hourly wage, Women, UK HLS, 1991 -

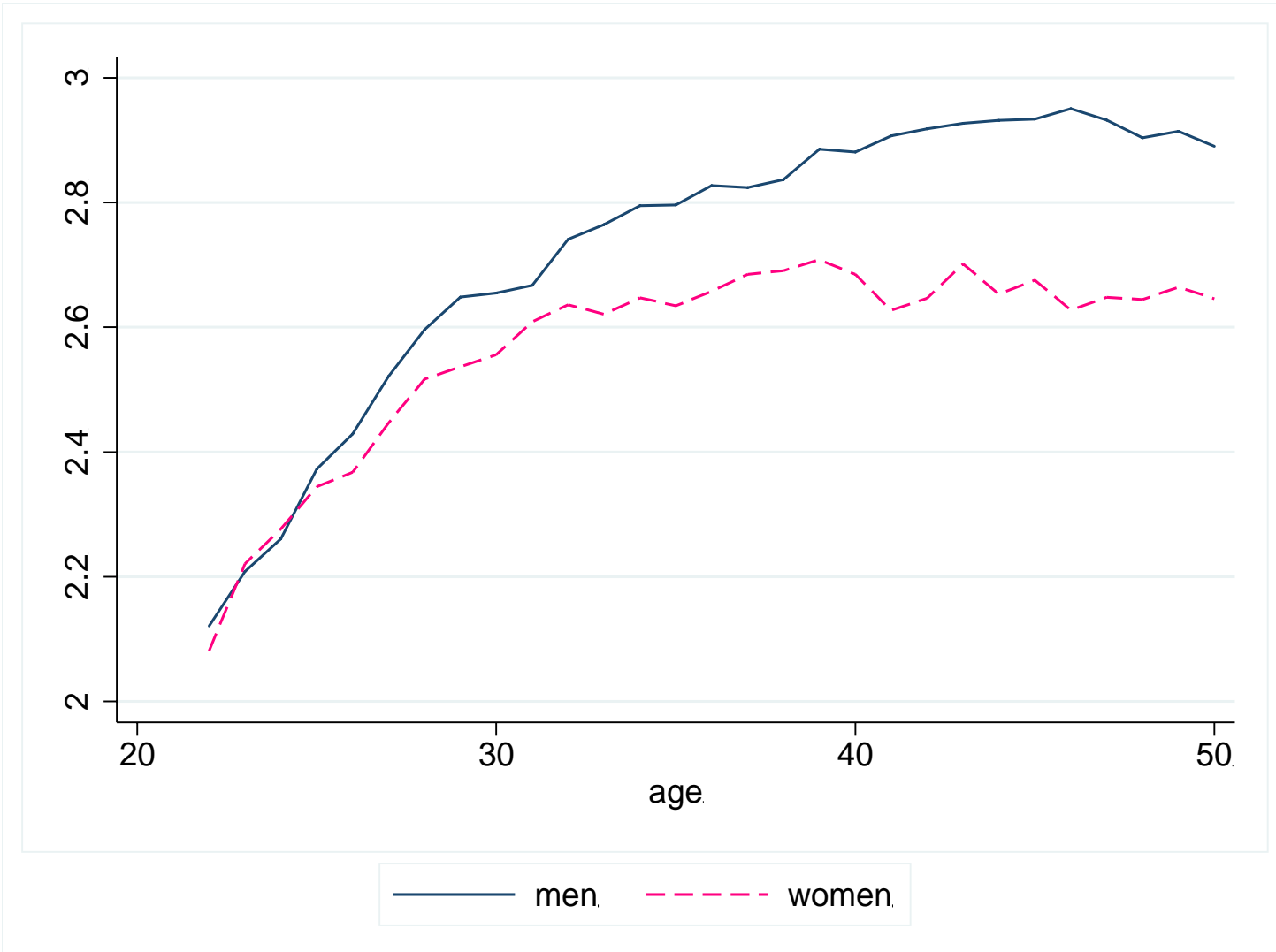
Low pay is also associated with other elements of low-quality work...

Proportion of employees reporting that their job has feature of selected measure of job quality, hourly pay quintile: UK, 2020-2022/2022



Source: Economy 2030 Report (CEP, April 2023)

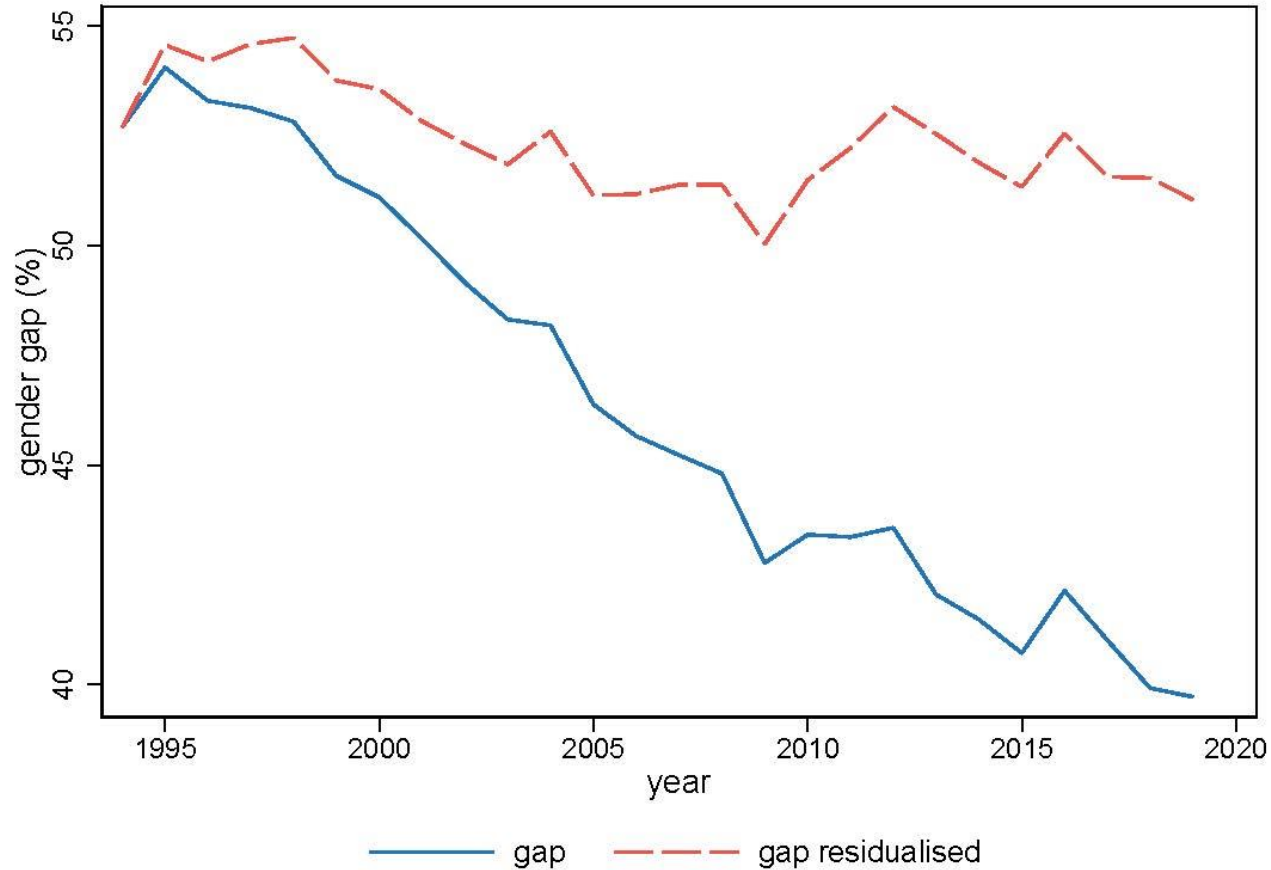
Poor wage progression is also a key driver of the gender gap for women in the labour market



Source: Blundell, Costa-Dias, Meghir and Shaw (2016, updated).

Notes: Log hourly wage, College graduates, UK HLS, 1991- .

But we see a stalling fall in the gender gap in once we controlling for education

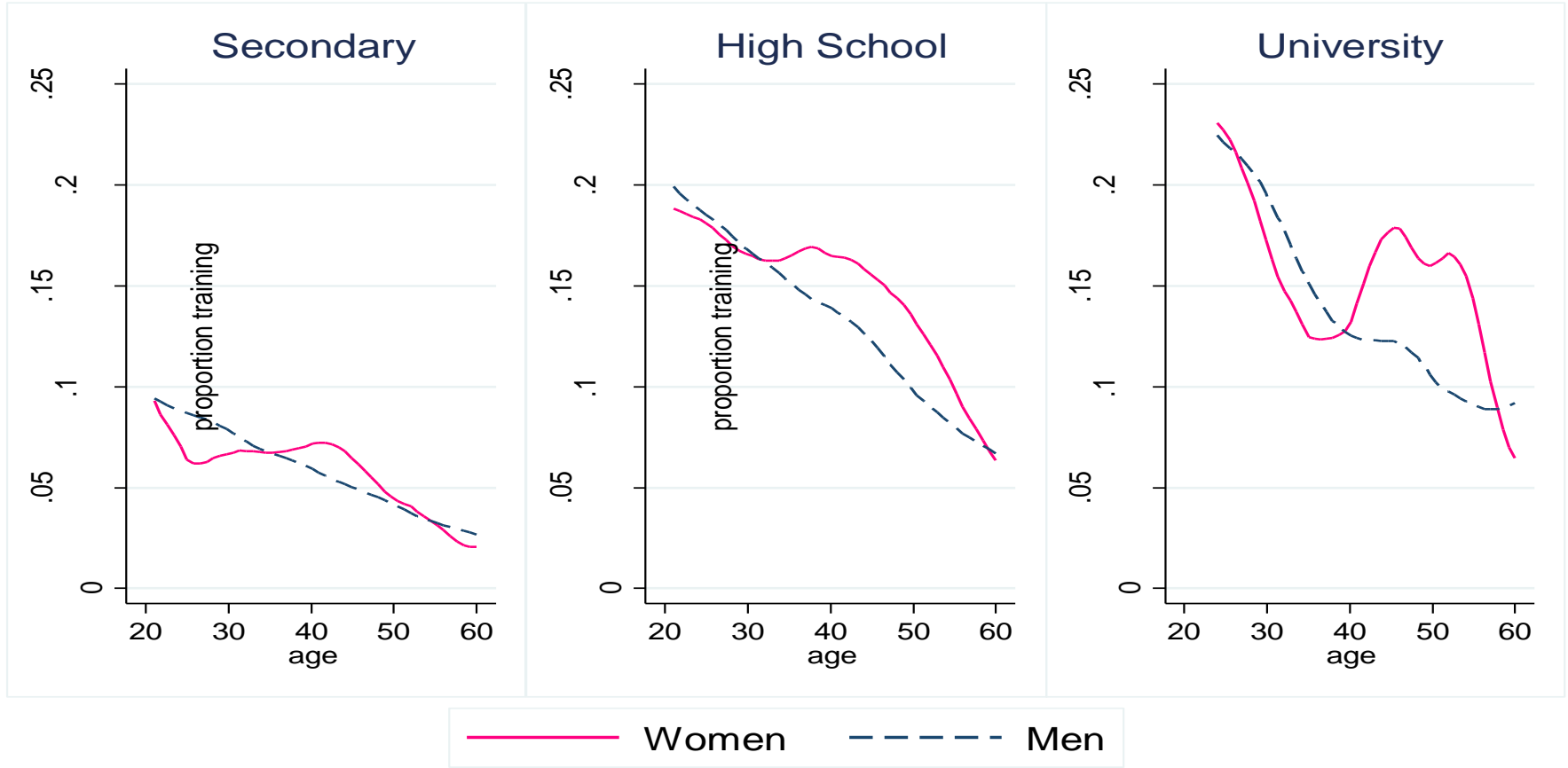


Note: Gender pay gaps as a percentage of men's earnings. Residualised gap calculated keeping the gender-specific distribution of education fixed over the entire period and normalised to equal the raw gap in 1994.

Source: Andrew, Bandiera, Costa Dias and Landais, IFS Deaton Review, 2024

Training is also complementarity with education with key potential for mothers returning to work

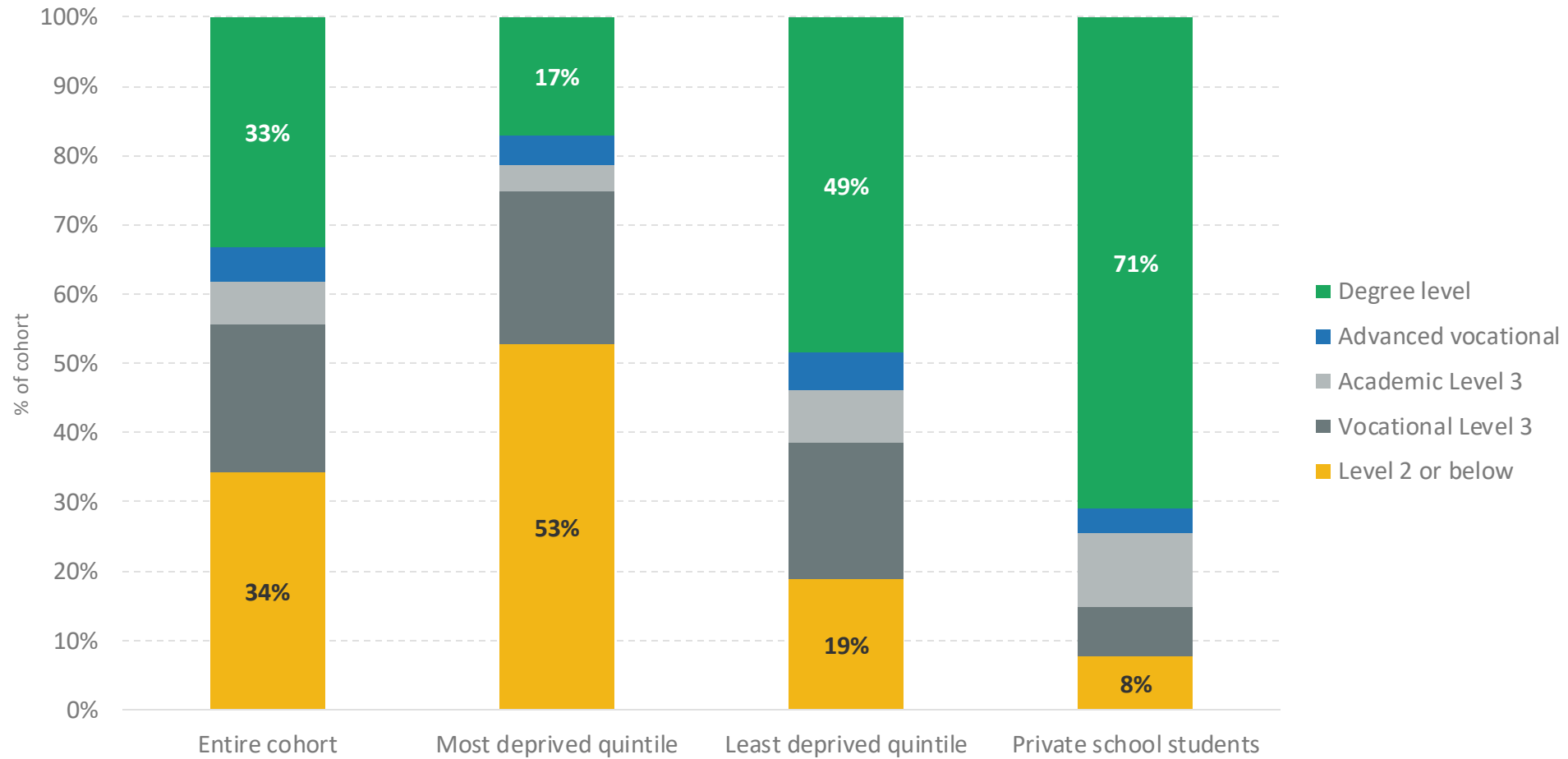
Prevalence of training over past year All training, 50+ hours



Source: Blundell, Costa-Dias, Goll and Meghir (2021), Notes: UK HLS

Sharp educational inequalities by socioeconomic status

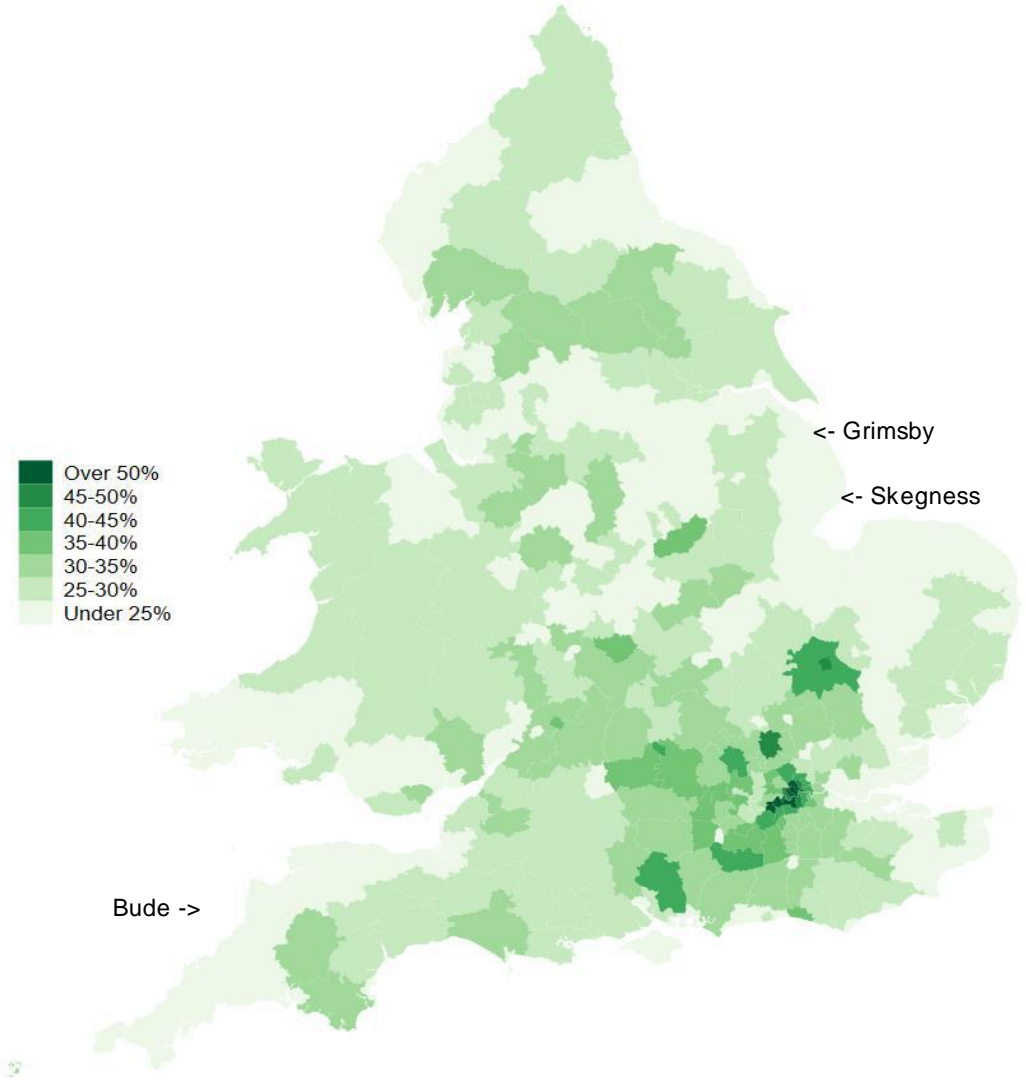
- The distribution of educational attainment among 26-year-olds in England by socioeconomic status, 2016



Source: Farquharson, McNally and Tahir, IFS Deaton Review, 2024.

Strong regional disparities in education

Share of Population (England and Wales) with Post A-level Qualifications



Source: Blundell et al. 2021 (Figure 1).

Educational flight: regional disparities in education and social mobility

Share from TTWA v. share living in TTWA at age 27

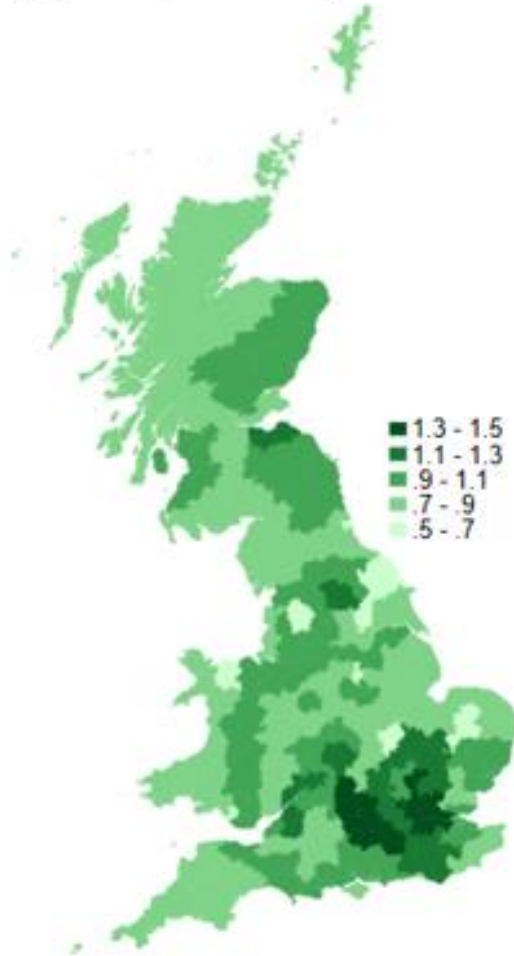
	Share of pupils who get degrees	Share of adults who have degrees (in same cohorts)	Net loss (as share of base)
Bridlington	23%	13%	43%
Skegness and Louth	24%	14%	40%
Bude	27%	16%	40%
Northallerton	32%	20%	36%
Spalding	24%	15%	36%
Grimsby	19%	12%	36%
Bridport	29%	19%	34%
Clacton	19%	12%	34%
Boston	23%	16%	33%
Wisbech	17%	11%	33%

Source: Overman and Xu (Deaton Review, IFS, 2024)

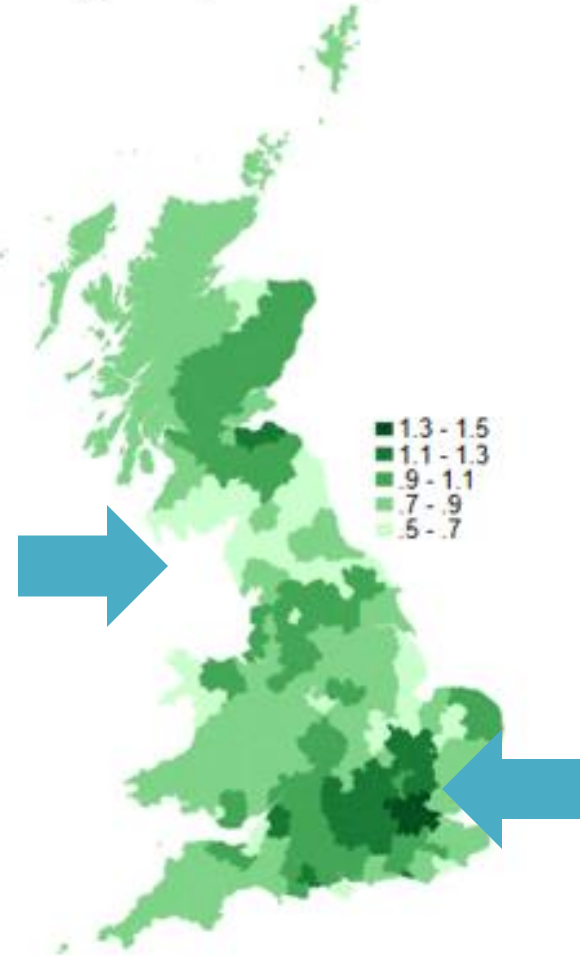
High-skilled jobs have become more geographically concentrated

Concentration of graduate-level occupations (share relative to national share)

(a) 1998, location quotient



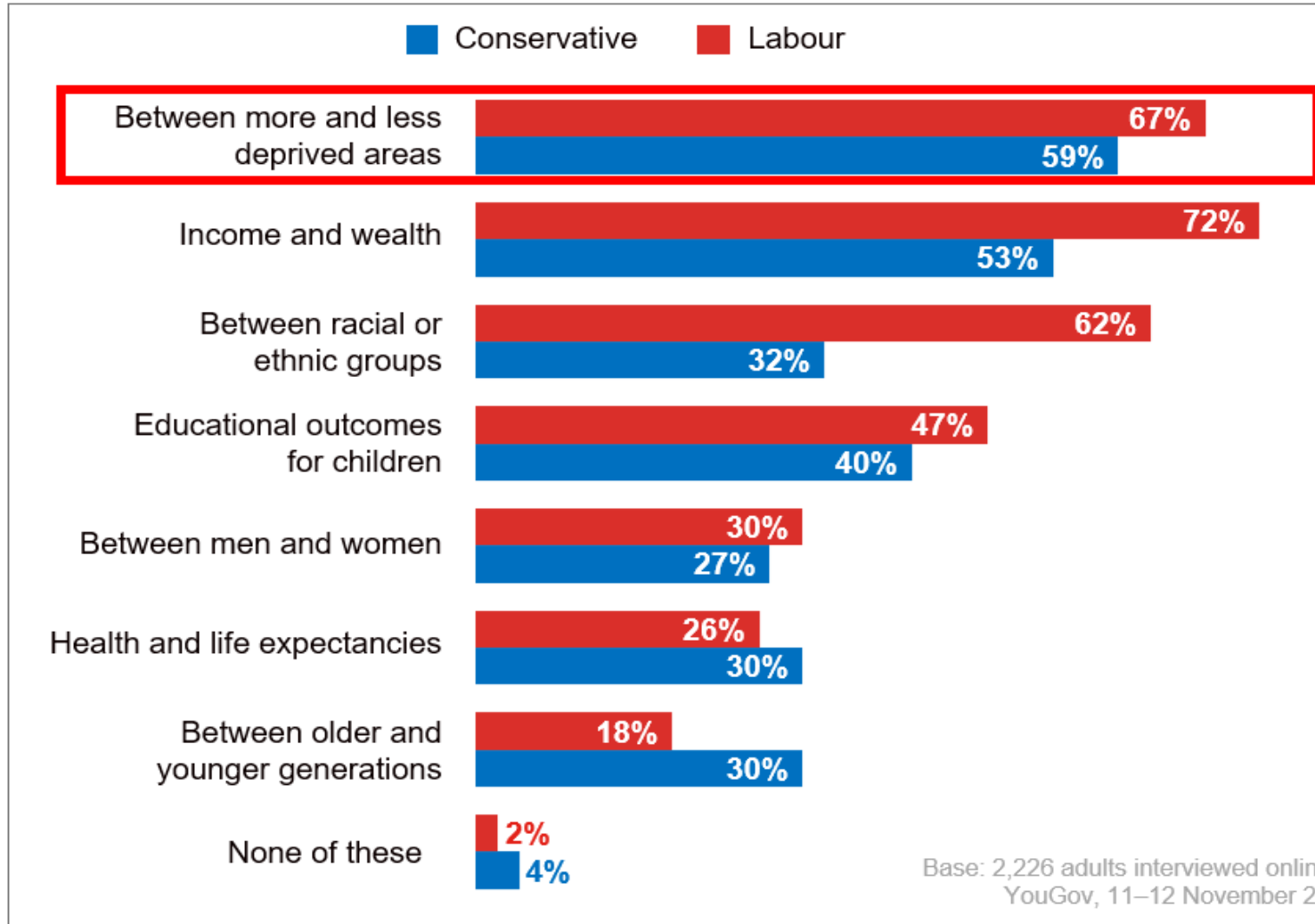
(b) 2019, location quotient



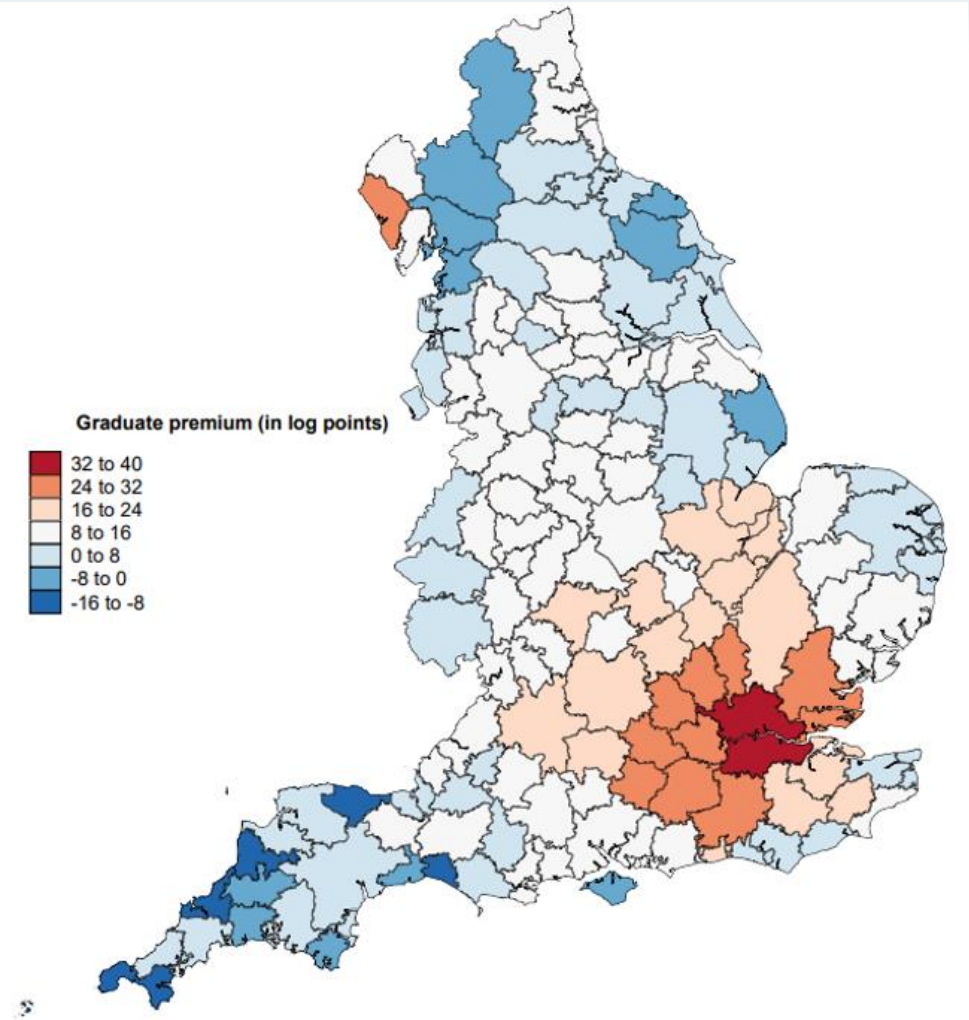
Regional inequalities matter a lot to people

And not hugely dependent on political orientation

Which three or four of the following types of inequality, if any, do you think are most serious in Britain?



Graduate wage premium

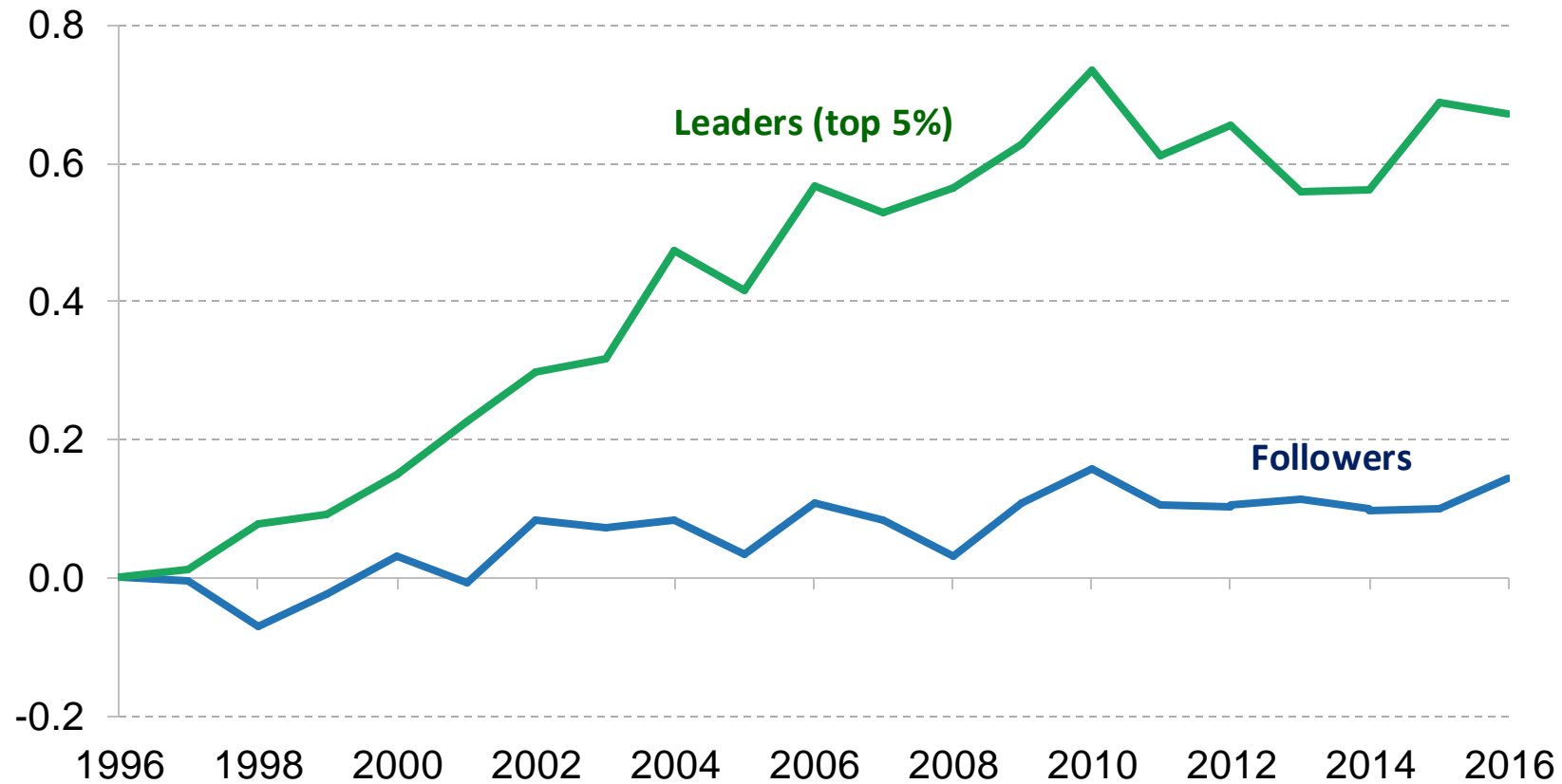


Note: The map plots all 149 English TTWAs included in our analysis. TTWAs straddling two home nations are excluded from the analysis and therefore not plotted. 'Graduate premiums' are calculated using a regression of earnings on a graduate dummy, interacted with TTWA at age 27, plus controls for background characteristics and school attainment as listed in Section 2.2, fully interacted with a gender dummy. Includes data from the 2002–05 GCSE cohorts, and from the 2013/14 to 2016/17 tax years.

Source: Overman and Xu (Deaton Review, IFS, 2024)

Negligible productivity growth apart from in top firms and this very geographically concentrated

Log firm productivity (value added per worker)



Source: De Loecker, J., Obermeier, T. and Van Reenen, J. IFS Deaton Review (2024)

Highlighted longer-term challenges for inequalities – focus on working life...

- Stagnant real earnings and a growth in ‘in-work’ poverty with employment no longer enough to escape poverty.
- Poor wage progression at the bottom and strong growth in low wage solo self-employed, part-time jobs, platform work and outsourcing.
- Falling levels of in-work training and fewer routes to ‘good jobs’ for those not going to university.
- Stalling gender pay gap with high levels of part-time work and low levels of progression for mothers.
- High productivity but high mark-ups in ‘super star’ firms and, for the rest, a long tail of low productivity firms.
- Thriving cities increasing contrast to ‘left-behind’ areas with low education outcomes, poor wage progression, and low mobility.
- Growth in top incomes concentrated in finance and paid as business income which attracts lower taxation; capital is taxed lower than labour....

Beyond tax credits and the minimum wage

- In-work transfers/tax credits - increase employment, targeted to low earning families, but do little for pay and pay progression.
- Minimum wages - raise hourly wages, but less well-targeted to poor families and little incentive for progression.

Can we put flesh on the idea of a 'good jobs' agenda?

- Solo self-employment and new forms of work – need to line up effective tax rates, benefit eligibility, and training access.
- Training and technology – poor progression and fall in training suggests focus on firm match and hybrid skills that enhance progression and complement AI and new green technologies.
- Capital taxation - average tax rate on wage-earners in the top 1% is as high as 49%, but rate on company is 27% on income taken in capital gains (zero if gains are deferred until death)
- Productivity and place-based policies - policies to attract R&D firms that employ a mix of education groups, essential for agglomeration, progression and reverse educational flight.

Towards a wider policy agenda?

- New world of work - need to change labour market regulation and taxation to adapt to platform work and solo self-employment
- Competition – competition policy is out of touch with firms whose market is built on innovations in platform and digital network technologies
- Innovation – encourage innovation and adoption of new technologies that support good jobs, economic dynamism and inclusive growth
- Governance and unions – re-think corporate governance and worker representation
- Globalisation - do we need a trade policy that incorporates labour standards
- Also note the key importance of early years, health, wealth and housing inequalities... many issues covered in the Review.
- Gender gaps - need to re-think gender neutrality with a focus on changing gender norms at work and at home
 - maybe we could even persuade Alfred Marshall.... certainly Mary Paley!

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