



Knowledge Exchange Seminar Series (KESS)

...is a forum that encourages debate on a wide range of research findings, with the overall aim of promoting evidence-based policy and law-making within Northern Ireland



Assessing the risks of economic inequality: the impact on societal wellbeing and economic development

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7 June 2017

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1. What is Economic Inequality

Typically measured as **inequality in the distribution of income**

- Gini Coefficient (0 = perfect equality, 1 = perfect inequality)
- Quantile income ratios (e.g. top 20% versus bottom 20%)
- Quantile income shares (e.g. % income held by the top 10%)

Sometimes measures as inequality in the distribution of **wealth**

Needs to be understood as **inequality in the distribution of 'net economic benefits'**, including the value of public services, differentials in the cost of meeting a decent standard of living, and other factors

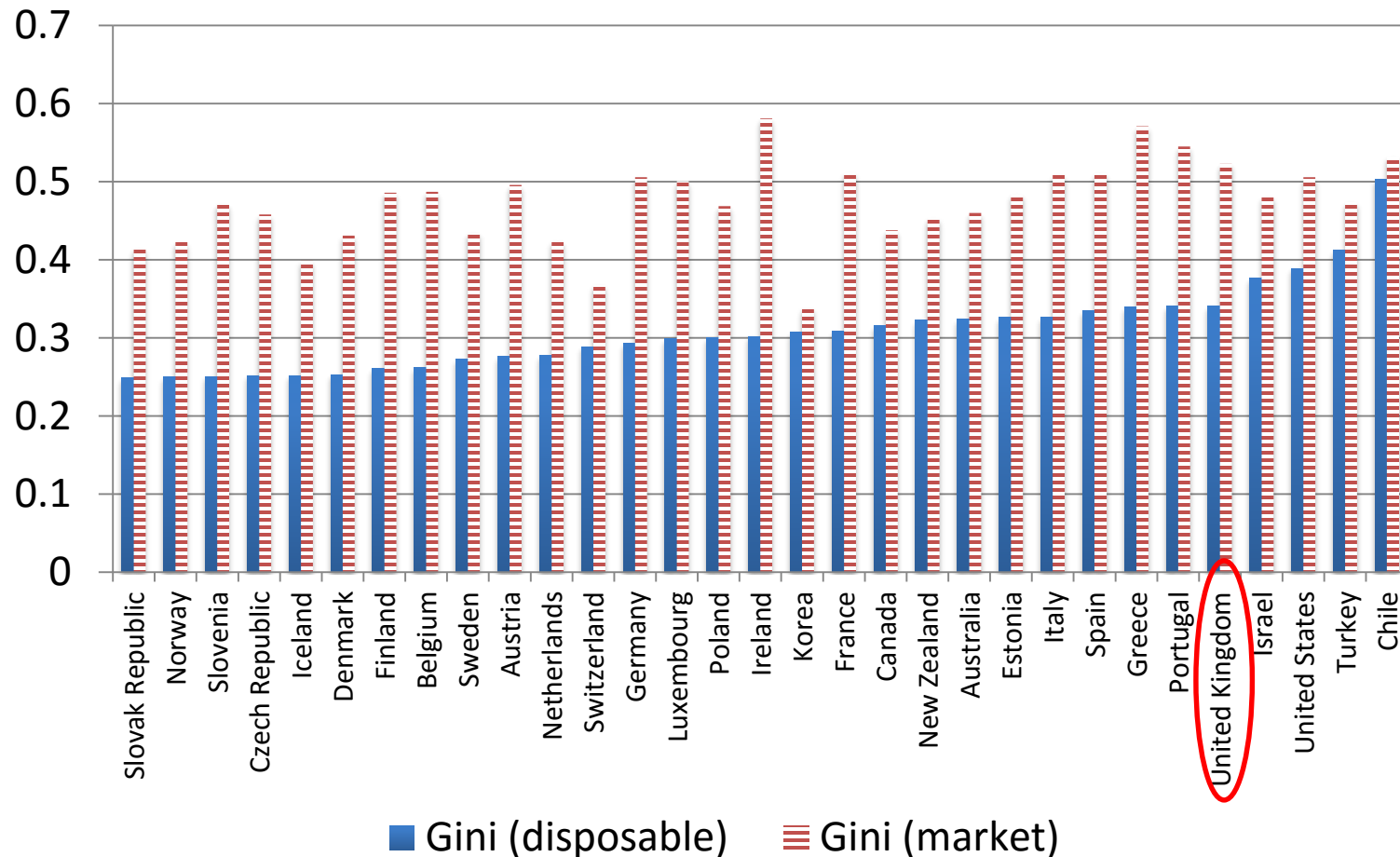
2. Economic inequality is rising

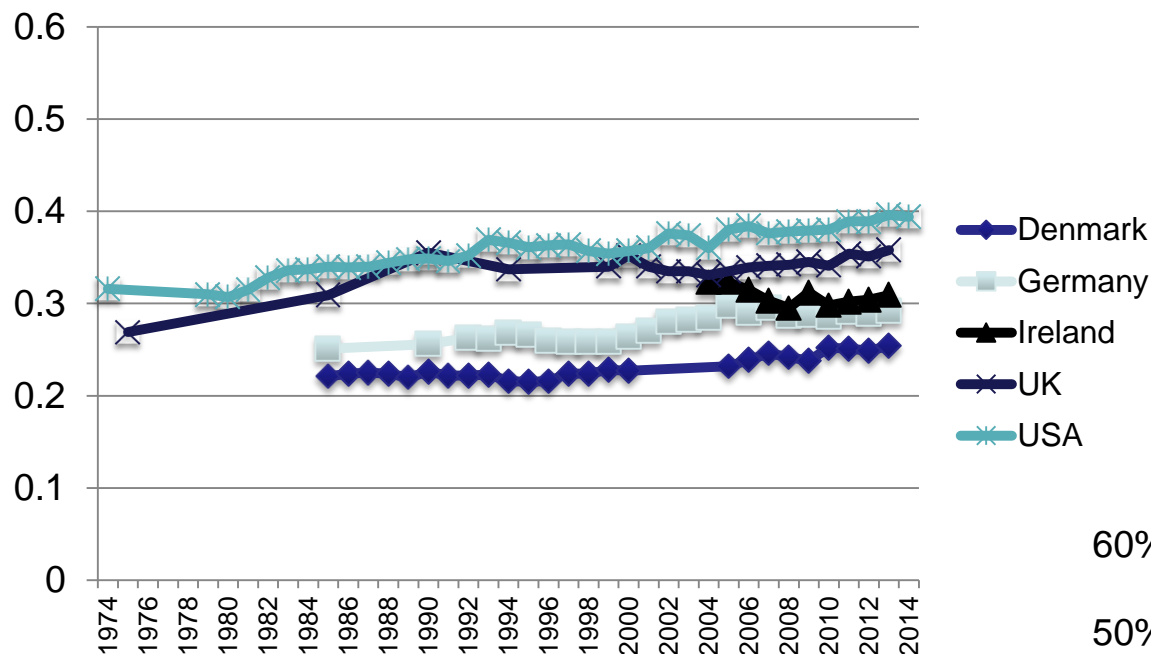
**Gini Coefficient
of the UK:**

0.523 (52.3) for
market incomes

0.341 (34.1)
after taxes and
social transfers;

*The UK was
0.269 in 1975*

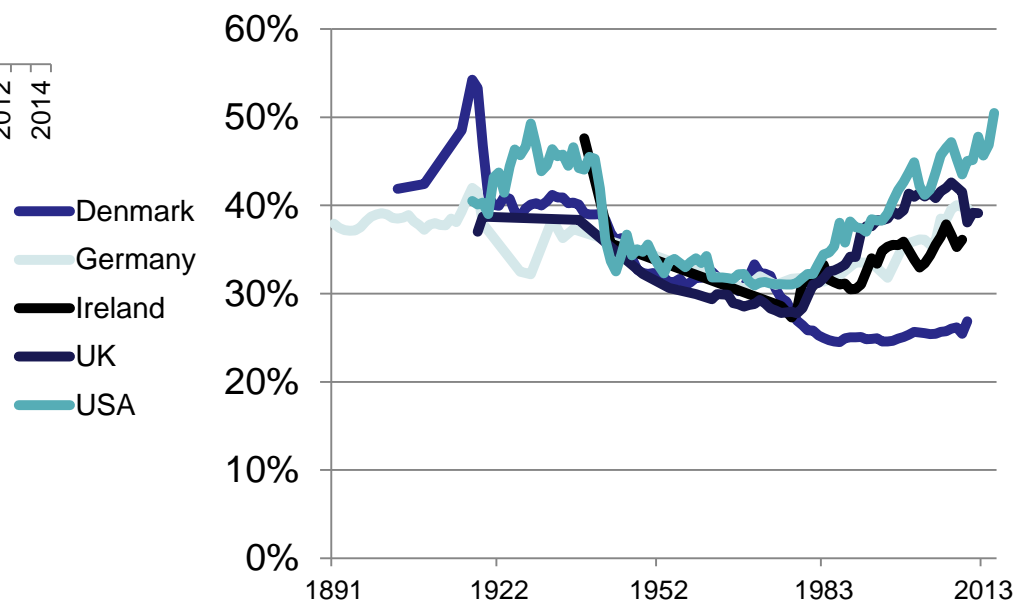




The Gini Coefficient
(after taxes and
transfers) has risen
since the 1970s



The Top 10% income share has risen
more significantly. (This is a more
recent finding, from the analysis of
tax data) →



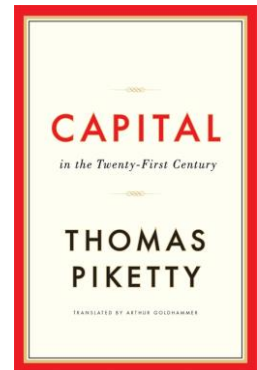
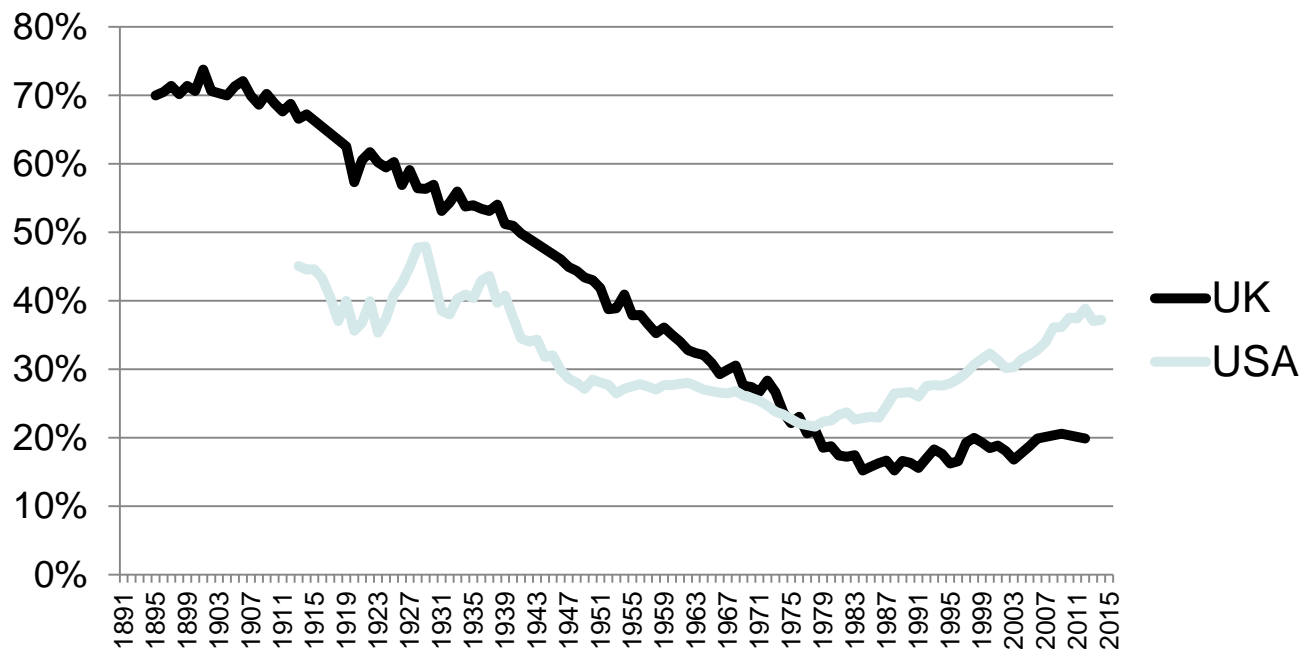
The income and wealth share of the Top 10% and Top 1% has grown significantly in recent decades

Like a Russian Doll, within the Top 10%, a disproportionately large share of income and wealth goes to the Top 1%

- Within the Top 1%, a large share goes to the Top 0.1%
 - Within the Top 0.1%, it is the 0.01%, and so on



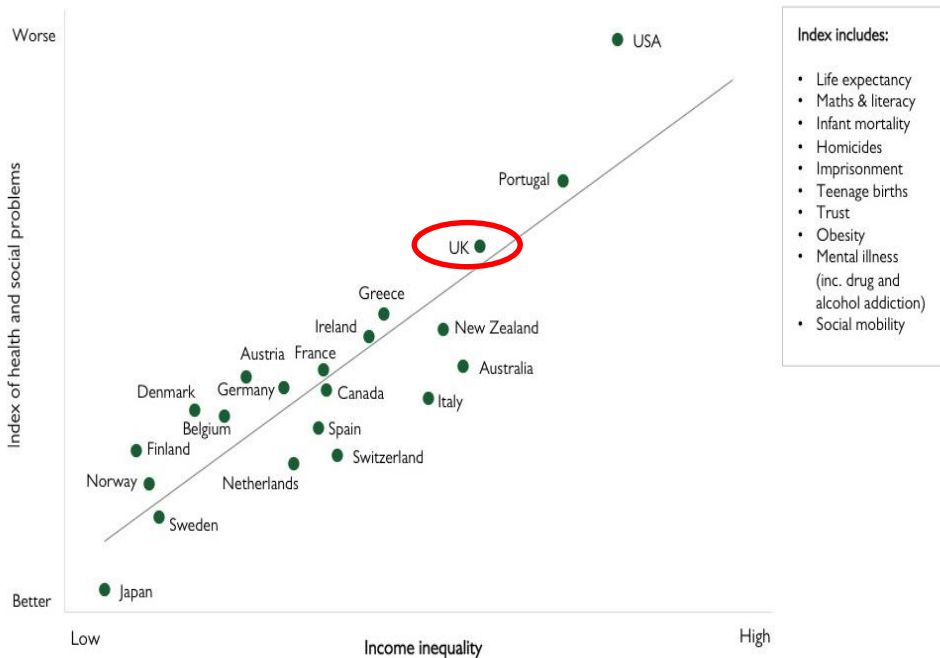
Wealth Share (Top 1%)



The return of 'patrimonial capitalism'?
(low growth, low innovation)

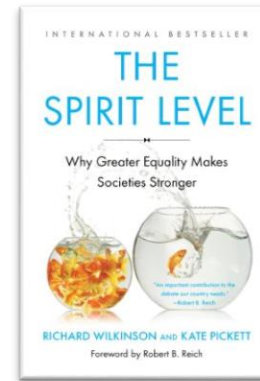
3. Social and health implications

Higher income inequality is associated with higher levels of social problems (e.g. homicide, lower trust levels) and health problems (mental ill health, addiction, lower life expectancy).



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

THE EQUALITY TRUST



In November 2008, Professor Sir Michael Marmot was asked by the then Secretary of State for Health to chair an **independent review** to propose the most effective evidence-based strategies for reducing health inequalities in England from 2010.

Key Messages of 'Fair Society Healthy Lives' (Marmot Review)

- There is a **social gradient in health** – the lower a person's social position, the worse his or her health. Action should focus on reducing the gradient in health.
- **Health inequalities result from social inequalities.** Action on health inequalities requires action across all the social determinants of health.
- **Focusing solely on the most disadvantaged will not reduce health inequalities sufficiently.** Actions must be universal, but with a scale and intensity that is proportionate to the level of disadvantage ("**proportionate universalism**")
- Action taken to reduce health inequalities will benefit society in many ways. It will have **economic benefits** in reducing losses from illness associated with health inequalities. These currently account for productivity losses, reduced tax revenue, higher welfare payments and increased treatment costs.
- Economic growth is not the most important measure of our country's success. **The fair distribution of health, well-being and sustainability are important social goals.**

<http://www.instituteofhealthequity.org/file-manager/FSHLrelateddocs/key-messages-fshl.pdf>



4. Economic implications

OECD reports (2008, 2011, 2015)

- Income inequality and poverty are growing
- Wage gaps have widened
- **Inequality is dragging down economic growth**
 - 'Trickle down' does not occur
 - **No necessary trade-off between growth and equality**
- We are at a 'tipping point' in relation to inequality



<http://www.oecd.org/social/inequality.htm>

Research by IMF officials shows a **link between income inequality, private sector debt and financial instability** ([Kumhof et al. 2015](#), [Ostry et al. 2016](#)).

5. Complex social problem



Former US Vice President Al Gore has dedicated years to explaining the '**complex social problem**' of climate change, such as through the documentary, *An Inconvenient Truth*.

As an example of what 'complexity' means:

- It is complicated to define and explain
- It involves a lot of data and modelling (and jargon)
- It is big—it has major effects on society and the economy
- There are many causes
- It is hard to predict
- It is going to affect us all, sometimes in unexpected ways
- It is the responsibility of many organisations—in fact, it is everyone's responsibility
- Most of us will have to change some of our ideas and expectations
- Most of us will have to change things we do in our everyday lives



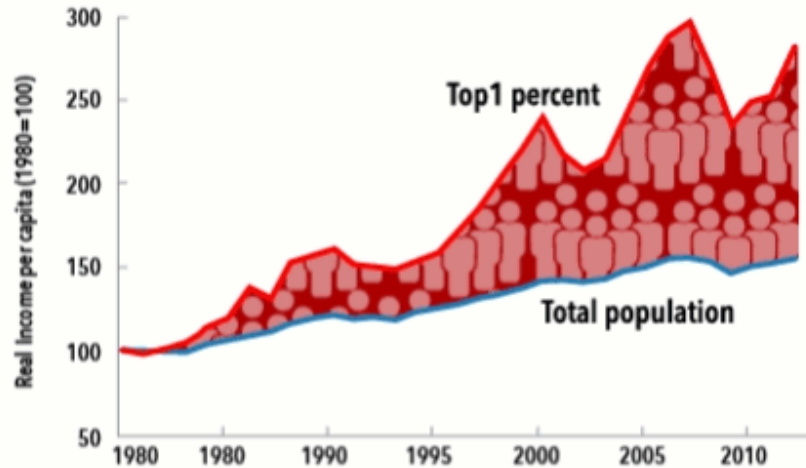
- If we understand inequality in the distribution of '**net economic benefits**', this requires expanded data and analysis on the full range of economic benefits.
- We need to take into account **the value of public services**, the **impact of indirect taxes** as well as direct forms of taxation, the diversity of **family composition and dependencies**—not least with divorce, remarriage and an ageing population—, the different **capacities of households** (including disability), and the actual **cost of meeting a decent standard of living**.
 - For example, a household may manage to maintain their income, but they may see their leisure time erode, their public services decline and their job security and future retirement becoming increasingly precarious. We need to take account of family time, leisure time, unpaid care work, social networks, precariousness, etc.
 - But if we only look at the income distribution data, it could report no change in their circumstances. Standard metrics like the Gini Coefficient do not always correlate with people's experience of insufficiency or insecurity

6. Policy implications

- Understanding economic inequality as a **‘complex social problem’**—a multi-part, multi-cause issue—helps to frame the policy solutions that are needed
- Income distribution—and ‘fairness’ in the economy more generally—are **linked to health and social problems**
- The **effects of income inequality on economic growth** (GDP) imply that this must concern every political party that wishes to ensure sustainable growth
- We need to move beyond a narrow focus on after-tax household income and to develop more sophisticated **‘public value accountancy’** to show the value of public services and to demonstrate how they can counter-act economic insecurity and deprivation
 - This links to the idea of **joined-up and outcomes-based public policy** (as in the last draft Programme for Government in Northern Ireland), where the aim is to achieve the optimum level of societal well-being, not just to count unit costs or the number of actions taken by public agencies

WIDENING INCOME GAP

In advanced economies, incomes of the top 1 percent have grown three times faster than the rest of the population



Sources: World Wealth & Income Database; IMF

Notes: The sample includes Australia, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Market income refers to individuals' income before taxes and transfers.



INTERNATIONAL
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www.imf.org

‘when the benefits of growth are shared more broadly, growth is stronger, more durable, and more resilient [...]

‘we have found that **technology** has been the major factor behind the relative decline of lower- and middle-skilled workers’ incomes in recent years, with trade contributing to a much lesser extent. And there are concerns that **automation** will progressively jeopardize employment growth in emerging and developing economies as well. [...]

‘greater emphasis on **retraining** and **vocational training**, job search assistance, and relocation support can help those affected by labor market dislocations. [...]

‘commitment to **life-long learning**—from early childhood education, to workplace training, to online courses for seniors [...]

‘**today’s policies should not disadvantage future generations**, who would be left to pay for the imprudent actions of today’s generation. That includes a damaged environment, dilapidated infrastructure, and high public debt.’

Speech by **IMF Managing Director**, Christine Lagarde (April 2017)

<http://www.imf.org/en/News/Articles/2017/04/07/building-a-more-resilient-and-inclusive-global-economy-a-speech-by-christine-lagarde>



Recommendations from the Marmot Review

Reducing health inequalities will require action on six policy objectives:

1. Give every child the best start in life
2. Enable all children, young people and adults to maximise their capabilities and have control over their lives
3. Create fair employment and good work for all
4. Ensure healthy standard of living for all
5. Create and develop healthy and sustainable places and communities
6. Strengthen the role and impact of ill-health prevention.

<http://www.instituteofhealthequity.org/file-manager/FSHLrelateddocs/key-messages-fshl.pdf>



Beyond that, **better data and analysis** of economic inequality in all its dimensions would help to inform policies to reduce the negative economic, social and health effects of inequality.



Northern Ireland
Assembly



The Open
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