Chapter 13: Inequality and Welfare

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In this part of the study we will summarise the trends in income distribution indicators during the 2009-2019 period using cross-sectional and longitudinal data from the EU-SILC study. We will use the following indicators:

*The Gini coefficient of the distribution of equivalised household income* varies between 0, when all incomes are equal and 1, when a single individual (person or household) has all the income. The Gini index is the most widely used indicator of inequality of the income distribution within a country. Data used: EU-SILC study, cross-sectional data.

*At-risk-of-poverty rate*: The at-risk-of-poverty rate is the proportion of people with an equivalised net disposable income below the at-risk-of poverty threshold, which is conventionally set at 60% of the national median equivalised disposable income (after social transfers and direct taxes). Data used: EU-SILC study, cross-sectional data.

The *severe material deprivation rate*: following the definition adopted by Eurostat the indicator shows the percentage of individuals characterised by an enforced inability to pay for at least four of the following items: pay unexpected expenses, afford a one-week annual holiday away from home, a meal involving meat, chicken or fish every second day, the adequate heating of a dwelling, durable goods like a washing machine, colour television, telephone or car, being confronted with payment arrears (mortgage or rent, utility bills, hire purchase instalments or other loan payments). Data used: EU-SILC study, cross-sectional data.

*Middle-class vulnerability*: our measure of middle-class vulnerability measures the probability of falling into poverty among the middle-income groups. The measure expresses the probability of middle-income individuals (between 60% of median and 200% of median income) in a given year to be found among the poor (below 60% of equivalised household income) in the subsequent year over the four year period covered by the data. Data used: EU-SILC study, longitudinal data.

Part 2: Effects and aftermaths of the COVID shock (Jan 2020-…) (5 pages)

Although cyclical recessions reduce average incomes and contribute to an increase in absolute poverty, there is no clear theoretical prediction about the effect on income inequality (Jenkins et al. 2013). The reason is that the impact of a recession on inequality depends on where the social groups more affected by the crisis are located in the income distribution. Although increasing unemployment tends to affect more those at the bottom (or the middle) of the distribution, recessions can harm the rich as well eg. by having a negative effect on capital incomes (Roine, Vlachos, and Waldenström 2009). The economic crisis can have different effects horizontally (between different social groups) as well: the effects can be differentiated by gender if sectors with different gender composition of the workforce are affected differently.
General prediction about the inequality impact of a crisis is also difficult because experiences of countries can be very different. There can be important differences in the impact on the labour market (adjustment through unemployment, working hours or wages?) and countries also differ to a great extent in how social welfare policies are able to mitigate the adverse consequences of the crisis (OECD 2013, Vaughan-Whitehead 2013). Countries implement a more or less different package of policies including automatic stabilisers (eg. unemployment benefit or other safety-net benefits) and discretionary changes in tax-benefit policies to mitigate the effects of the crisis (Callan et al. 2018).

In this chapter we will concentrate on the effects of the COVID crisis on economic inequality rather than health inequality. Therefore, focus will be on the inequality impacts of the economic consequences of the pandemic rather than the differential impact on health and mortality of the pandemic. As data on the income distribution of the relevant year (2020) will not be available we will use available data on drivers of income inequality and describe the expected inequality impacts of these changes in the driving forces.

In part 2 of the chapter we will

-Identify studies that provide analysis on drivers of inequality during the COVID crisis (eg. Palomino et al. 2020).
-Describe difference in the evolution of labour market indicators (eg. unemployment) in different subgroups of the population (by educational level, age groups) if data allows. Obviously an important input for this will be Chapter 6 on Labour Markets.
-Summarise the tax and benefit policies that the various countries have implemented. Here important input will be provided by Chapter 8: Fiscal and Monetary Policies
-Describe the expected inequality impacts of changes on the labour market and tax/benefit policies based on the literature review and the available data.

References:

OECD (2013): Crisis squeezes income and puts pressure on inequality and poverty Results from the OECD Income Distribution Database (May 2013)