

Improving our understanding of inequality and poverty

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Improving understanding: multiple angles

- There is a mismatch between expressed concerns about (rising) inequality and measured realities
 - Which also has relevance for the public's demand for redistribution by the government
- Potential explanations for the mismatch to explore with you:
 - The summary measures we use don't tally with how people think about inequality?
 - People's perceptions about the income distribution are wrong?
 - Headline measures do not focus on the dimensions of 'inequality' that are most salient nowadays?
 - The data underlying the measured realities are wrong?
- Implications for policy and data collection

Mismatch between expressed
concerns about (rising) inequality
and measured realities

Concerns expressed about inequality (NZ)



BEN CURRAN/STUFF

A protester in 2011. Interest and concern about inequality has risen dramatically in recent years.

2013 [book](#) (Max Rashbrooke, ed.) →

INEQUALITY
A NEW ZEALAND CRISIS

Concerns expressed about inequality (NZ)

Media mentions of the word increased six-fold between 2004 and 2012. Almost 8 out of every 10 respondents (79.6 per cent) to our 39,600 person Stuff/Massey University survey agreed "inequality is too high and/or growing fast," with far more women agreeing than men.

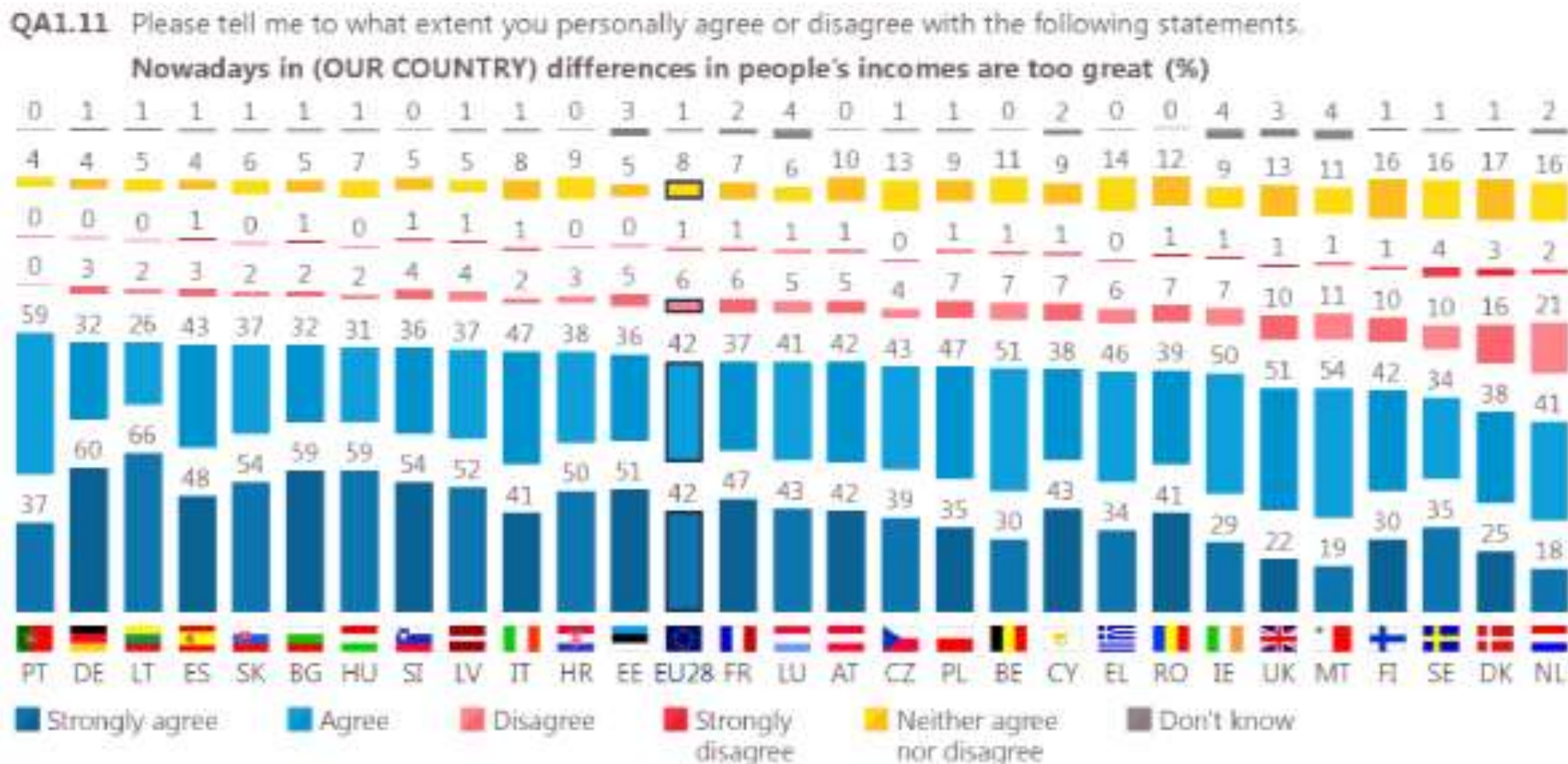
Richer households were less inclined to agree, but even at the top bracket more than 6 in 10 agreed.

This was a far higher figure than the 6 in 10 who agreed that "poverty in New Zealand is real and unjust," and the 52 per cent who disagreed with the statement that "New Zealand is a land of equal opportunity".

Source: [online article](#) based on pre-election Stuff/Massey survey (Henry Cooke, 18 August 2017)

Income differences too great nowadays? (EU-28, 2017)

- Range of 'strongly agree'/'agree': 96% (PT) to 59% (NL) with 84% for EU-28
- Positive association with measured inequality, but note DE



Government should take measures to reduce differences in income levels? (EU-28, 2017)

- Demand for redistribution positively correlated with expressed concerns about income differences (previous chart)
- Range of 'strongly agree'/'agree': 94% (PT) to 51% (DK) with 81% for EU-28

QA1.12 Please tell me to what extent you personally agree or disagree with the following statements.

The government in (OUR COUNTRY) should take measures to reduce differences in income levels. (%)

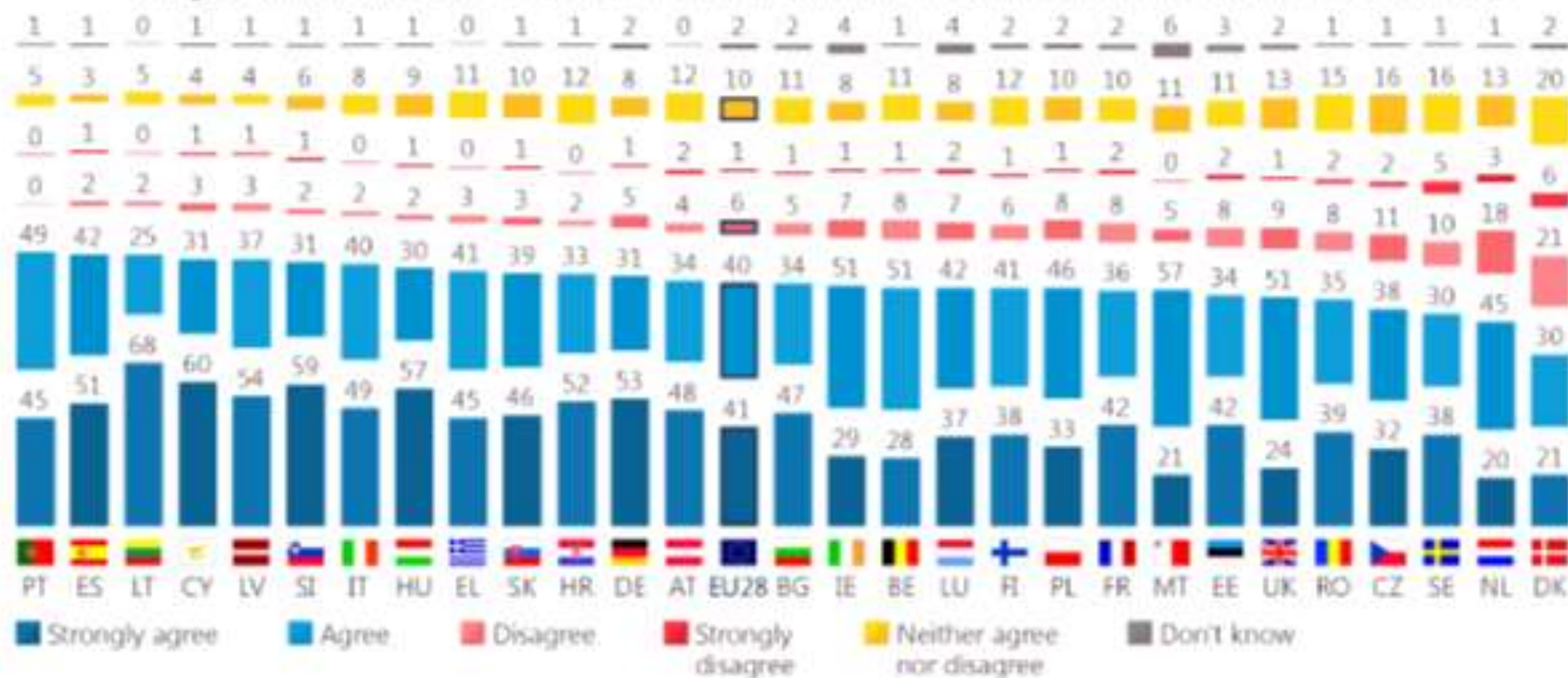




FIGURE 4.2
Measured changes in inequality explain little of the demand for redistribution

Demand for redistribution associated with perceived inequality not actual inequality

Source: Bussolo, Ferrer-i-Carbonell, Giolbas, and Torre 2018.

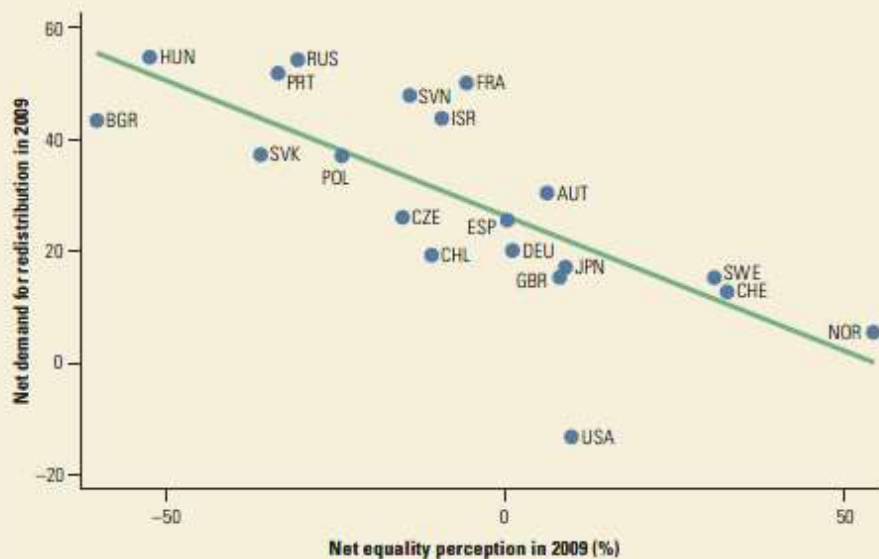


FIGURE 4.3
Perceived inequality correlates strongly with the demand for redistribution

Source: Bussolo et al. (2018) *Toward a New Social Contract. Taking On Distributional Tensions in Europe and Central Asia*, World Bank, using ISSP Social Inequality data

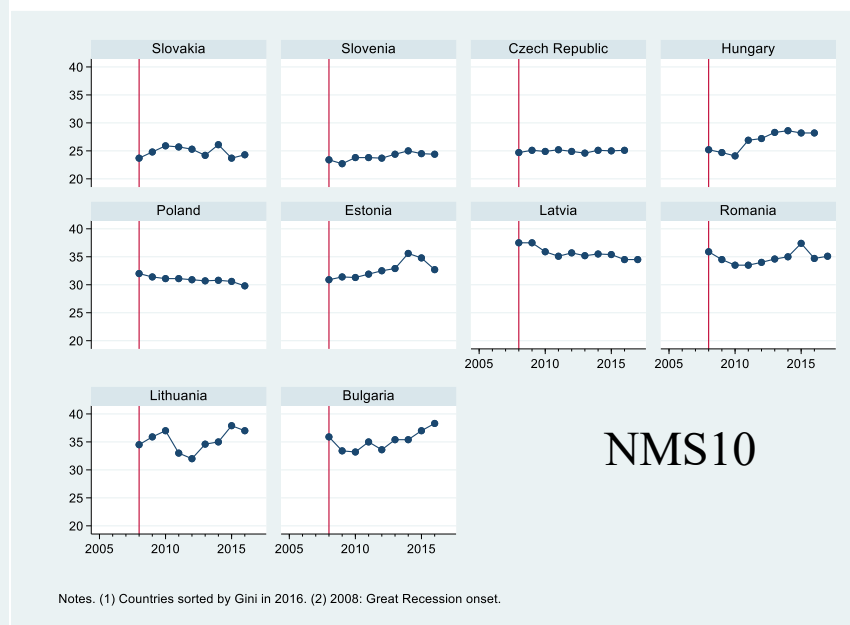
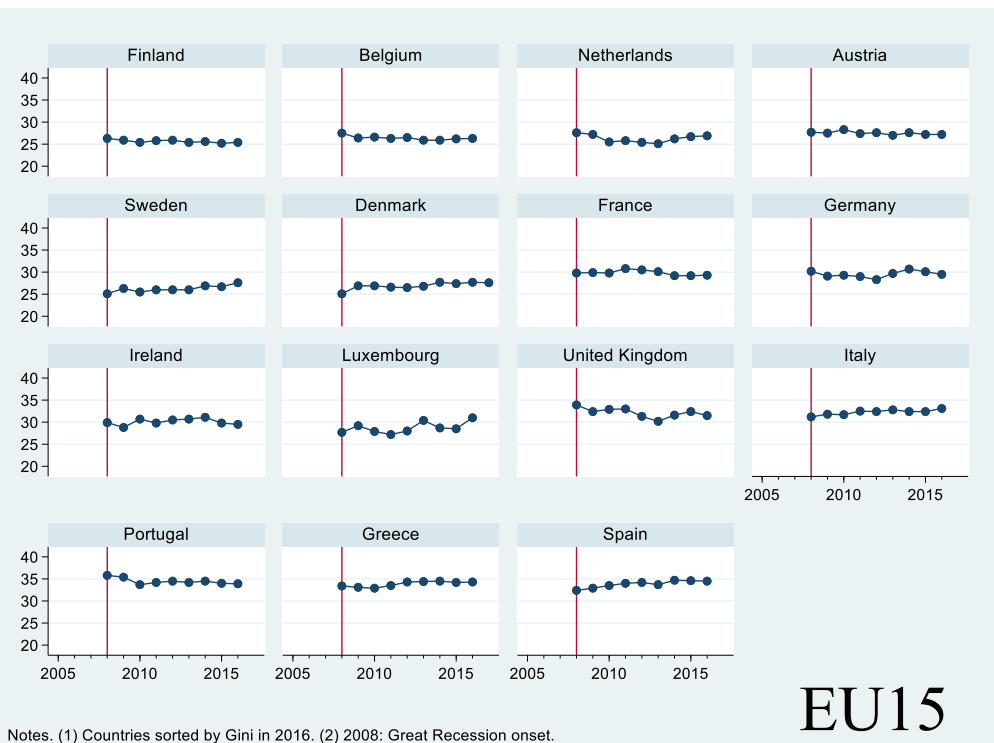
Demand for redistribution: % respondents agreeing with the statement “it is the responsibility of the government to reduce income differences between people with high incomes and those with low incomes

Source: Bussolo, Ferrer-i-Carbonell, Giolbas, and Torre 2018.

Note: Net equality perception is defined as the difference between the share of people believing their country is equal and the share of people believing their country is unequal.

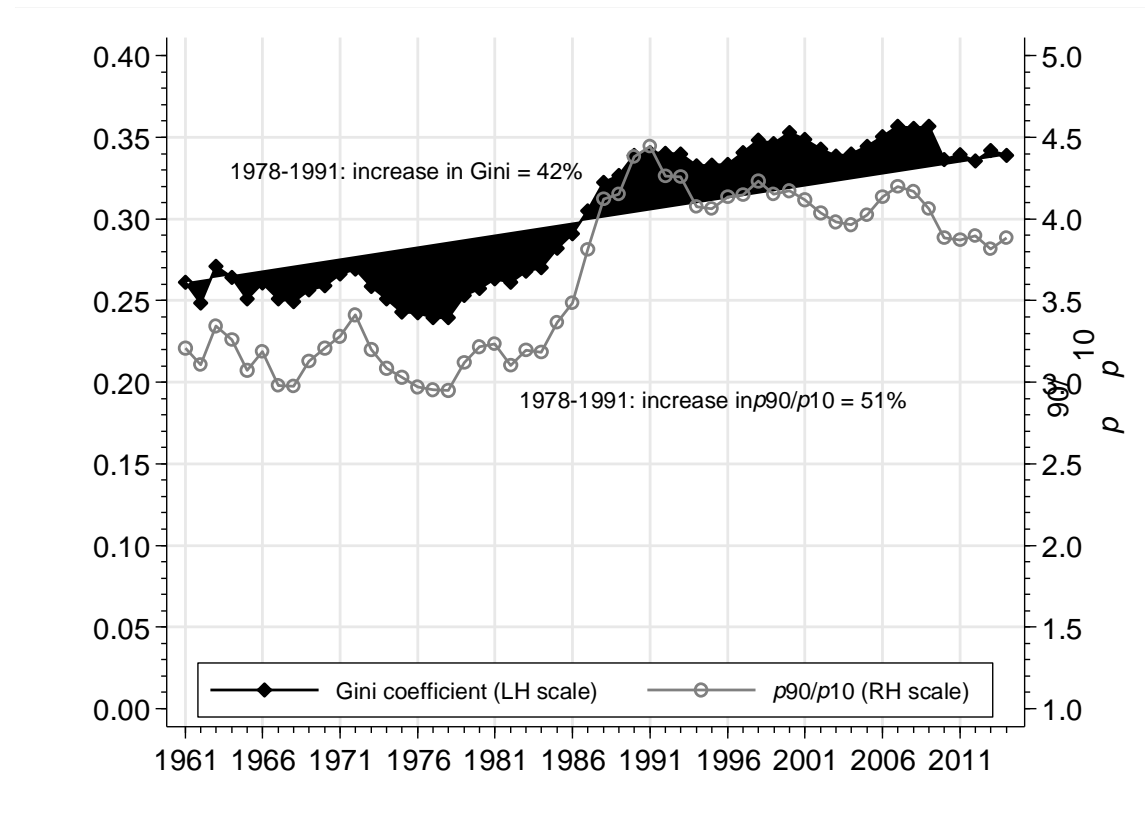
Measured realities: inequality levels and trends (EU):

- 2008–2016: little change in Gini since GFC onset
 - though some more noticeable changes in some NMS (data?)



Source: SPJ from [Eurostat database](#) (EU-SILC data). Countries ranked within each chart by Gini in 2016. Red vertical line marks 2008 (onset of GFC)

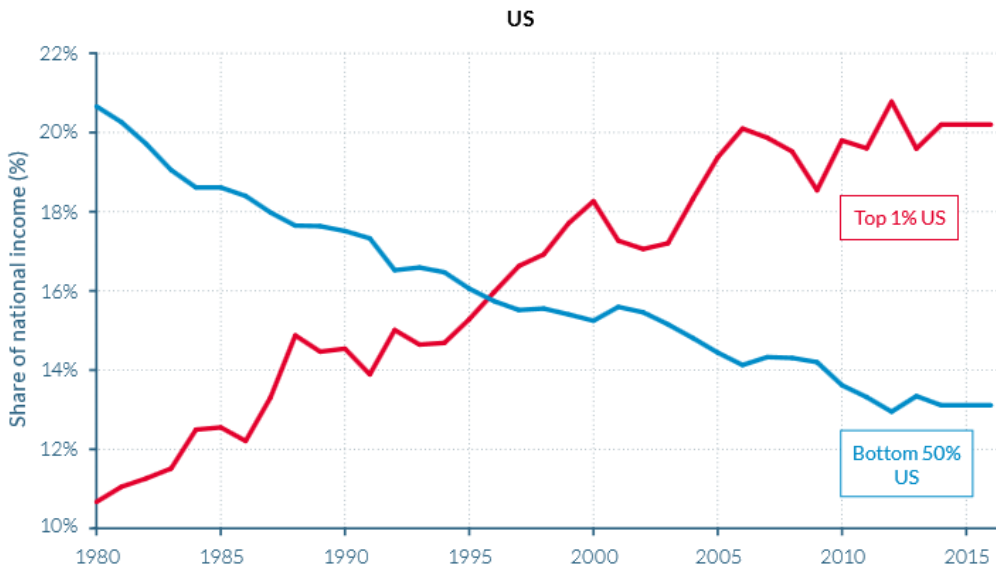
Little change in UK income inequality since the start of 1990s (Gini, $p90/p10$)



Source: updated from Jenkins (2015), [‘The income distribution in the UK: a picture of advantage and disadvantage’](#), in: Dean and Platt (eds.), *Social Advantage and Disadvantage*, OUP. Estimates based on Family Expenditure Survey and (since 1994/95) Family Resources Survey

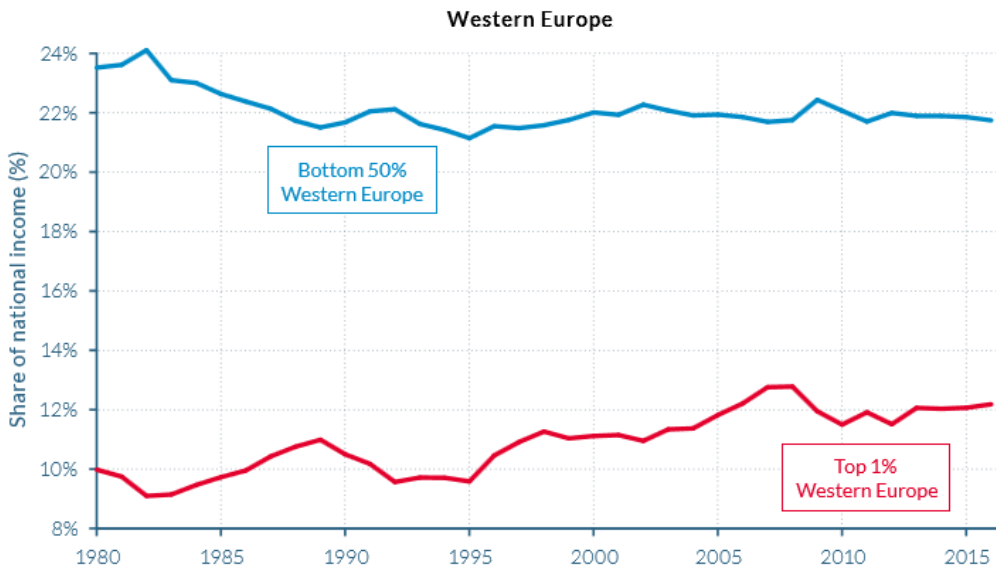
Figure E3

Top 1% vs. Bottom 50% national income shares in the US and Western Europe, 1980–2016:
Diverging income inequality trajectories



Source: WID.world (2017). See [wir2018.wid.world](#) for data series and notes.

In 2016, 12% of national income was received by the top 1% in Western Europe, compared to 20% in the United States. In 1980, 10% of national income was received by the top 1% in Western Europe, compared to 11% in the United States.



Source: WID.world (2017). See [wir2018.wid.world](#) for data series and notes.

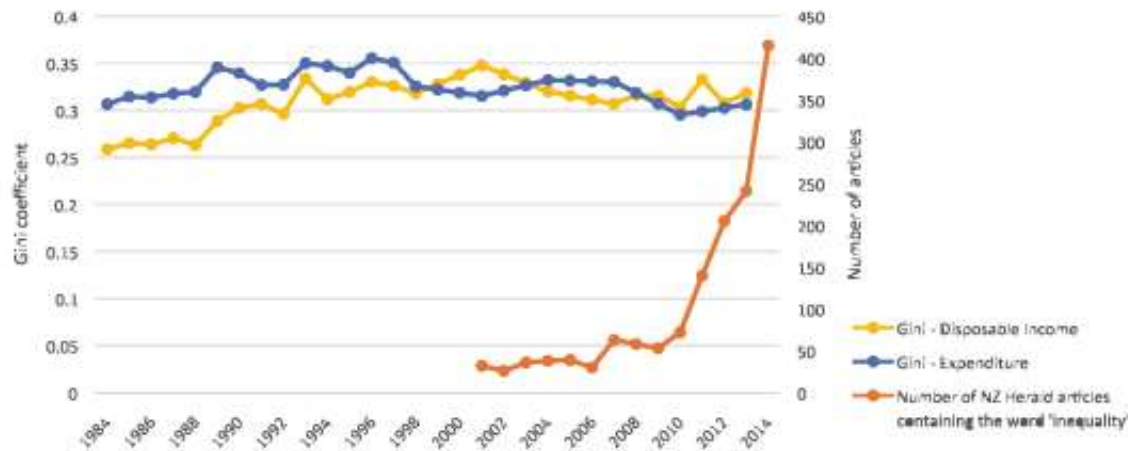
In 2016, 22% of national income was received by the Bottom 50% in Western Europe.

The USA is different

Source: Piketty et al., [World Income Report 2018](#)

Mismatch between expressed concerns about (rising) inequality and measured realities: NZ

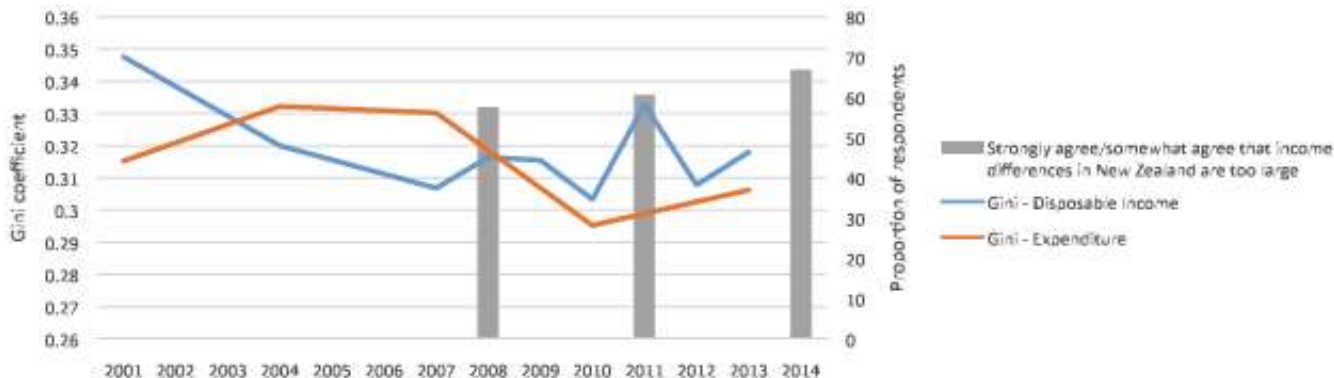
Figure 37: Inequality trends and reporting on inequality (1984–2014)



Sources: Newspaper reporting on inequality: Bryce Edwards, 2014, <http://liberation.typepad.com/>; Christopher Ball and John Creedy, "Inequality in New Zealand 1983/84 to 2013/14," Working Paper 15/06 (Wellington: New Zealand Treasury, 2015).

Source: Wilkinson and Jeram, *The Inequality Paradox. Why Inequality Matters Even Though It Has Barely Changed*, New Zealand Initiative, 2016

Figure 38: Inequality trends and perceptions that income differences are too large (2001–14)



Source: New Zealand Election Study (2008, 2011, 2014); Christopher Ball and John Creedy, "Inequality in New Zealand 1983/84 to 2013/14," Working Paper 15/06 (Wellington: New Zealand Treasury, 2015).

Potential explanations for mismatch

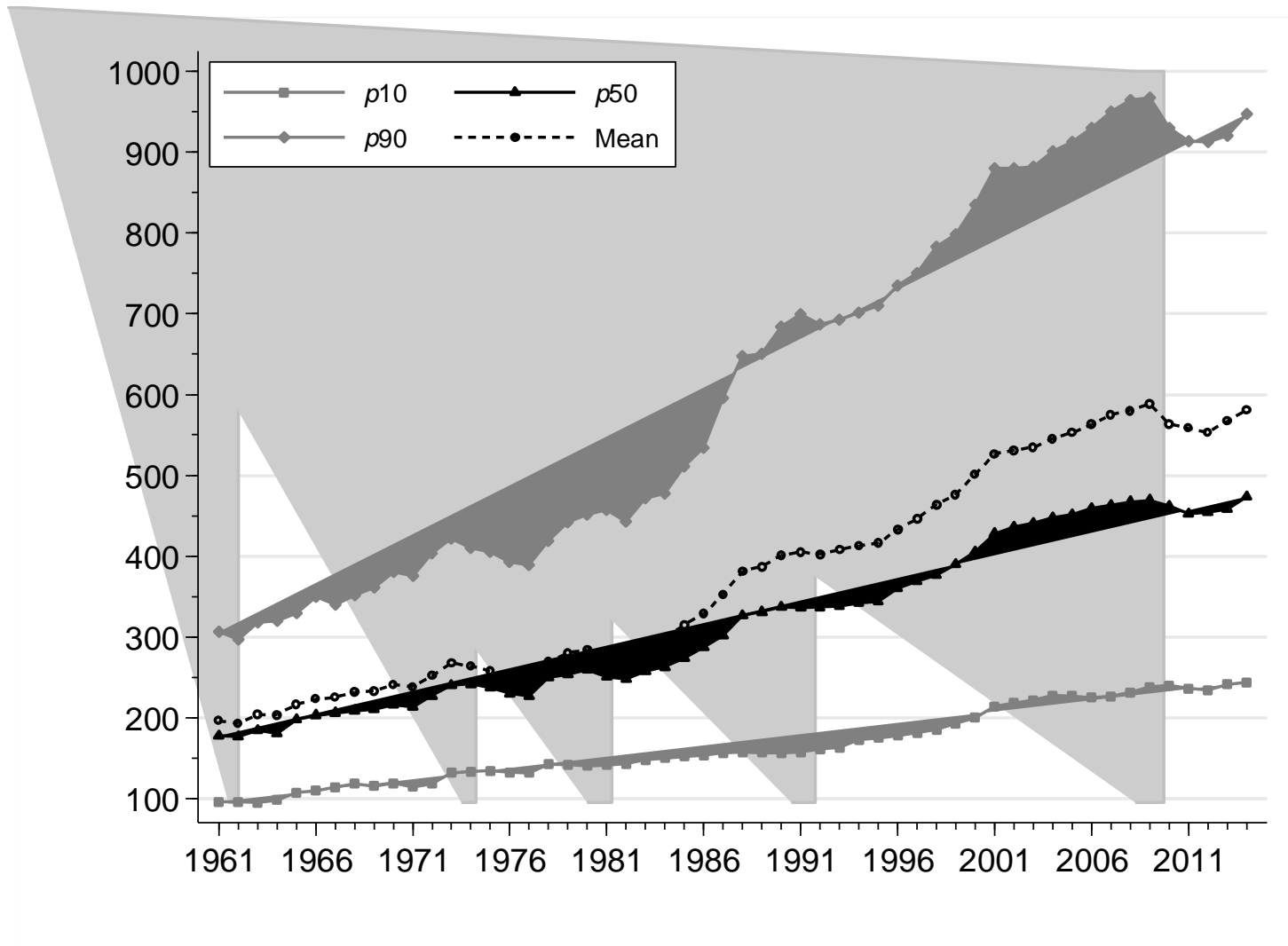
1. The summary measures we use don't tally with how people perceive 'inequality'?

- Perceptions relate to real income levels and (differential) real income growth?
- Absolute versus relative inequality?

Nature of concern about inequality depends on how equally income growth is shared [?]

- Hypothesis: fundamentally, it's real income levels that matter; 'inequality' concerns grow if differences in income growth are increasingly perceived as unfair
 - “[T]he justice for me is concentrated on lifting incomes of those that don't have a decent income. It's not a burning ambition for me to make sure that David Beckham earns less money. . . [T]he issue isn't in fact whether the very richest person ends up becoming richer. . . the most important thing is to level up, not level down.” Tony Blair, BBC Newsnight interview, 5 June 2001
- Absolute inequality (or mobility) measures would better represent this concern than standard relative measures like the Gini
 - Aggregate income differences from the mean rather than income ratios to the mean (income shares)
- So, let's look at trends in real income growth across the distribution ...

UK: real income levels since 1961

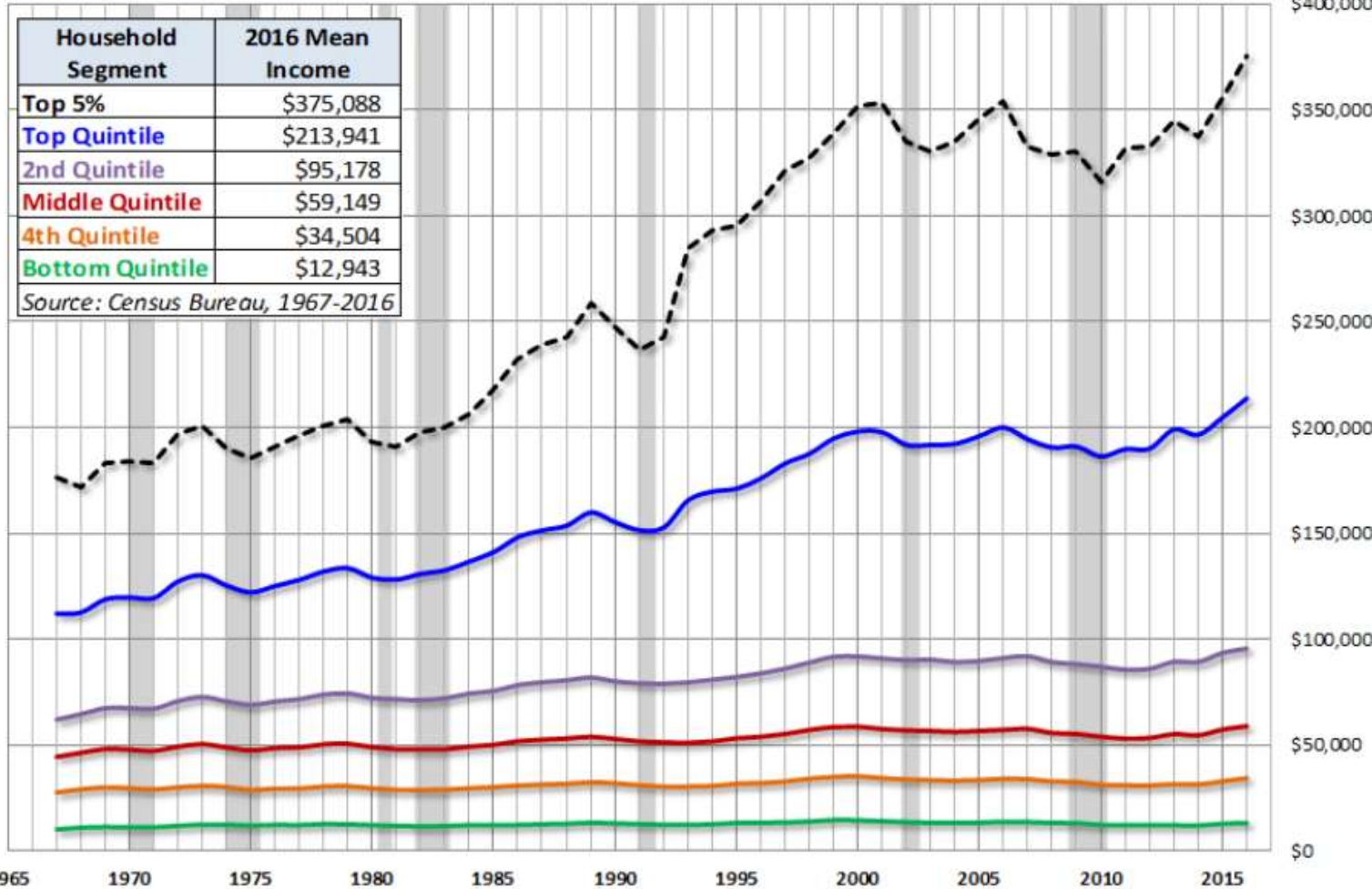


Source: Source: updated from Jenkins (2015), [‘The income distribution in the UK: a picture of advantage and disadvantage’](#), in: Dean and Platt (eds.), *Social Advantage and Disadvantage*, OUP. Estimates based on Family Expenditure Survey and (since 1994/95) Family Resources Survey. Grey shaded areas represent periods with at least two consecutive quarters of negative real GDP growth

USA: trends in real income levels (quintile group means)

Real (Inflation-Adjusted) Average Household Income By Quintile and Top 5 Percent

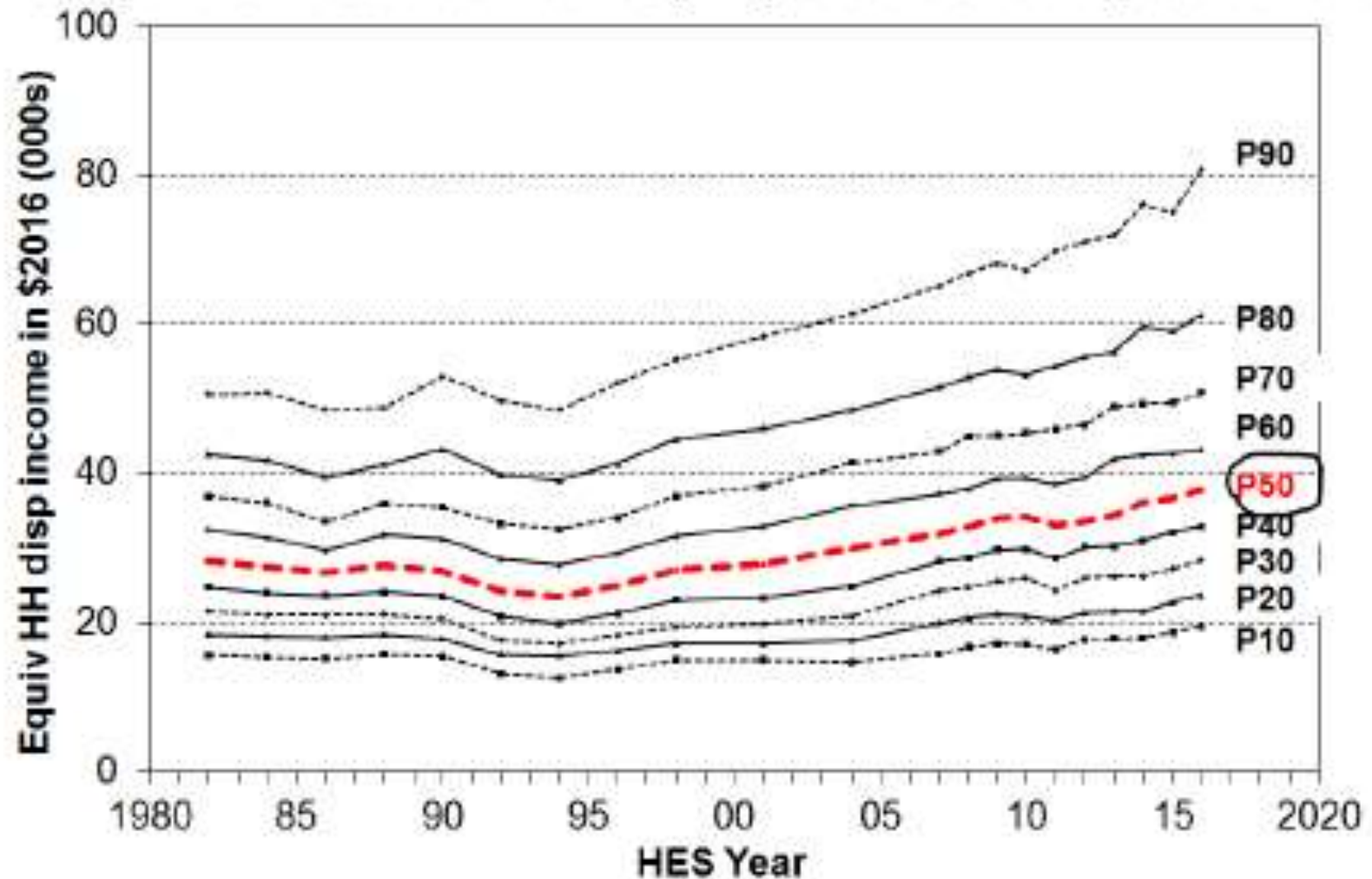
With Recessions Highlighted



Real Income Growth Since 1967	
Top 5%	112.3%
Top Quintile	91.0%
2nd Quintile	52.9%
Middle Quintile	33.0%
4th Quintile	23.8%
Bottom Quintile	28.7%

Trends in real income levels, NZ

Figure D.6
Real equivalised household incomes (BHC): decile boundaries, 1982 to 2016



Source: Perry (2017), [Household Incomes Report](#), MSD (emphasis in original)

Potential explanations for mismatch

2. People's perceptions about the distribution are wrong?

... in particular, do they underestimate inequality levels and (rising) trends?

What's your perception of NZ income inequality?


Let's use the OECD's [Compare Your Income](#) tool to compare your perception with reality

What's your share of the pie?

English Français Español Português More


When you think about your household's income, do you feel rich, poor, or just average? Most of us have no idea – or the wrong idea – of how we compare with the rest of the population. But here, in 10 clicks, you can find out how many households are better or worse off than yours, and see how your ideal world compares.

[Click here to learn more about the methodology](#) used to build this tool.

 **OECD**
BETTER POLICIES FOR BETTER LIVES

Get Started

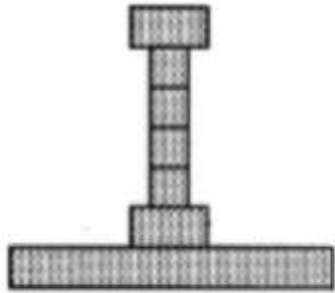
- 1 Tell us about you
- 2 Tell us about your ideal world
- 3 In reality...



Compare Your Income includes ISSP instrument for eliciting respondent views about distributional shape

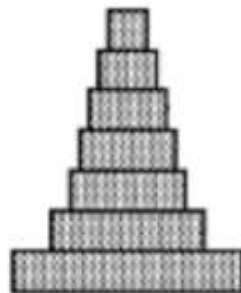
- Which diagram best describes NZ?

Q14. These five diagrams show different types of society. Please read the descriptions and look at the diagrams and decide which you think best describes <country> ..



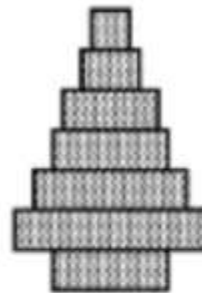
Type A

A small elite at the top, very few people in the middle and the great mass of people at the bottom.



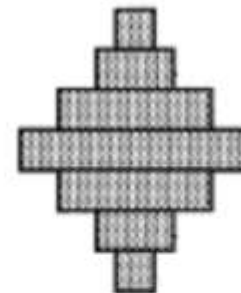
Type B

A society like a pyramid with a small elite at the top, more people in the middle, and most at the bottom.



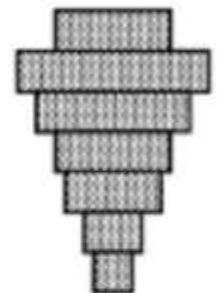
Type C

A pyramid except that just a few people are at the bottom.



Type D

A society with most people in the middle.






Type E


Many people near the top, and only a few near the bottom.

The NZ reality according to OECD

“In reality, in New Zealand there is a considerable wealthy elite and a mass of people with either an average or low income”

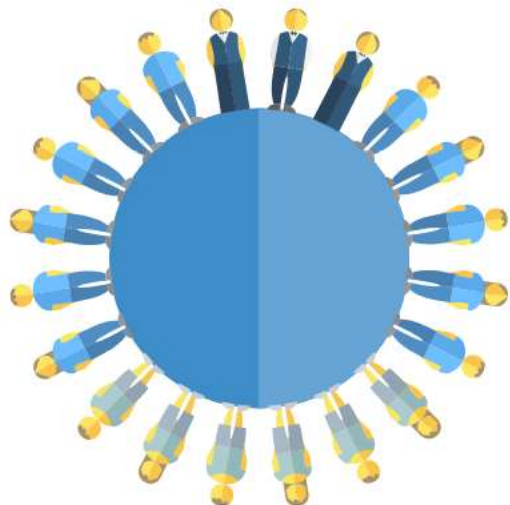

English Français Español Português Deutsch 한국어 日本語 Italiano 中文 Dansk Česky
Share 

How New Zealand looks:
What you think
Your ideal
In reality
Next 



^

In reality, in New Zealand there is a considerable wealthy elite and a mass of people with either an average or a low income.



Research shows mismatch of perceptions with reality

– but it's not clear that inequality under-estimated

- Gimpelson and Treisman (2018) '[Misperceiving inequality](#)', *Economics and Politics*, 30, 27–54: survey the literature and add original work:
 - “... Widespread ignorance and misperceptions emerge robustly, regardless of data source, operationalization, and measurement method. Moreover, perceived inequality—not the actual level—correlates strongly with demand for redistribution and reported conflict between rich and poor. We suggest that most theories about political effects of inequality need to be reframed as theories about effects of *perceived* inequality.”
 - Multiple aspects considered: degree of economic inequality in respondent's country; how it has been changing; respondent's place in the national income distribution
 - NB no clear evidence that inequality always under-estimated
 - E.g. share of wealth held by richest 1% over-estimated in most countries in chart reported by Ipsos Mori, “Perils of Perception 2015” (reproduced by Wilkinson & Jeram, [The Inequality Paradox](#), p. 61)
 - E.g. income inequality under-estimated [Page and Goldstein (2016), '[Subjective beliefs about the income distribution and preferences for redistribution](#)', *Social Choice and Welfare*; using a different elicitation tool from the ISSP one

Potential explanations for mismatch

3. Headline measures do not focus on the dimensions of ‘inequality’ that are most salient nowadays?

Explaining public concern re ‘inequality’: three potential stories

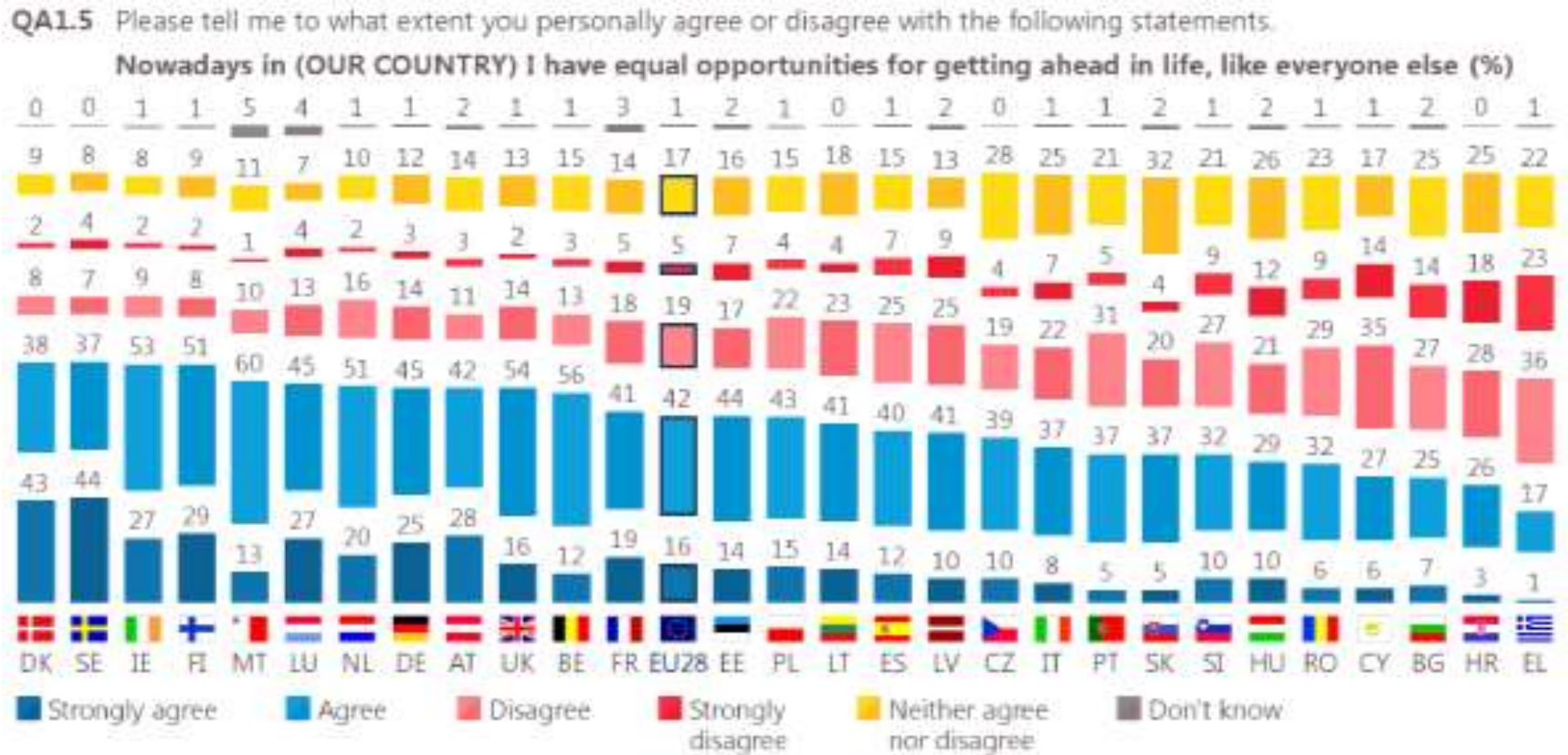
1. It's not only income inequality; wealth inequality matters more or as well
 - Accumulation of housing assets an important aspect of this
2. The concern is not so much growing income inequalities but how they play out in terms of other domains of people's lives, i.e. the knock-on or indirect effects of income differences
 - What money ‘buys’: persistently high income differences associated with growing differences in access to good housing, education, health care, legal aid, space, and access to opinion-forming / media etc.
 - Adverse effects on economic growth
 - Cf. OECD (2015), [*In It Together. Why Less Inequality Benefits All*](#)

Explaining public concern re ‘inequality’: three potential stories (continued)

3. Emphasis on growing unfair inequalities of prospects, opportunities, resilience and vulnerability
 - Intra-generational: Income growth at top increasingly felt to be unfairly acquired; more rent-seeking behaviour by those at the top; increasing role of income-related social networks and connections; etc.
 - Intergenerational: inequalities of opportunity
 - (increasing?) role of family background, ethnicity, etc., in determining life chances
 - Prospects for younger birth cohorts worsening
 - Overlaps with worries about opportunities for wealth accumulation (owner-occupied housing, pensions)
 - Perhaps the earlier remarks about differential real income growth can also be put under this heading?
 - The death of the Prospect of Upward Mobility (POUM, [Benabou & Ok, QJE 2001](#)) if expectations about the future are formed by projecting from recent experience
- Is this where unfair inequalities attitudes are now focused?

Are there equal opportunities for getting ahead in life? (EU-28, 2017)

- For only 3 countries (BG on), $\geq 51\%$ 'disagree'/'strongly disagree'
- But none of EU-28 has a majority answering 'strongly agree'



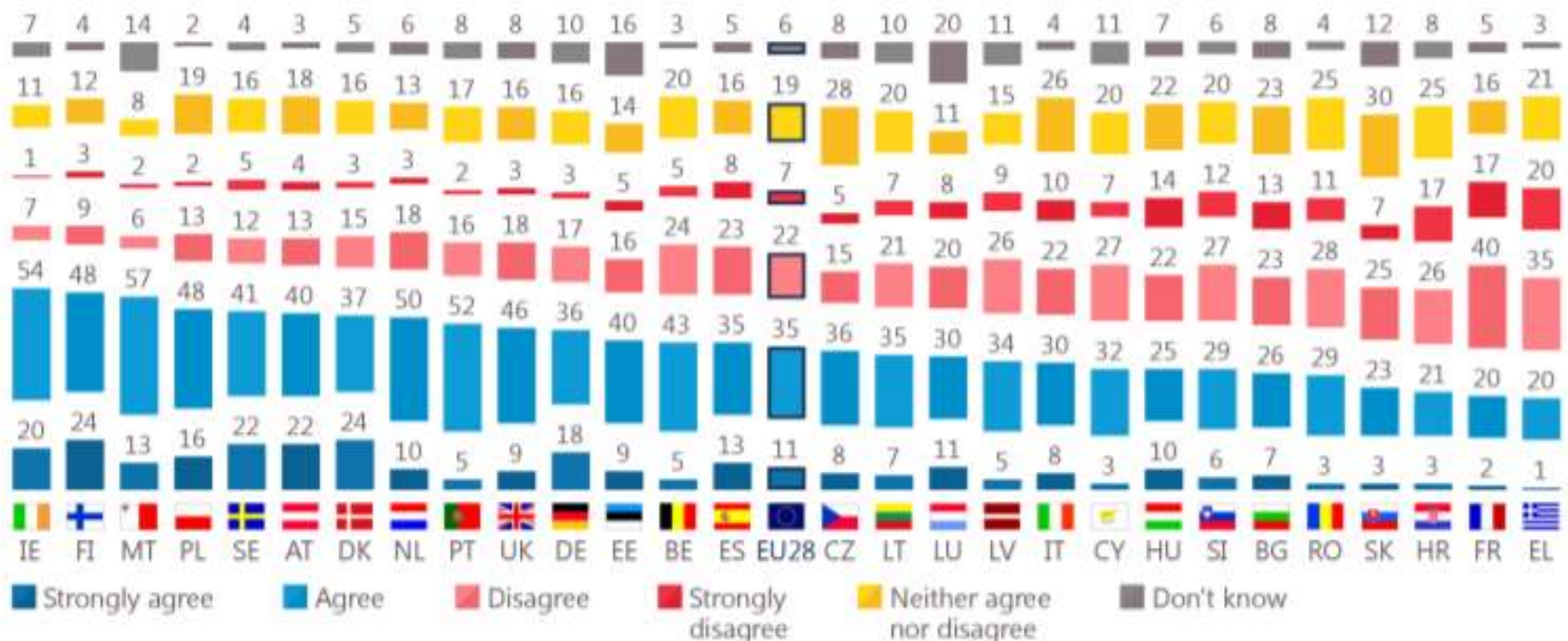
Source: Eurobarometer report: [Fairness, inequality and inter-generational mobility](#), 2018

Opportunities for getting ahead in life more equal than 30 years ago? (EU-28, 2017)

- 11 countries in which % 'strongly agree'/'agree' (DE and leftwards) but note FR, EL
- No notable differences based on gender or age but there are *differences by education* and *differences by employment status*:
 - “Respondents who completed education aged 20 or over are the most likely to agree (49%), particularly to those who completed education prior to age 15. In more detail, those who did not complete primary school (33%) are much less likely to agree than those who at least completed primary schooling (43%-52%).
 - Managers (54%), students (53%) and other white collar workers (52%) are the most likely to agree, particularly compared to the unemployed (35%)”

QA1.9 Please tell me to what extent you personally agree or disagree with the following statements.

Compared with 30 years ago, opportunities for getting ahead in life have become more equal in (OUR COUNTRY) (%)

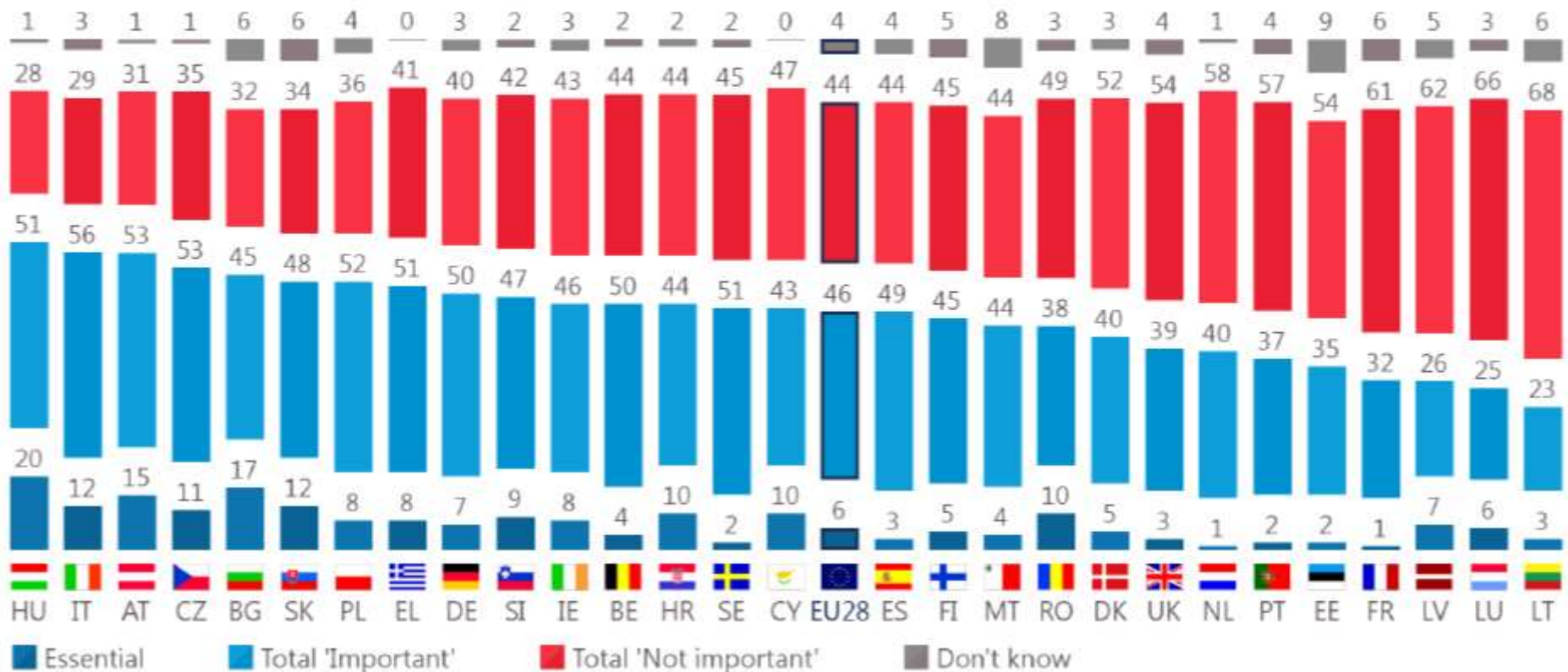


Importance of ethnic origin for getting ahead in life (EU-28, 2017)

- Only 9 countries in which fraction reporting 'not important' is $> 50\%$

QA2.7 How important do you think each of the following are for getting ahead in life?

Being of a specific ethnic origin (%)



Will you have had a better/same/worse life than your parents' generation?

Mixed evidence about absolute mobility:

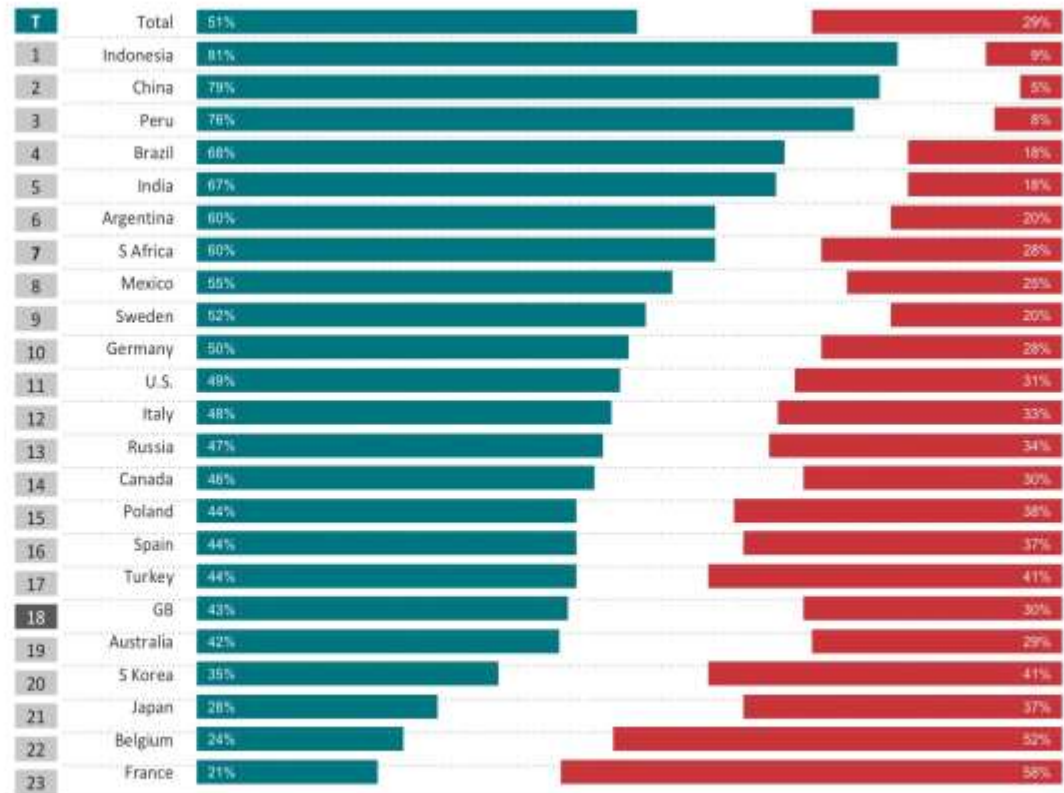
- In 14/23 countries, fraction reporting “will have had better life than parents’ generation” $\leq 50\%$
- But in only 2 countries do $> 50\%$ report “worse life”

BETTER / WORSE LIFE THAN PARENTS

To what extent, if at all, do you feel that you will have had a better or worse life than your parents' generation, or will it be about the same?

KEY:

■ Better 2016 ■ Worse 2016



Base: 18,180 adults across 23 countries, online, 12th Sep – 11th Oct 2016

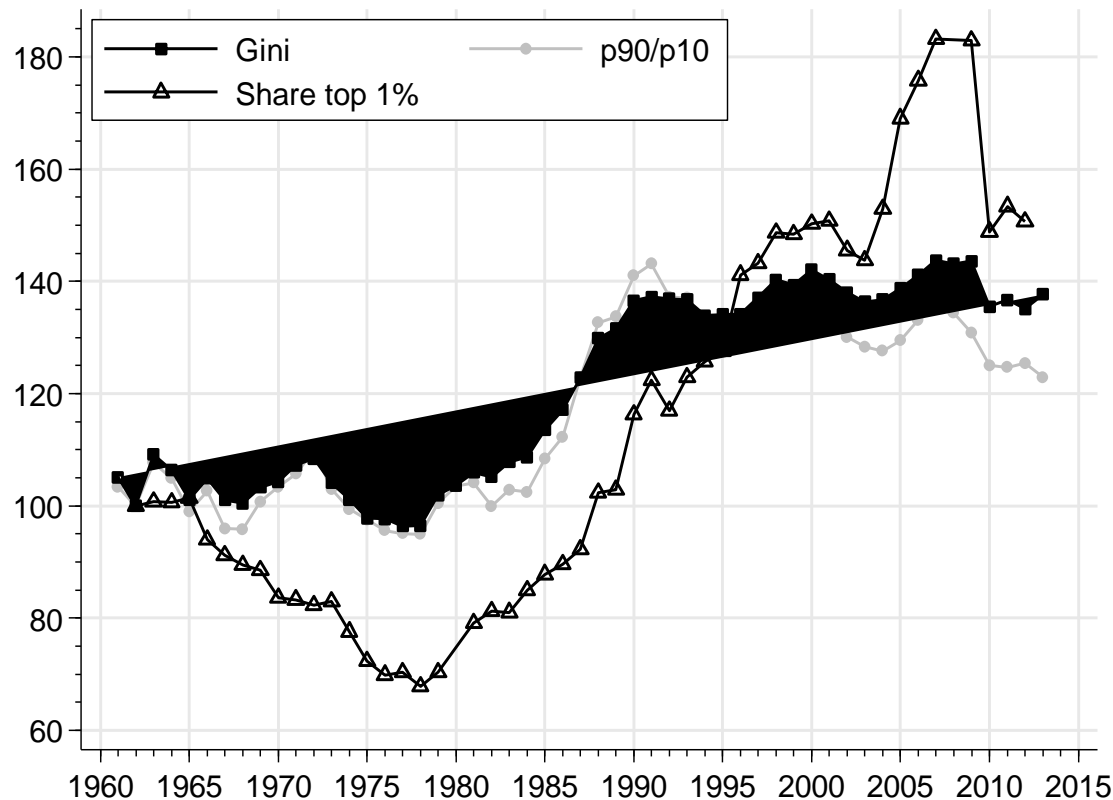
Potential explanations for mismatch

4. The data underlying the measured realities are wrong?

- Measurement lagging behind perceptions?
- Mismeasurement at the top and at the bottom of the income range?
- Can we improve our estimates?

UK: rising inequality at the top not being picked by household surveys

- Survey under-coverage at the top of the income range
- There's suggestive evidence that it's because we're missing income from top income respondents rather than not getting enough top income people

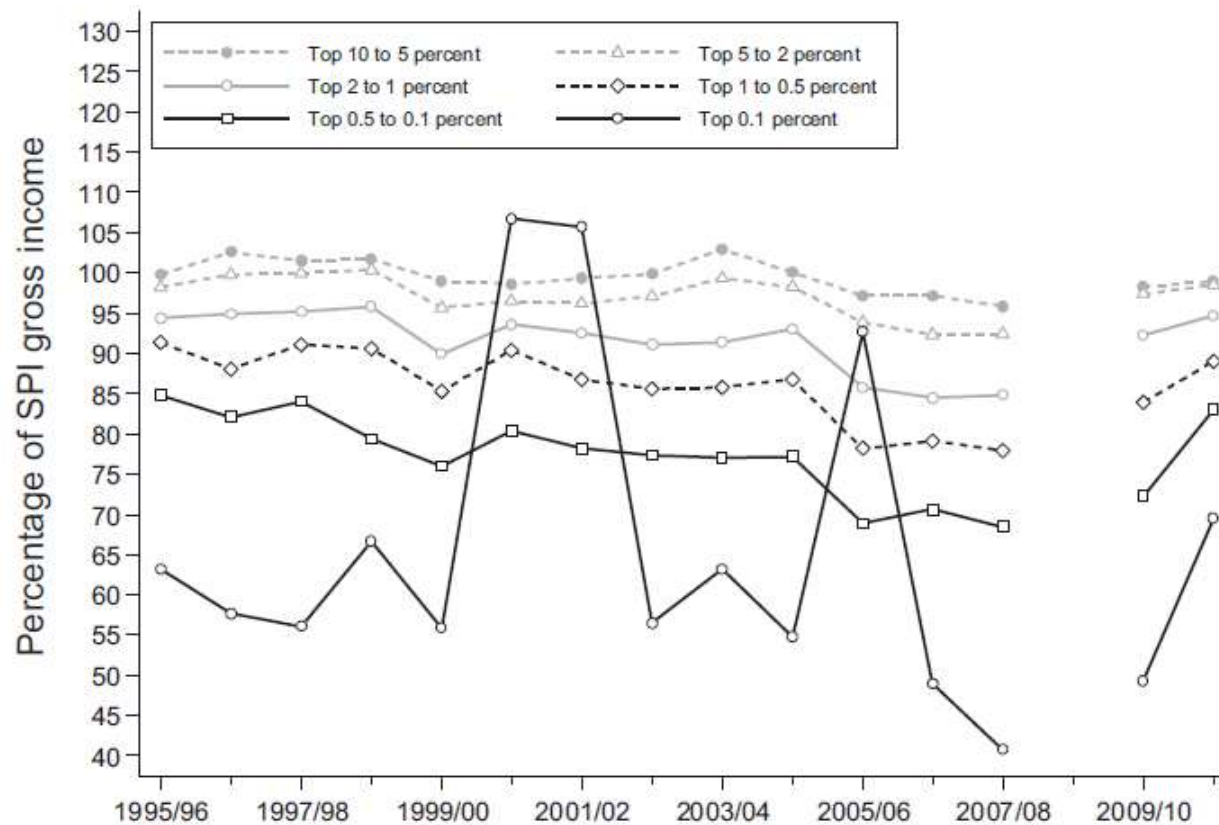


Source: Figure 1, [Burkhauser et al., OEP, 2018](#) (also with similar graph for the USA)

Survey under-coverage of top incomes, UK

- Ratios < 100% \Rightarrow survey under-coverage
- Under-coverage down to c. $p95$, and increasing over time (lines slope downwards to the right)

a. Ratio of individual gross income total (HBAI) to individual gross income total (SPI), by income group



NB no SPI tax data for 2008/09; some interpretation issues at end ('forestalling')

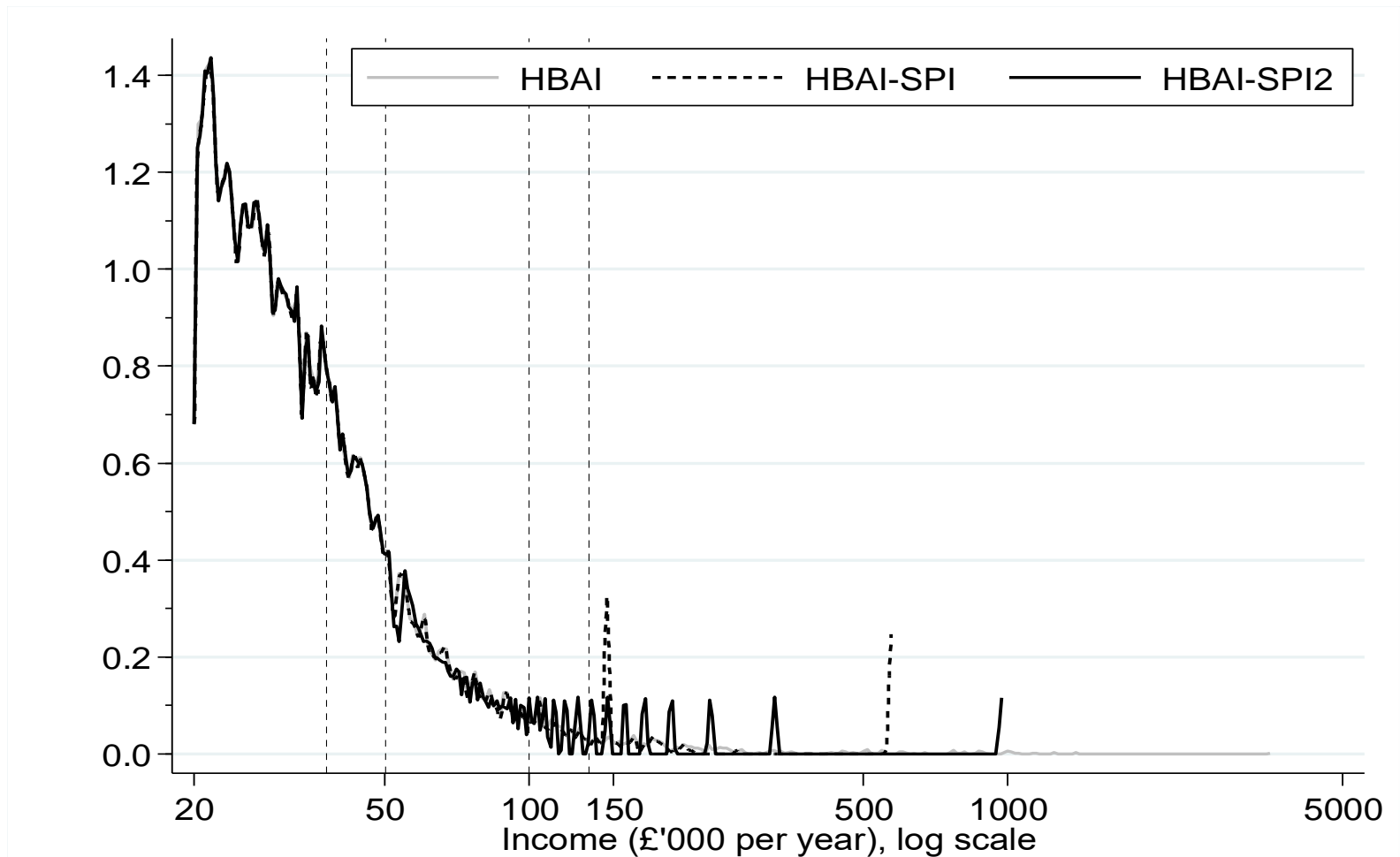
Source: [Burkhauser et al., Fiscal Studies, 2018](#)

Addressing under-coverage at top by combining survey and tax data (UK)

- DWP's pioneering (since early 1990s) "SPI adjustment"
 - Replace very small number of "very rich" survey respondents' individual gross incomes in year t by cell-mean imputations 'projected' from tax data (SPI) for year $t-1$ or sometimes $t-2$
 - Benefit unit and household incomes are re-calculated post-imputation
 - Recalibration of FRS weights to better gross-up to population totals – shift in weight towards top income recipients (albeit small)
 - Uses only 4 cell-means (4 strata: GB/NI, pensioner/non-pensioner)
- [Burkhauser et al. \(OEP, 2018\)](#) better address under-coverage
 - Cell-mean imputations go further down distribution, and more fine-grained: more groups, more income-related cell means (no strata)
 - Calibrated against World (Top) Income Database estimates

Burkhauser et al. (2018) SPI2 adjustments place more people in top income ranges than DWP's SPI adjustment

- Kernel density estimates of top incomes (2010/11) for unadjusted, SPI-adjusted and SPI2-adjusted incomes (top 5% variant)
- Vertical dotted lines show (L to R) p_{90} , p_{95} , p_{99} , and $p_{99.5}$ in the HBAI data



Greater inequality rise according to our SPI2 estimates (compared to DWP's)

- “HBAI-SPI2 gross” → “HBAI-SPI gross” → “HBAI-SPI net” (official report definition) reduces estimated inequality index: effects of (i) more income at top, and (ii) broader income concept
 - The more the survey data are adjusted to better capture top incomes, the greater the impact on inequality estimates
- The more top-sensitive the inequality index used (Theil rather than Gini), the greater is the estimated inequality increase (2004/05–2007/08), or the smaller is the fall (1995/96–2004/05)
 - The rising concentration at the very top shown by WID top income shares is being picked up by top-sensitive indices

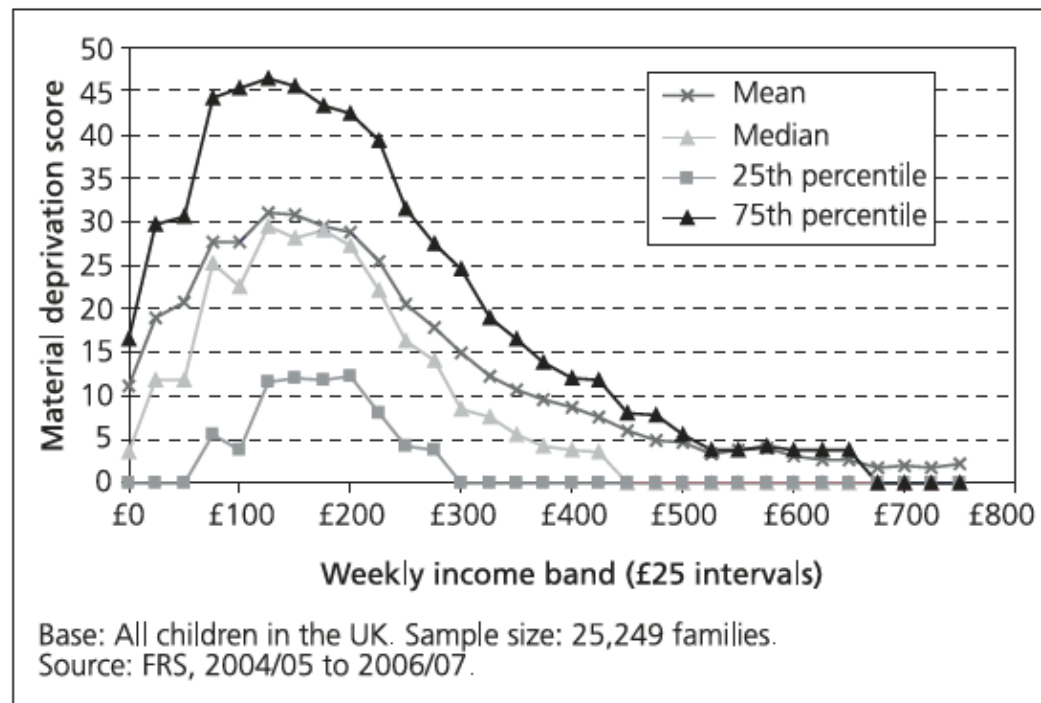
Inequality index	Data set	Income definition	Percentage change			
			1995/96 to 2001/02	2001/02 to 2004/05	2004/05 to 2007/08	1995/96 to 2007/08
Gini coefficient	HBAI-SPI2	Gross	5.1	−2.4	7.1	9.8
	HBAI-SPI	Gross	5.2	−2.5	4.0	6.6
	HBAI-SPI	Net	4.7	−2.6	5.1	7.1
Theil index	HBAI-SPI2	Gross	21.3	−5.0	24.9	44.1
	HBAI-SPI	Gross	22.5	−8.0	10.7	24.8
	HBAI-SPI	Net	22.0	−8.3	12.7	26.0

See also [Jenkins, *Economica*, 2017](#), for a different data-combination approach but similar results

Unreliable identification of the very poorest by household survey (UK)

- Expect material deprivation score to decline monotonically with income, but not the case at the very bottom
- Hence inaccurate measures of incidence of poverty

Figure S.1 Distribution of material deprivation by £25 income bands, 2004-05 to 2006-07



Source: Brewer et al. (2009). *The Living Standards of Families with Children Reporting Low Incomes*, DWP Research Report No 577. For the USA, see the many papers by Meyer and colleagues.

Unreliable identification of the very poorest by survey

- Expect consumption spending to rise monotonically with income, but not the case at the very bottom (within poorest 5%)
- Under-reporting of benefits the most likely explanation (see article)
- Potential for data-combination or data-substitution to address the problem is harder than for top incomes (may depend on country context)

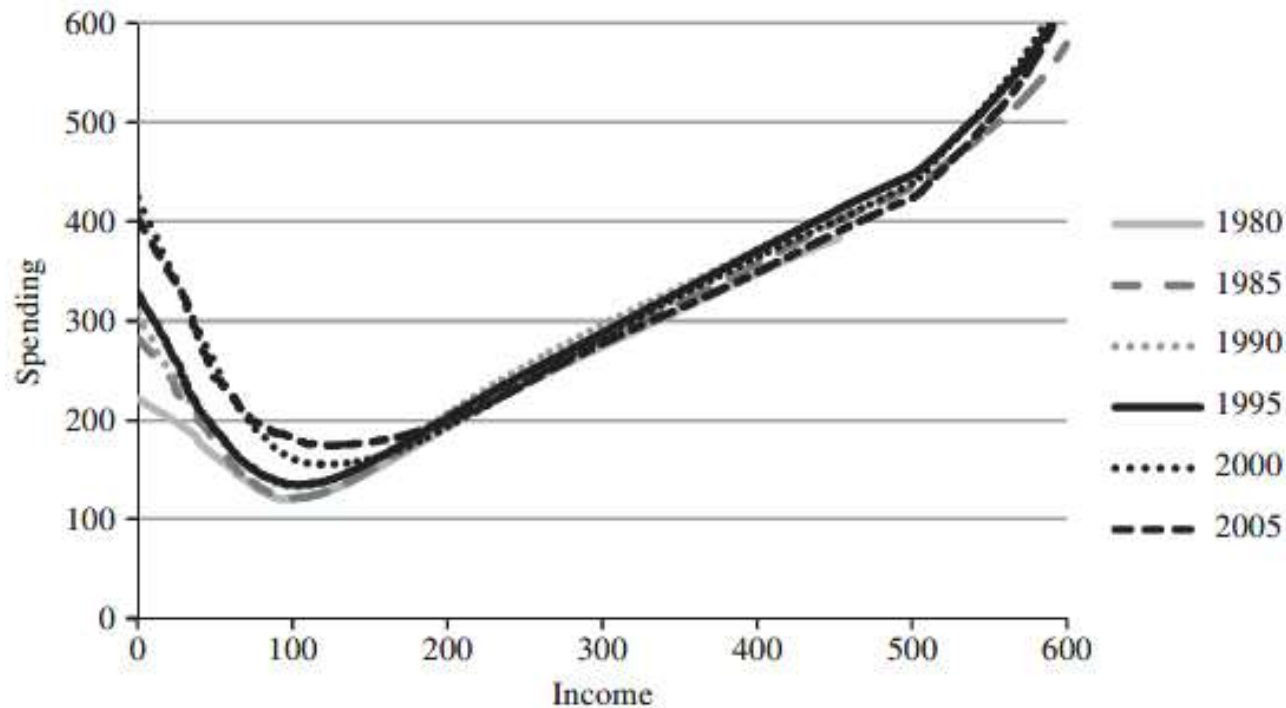


Fig. 5. Median Expenditure by Period (Five Year Averages)

Source: Brewer et al. (2017), '[Why are households that report the lowest incomes so well-off?](#)', *Economic Journal*, 127, F24–F49

Getting supplementary perspectives using longitudinal data

- To match the focus on prospects and opportunities, resilience and vulnerabilities
- And also because it helps policy ...

Motivation: policy relevance

A dynamic perspective leads to a different way of thinking about anti-poverty strategies altogether

“[D]ynamic analysis gets us closer to treating causes, where static analysis often leads us towards treating symptoms. ... If, for example, we ask who are the poor today, we are led to questions about the socioeconomic identity of the existing poverty population. Looking to policy, we then typically emphasise income supplementation strategies. The obvious static solution to poverty is to give the poor more money. If instead, we ask what leads people into poverty, we are drawn to events and structures, and our focus shifts to looking for ways to ensure people escape poverty.”

Ellwood (1998: 49), welfare reform advisor to President Clinton

“Snapshot data can lead people to focus on the symptoms of the problem rather than addressing the underlying processes which lead people to have or be denied opportunities”

HM Treasury (1999: 5)

Events triggering poverty entries

- Non-labour events and demographic events account for many entries, and can raise entry risk a lot – not only a loss of head's earnings or job

Table 11.1: Events associated with movement into low income in successive years amongst all individuals

Percentage	Source: BHPS 1991-2008		
	Prevalence of event	Entry rate, conditional on event	Share of all entries
Main event associated with low income entry			
Entry rate of all individuals in non low-income households = 7%			
<u>Labour events</u>			
Fall in household head's earnings	15	19	42
Fall in other household member's income	8	10	11
Fall in number of workers (same household size)	7	18	19
Fall in number of full-time workers (same household size)	8	15	17
<u>Non-Labour income events</u>			
Fall in benefit income (same household size)	12	15	27
Fall in non-benefit, non-earnings income (same household size)	15	13	29
Fall in investment income (same household size)	12	7	12
Fall in private and occupational pension income (same household size)	4	17	9
<u>Demographic events</u>			
Change in household type	12	11	20
Change to single parent household	1	29	5

Notes:

- Individuals are classified according to their circumstances in the first year of the relevant two-year period
- 'Benefit income' includes tax credits and retirement pension
- The 'prevalence of event' refers to the percentage of those in low income who experience that particular event.
- The 'entry rate, conditional on event' refers to the likelihood of a particular event causing the low income household to **enter** low income
- The 'share of all entries' refers to the percentage of those who **entered** low income and who experienced a particular event
- The 'share of all entries' do not sum to 100 per cent across events because the events are not mutually exclusive. For example, a person who enters low income, who lost their job and changed couple / single status, may have been recorded in more than one row.

Source: DWP *Low-Income Dynamics, 1991-2008 (Great Britain)*, using British Household Panel Survey data and methods of *Jenkins and Rigg (2001)*

Events triggering poverty exits

- Non-labour events and demographic events account for many exits, and can raise exit risk a lot – not only a loss of head's earnings or job

Table 10.1: Events associated with movement out of low income in successive years amongst all individuals

Percentage		Source: BHPS 1991-2008	
	Prevalence of event	Exit rate, conditional on event	Share of all exits
Main event associated with low income exit			
Exit rate of all individuals in low income households = 32%			
<u>Labour events</u>			
Rise in household head's earnings	20	63	39
Rise in other household member's income	9	49	14
Rise in number of workers (same household size)	12	56	21
Rise in number of full-time workers (same household size)	8	66	17
Rise in number of workers (different household size)	5	70	10
Rise in number of full-time workers (different household size)	4	76	9
<u>Non-Labour income events</u>			
Rise in benefit income (same household size)	24	46	35
Rise in non-benefit, non-earnings income (same household size)	16	56	27
Rise in investment income (same household size)	6	53	10
Rise in private and occupational pension income (same household size)	6	58	11
<u>Demographic events</u>			
Change in household type	11	50	16
Change from single to couple status	3	54	5

Notes:

- Individuals are classified according to their circumstances in the first year of the relevant two-year period
- 'Benefit income' includes tax credits and retirement pension
- The 'prevalence of event' refers to the percentage of those in low income who experience that particular event.
- The 'exit rate, conditional on event' refers to the likelihood of a particular event causing the low income household to exit low income
- The 'share of all exits' refers to the percentage of those who exited low income and who experienced a particular event
- The 'share of all exits' do not sum to 100 per cent across events because the events are not mutually exclusive. For example, a person who exits low income, who obtained new work and changed couple / single status, may have been recorded in more than one row.

Source: DWP [Low-Income Dynamics, 1991-2008 \(Great Britain\)](#), using British Household Panel Survey data and methods of [Jenkins and Rigg \(2001\)](#)

Rising vulnerability to poverty entry (EU)

TABLE 2.2 Income Associated with an 8 Percent Probability of Falling into Poverty

Country	Predicted income, US\$ PPP		Probability of falling into poverty, percent	
	2005–08	2011–14	2005–08	2011–14
<i>Eastern Europe</i>				
Bulgaria	14	32	9	9
Estonia	21	36	8	8
Poland	31	32	7	8
Hungary	30	32	8	9
Slovak Republic	20	31	10	7
Slovenia	33	39	8	8
<i>Southern Europe</i>				
Greece	40	43	8	9
Cyprus	54	46	8	8
Spain	32	47	8	8
<i>Continental Europe</i>				
Austria	41	51	8	8
France	32	37	8	8
Belgium	37	36	8	8
Netherlands	38	42	8	8
<i>Nordic Europe</i>				
Denmark	42	44	8	9
Iceland	37	50	3	8
Lithuania	25	29	7	9
Latvia	22	44	8	7
Norway	48	56	7	9
European Union	34	40	8	8

Source: Based on data of EU-SILC (European Union Statistics on Income and Living Conditions) (database), Eurostat, European Commission, Luxembourg, <http://ec.europa.eu/eurostat/web/microdata/european-union-statistics-on-income-and-living-conditions>.

Note: The quantile selected is based on the probability closest to 8 percent (by country panel).

The income required to protect individuals from being vulnerable to falling into poverty rose between 2005-08 and 2011-14

Source: Bussolo et al. (2018), *[Toward a New Social Contract. Taking On Distributional Tensions in Europe and Central Asia](#)*, World Bank, using EU-SILC panel data

% children earning more than their parents: falling absolute mobility in the USA

Source: Chetty et al., [‘The fading American dream: Trends in absolute income mobility since 1940’](#), *Science* 356, 398–406, 28 April 2017

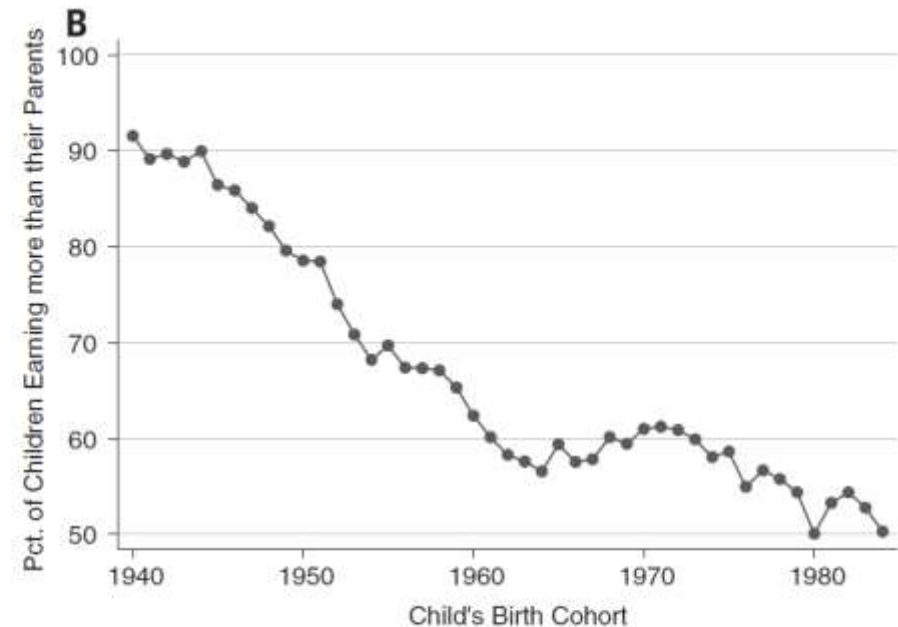
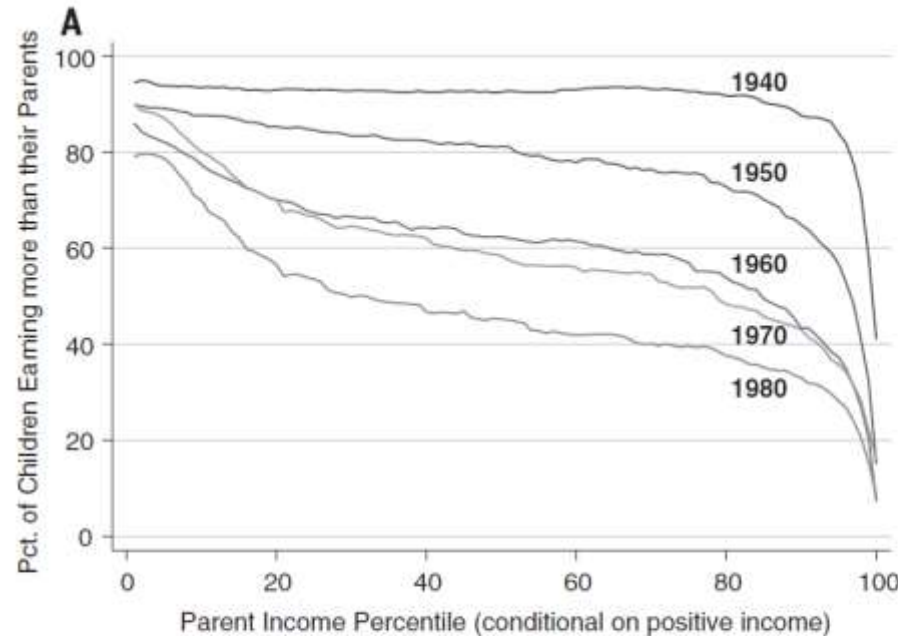


Fig. 1. Baseline estimates of absolute mobility by birth cohort. (A and B) The fraction of children earning more than their parents ("absolute mobility") by parent income percentile for selected child birth cohorts (A) and on average by child birth cohort (B). Only parents with positive income are included in (A); within this group, parent income percentiles are constructed according to their ranks in the distribution of parents' incomes within each child cohort. Parents with zero income are included in (B), defining absolute mobility as 100% for that subgroup when computing the mean rate

of absolute mobility by cohort. Child income is measured at age 30 in the CPS March supplement as the sum of individual and spousal income, excluding immigrants after 1994. Parent income is measured in the census as the sum of the spouses' incomes for families in which the highest earner is between ages 25 and 35. Children's and parents' incomes are measured in real 2014 dollars using the CPI-U-RS. Absolute mobility is calculated by combining these income distributions with the copula estimated for the 1980 to 1982 cohorts in tax data by (12).

Policy questions for discussion

- What dimensions of ‘inequality’ are the most relevant / salient to the public?
 - Existing values surveys don’t tell us this; in any case there’s much diversity in perceptions within and between countries
 - Answers have implications for focus on distributional policy design – role of traditional income taxes and benefits versus acting more directly on domains of health, education, legal system, etc.
 - Cross-sectional versus longitudinal emphasis: tracking prospects and opportunities, resilience and vulnerability
- Information providers and communicators (including statistical agencies and government departments): what responsibilities do they have for better aligning perceptions of inequality with measured realities?
 - Applies across many social policy domains (e.g. numbers receiving benefits, immigrant numbers, etc.)
- How can the quality of the measured realities be improved?
 - What roles for data combination and/or data substitution?

Policy questions: do we have the data sources?

If you're persuaded that the focus needs to be more on inequalities in the sense of prospects and opportunities, resilience and vulnerability, you need a greater emphasis on longitudinal data

- Ensure cross-sectional sources (e.g. HES) include 'opportunity' related variables
 - Retrospective questions about family background
 - Sample size to allow analysis for policy-relevant subgroups
 - Pakeha / Māori / Pasifika; native-born / immigrant; different birth cohorts
- Utilise birth cohort studies
 - Christchurch, Dunedin, Living in New Zealand
- Is cross-census linking possible?
- Utilise the Integrated Data Infrastructure (IDI)
 - in so far as its coverage is suitable (individuals and their households, all income sources?)

Start a new household panel with a more standard design than SoFIE