

2012 Downing Lecture

The Great Recession and the Distribution of Household Income

John Micklewright

Institute of Education, University of London



**Leading education
and social research**
Institute of Education
University of London



MELBOURNE INSTITUTE
of Applied Economic and Social Research

The Great Recession and the Distribution of Household Income

Stephen Jenkins, LSE

Andrea Brandolini, Bank of Italy

John Micklewright, IOE

Brian Nolan, UC Dublin

with

A Björklund, M Jäntti, J Frick, M Grabka, T Callan, B Maître,
R Joyce, L Sibieta, G Basso, F D'Amuri, I Faiella, T Smeeding, J Thompson

part-funded by the Fondazione Rodolfo De Benedetti, Milan
to be published by Oxford University Press

Summary

Subject:

- impact of the downturn that began end-2007
- total & average incomes, inequality, and poverty for 21 rich industrialised countries

Findings: for most countries,

- in short-term, little/modest change
- In medium-term, greater change likely

'The Great Recession'

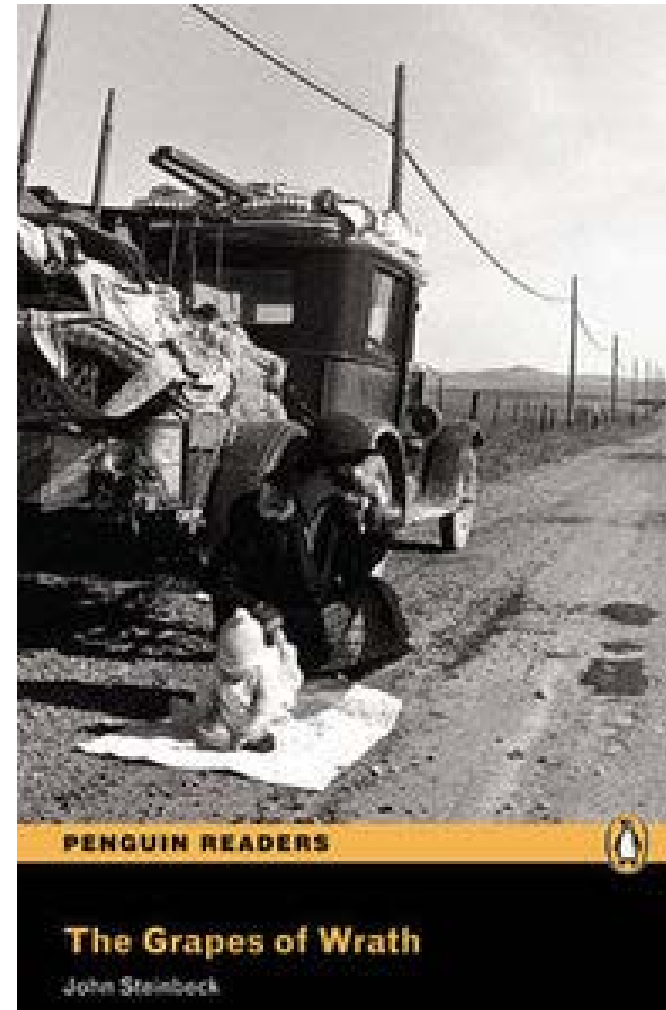
Slowdown in OECD area late 2007,

Lehman Bros collapse in Sept 2008, ... banking crises, housing busts, international trade collapse...

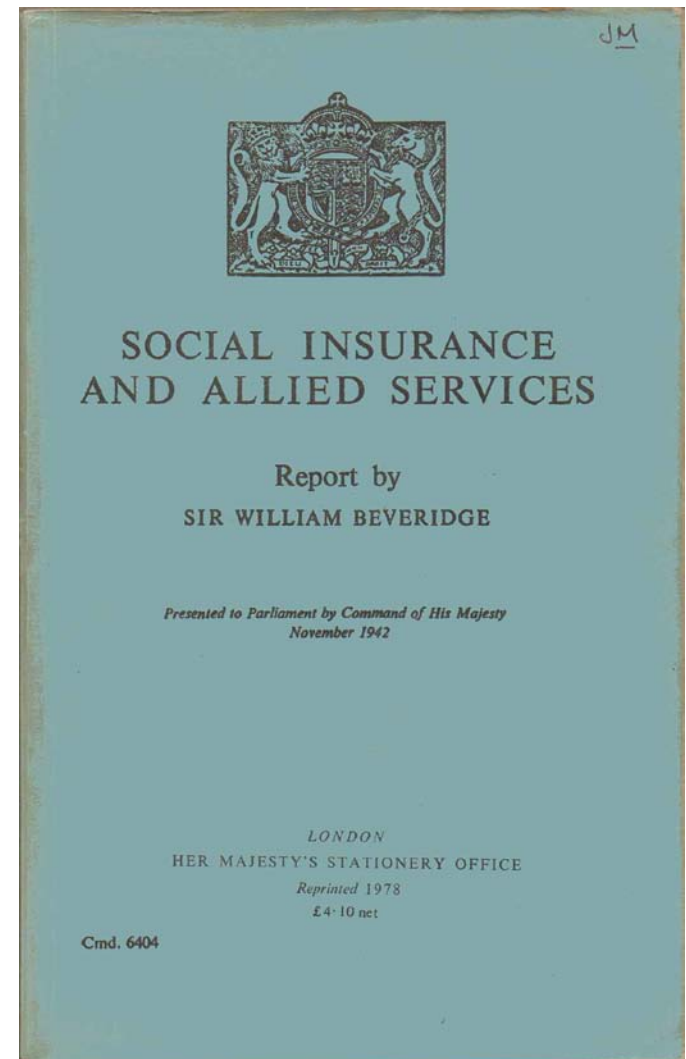
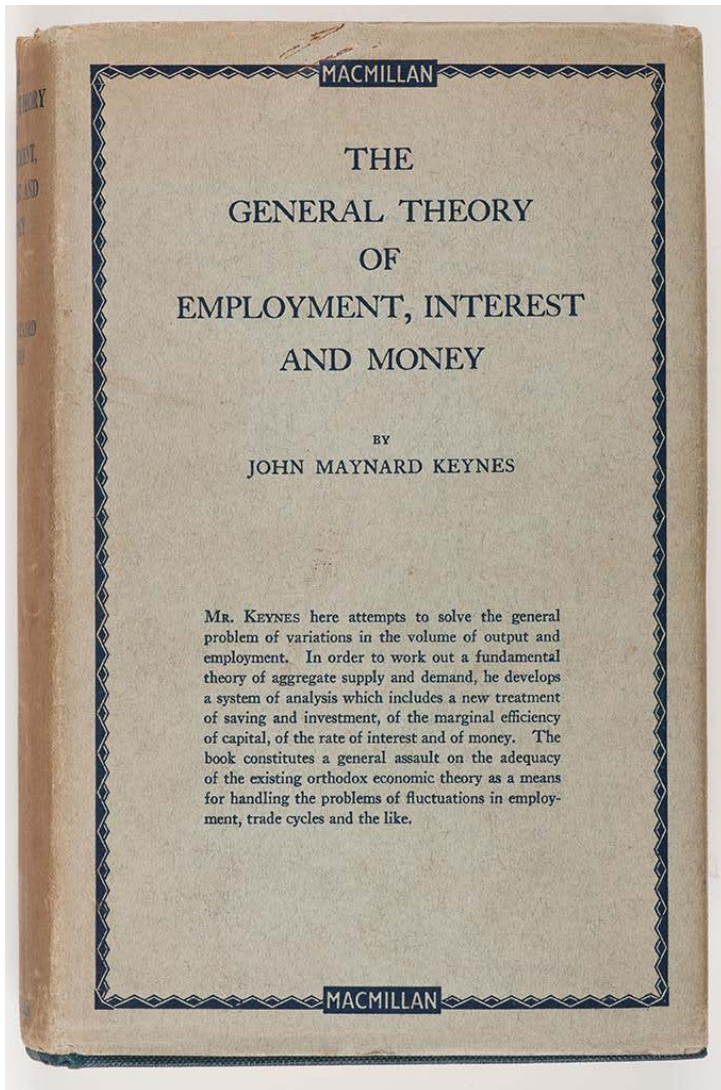
→ first shrinking in world economy since WWII

... the worst recession in the OECD area since the Great Depression

→shades of the 1930s?



But much has changed..



Features of our study

1. Comparison across countries

- Australia, Austria, Belgium, Canada, Denmark, *Germany*, Greece, Finland, France, *Ireland*, *Italy*, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, *Sweden*, Switzerland, *UK*, *USA*

2. Household net income

- not just earnings
- not consumption expenditure nor wealth

3. Analyse all individuals

- young, old, working or not working
- sum incomes within households

What we do

1. review analytical models and evidence from past recessions [ch 1]
2. what has happened to the distrib. of household income in 21 countries [ch 2]
3. country case studies: 6 countries (DE, IE, IT, SE, UK, US) [chs. 3-8]
4. summarise & conclude [ch. 9]

NB no formal 'evaluation' against a counterfactual

“It’s too early to tell”..?

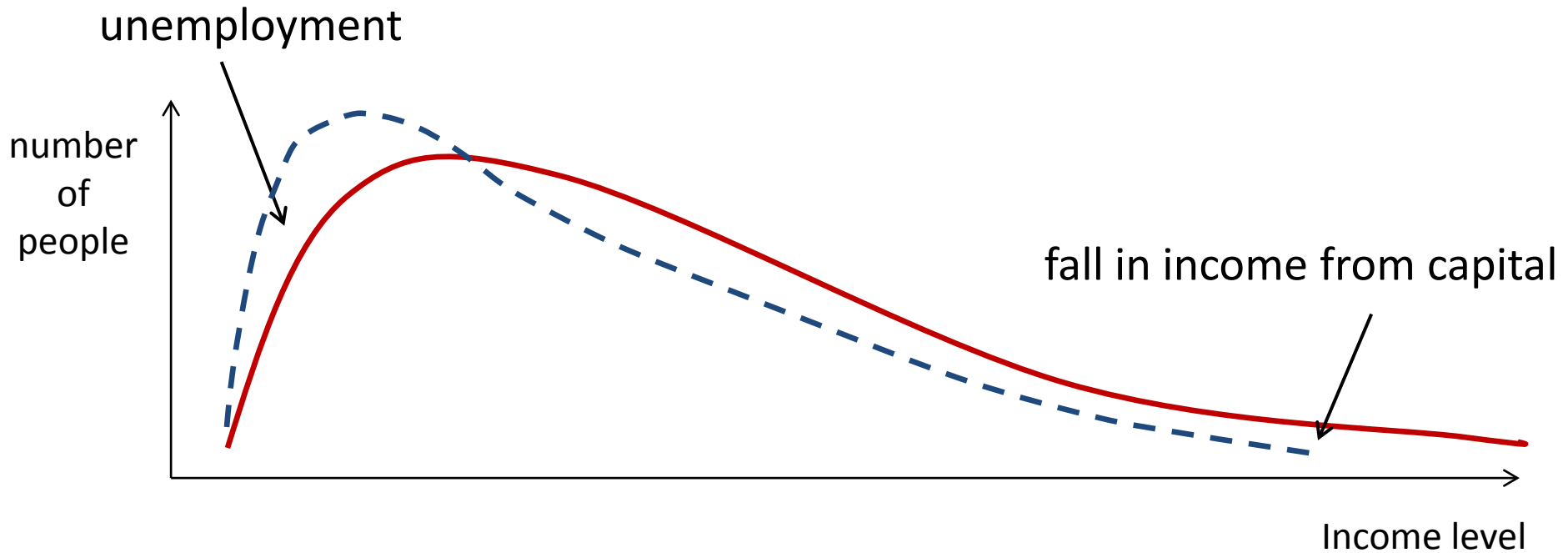
- GR not over everywhere + fear of double-dip
- consequences for many years
 - e.g. scarring impact of unemployment
 - impact of ‘fiscal consolidation’
- lags in data availability

What should we expect?

- analytic frameworks
 - Dynamic Stochastic General Equilibrium models
 - tax-benefit simulation models
 - decomposition by sub-group or income source
- evidence from past recessions
 - time-series studies of quantile group shares (Blinder-Esaki)
 - top incomes literature (Atkinson-Piketty)
 - case studies e.g. the US in the 1930s, NZ in late 1980s, Nordic countries in the late 1980s, UK since 1970s
- NB is this time different?

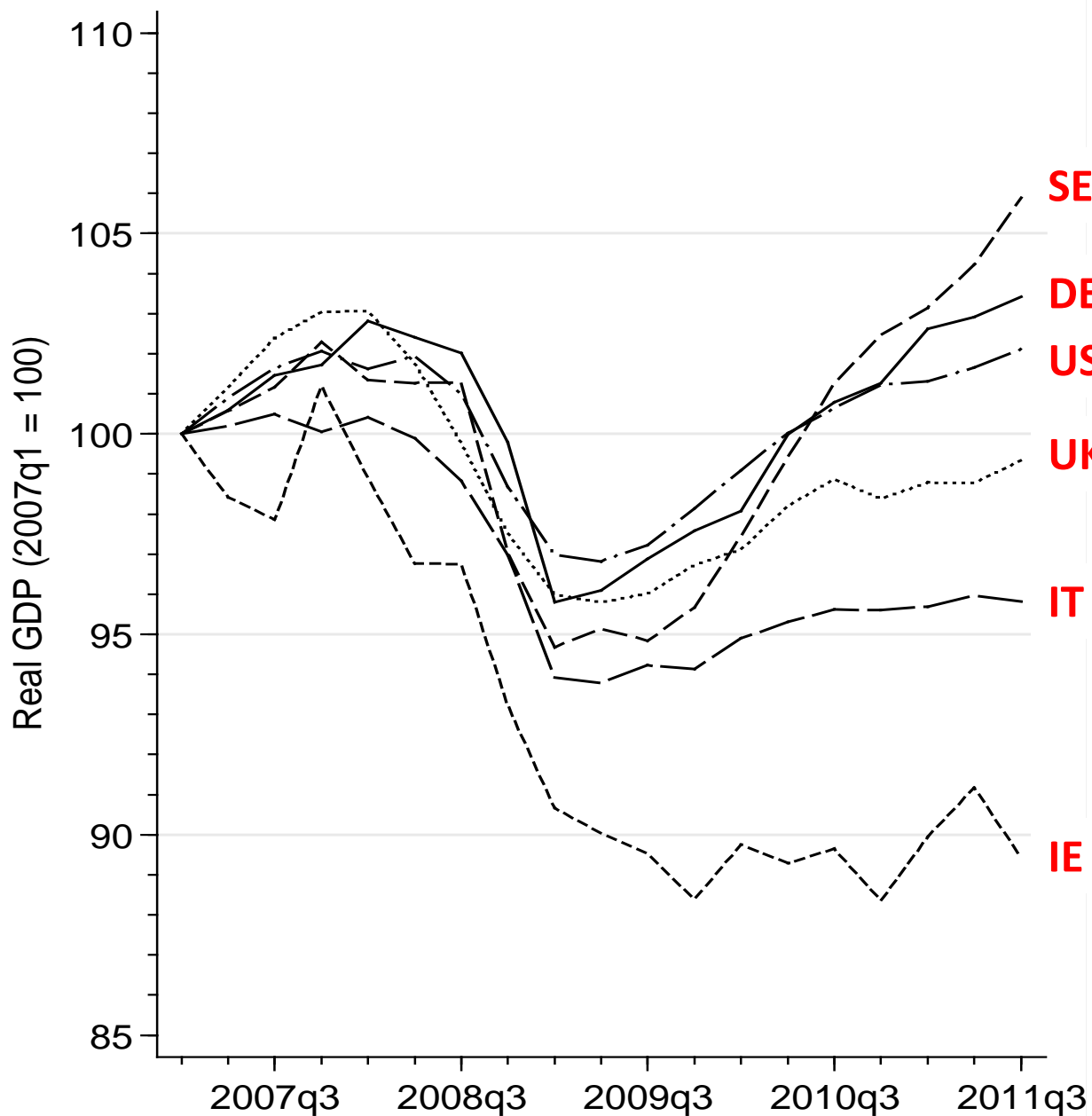
Mendershausen: incomes in US cities in 1929 and 1933

- average real income ↓ ; absolute poverty ↑
- inequality: Gini index ↑ 5 per cent pts. on average



The Great Recession: how big?

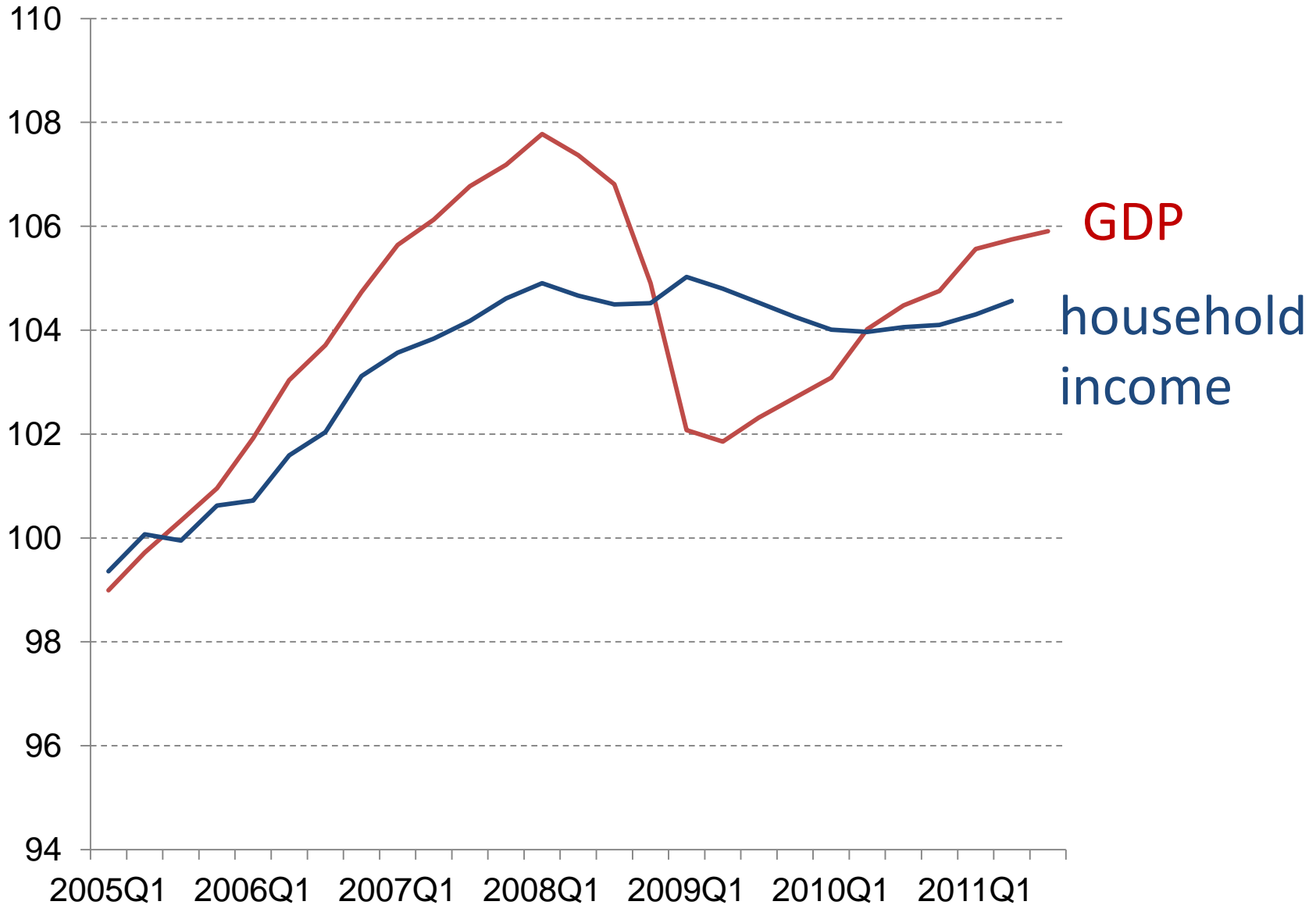
- OECD area:
 - GDP fell by 5%, 2008q1-2009q2
- large range among our 21 countries, 2007-9
 - no fall in Australia, only 2% fall in NZ
 - falls of 9% in Finland and 13% in Ireland
 - median fall 5% (USA 4%)
- speed of recovery has varied greatly too



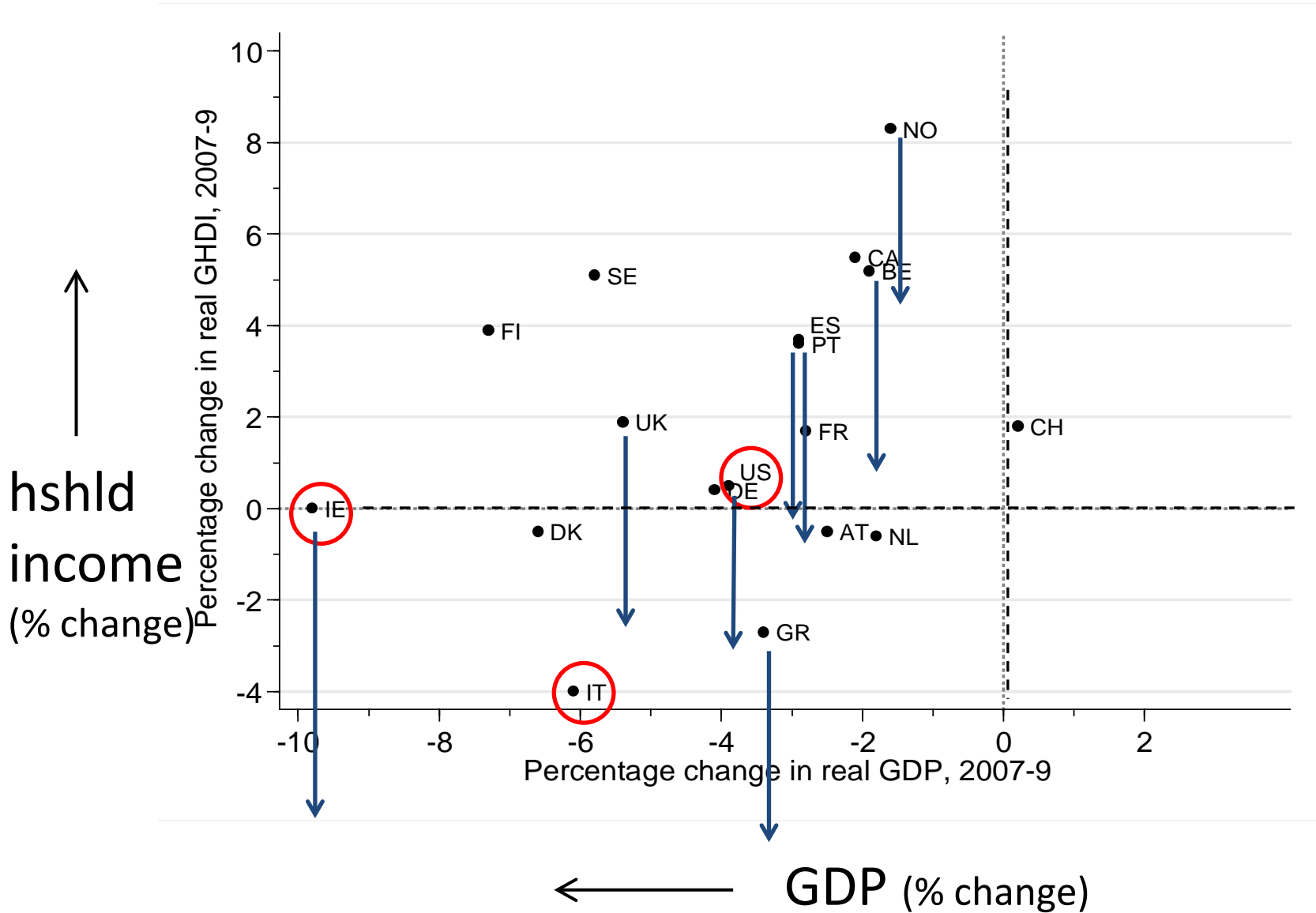
Heterogeneity in fall in real GDP, and in recovery

Quarterly changes in GDP: 6 countries 2007-2011 (2007q1=100)

National Accounts show total household income cushioned across in the Eurozone



18 countries, 2007-9; household income typically ↑ as GDP ↓



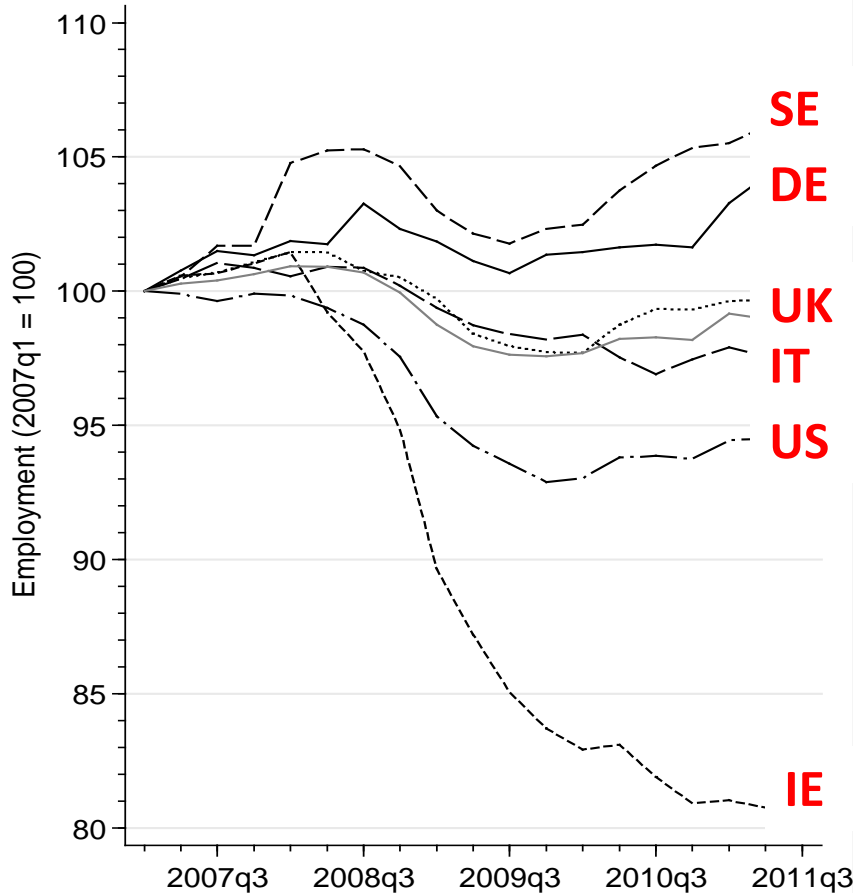
Changes in income sources

total household net income = labour earnings + capital income + state benefits + other income – direct taxes

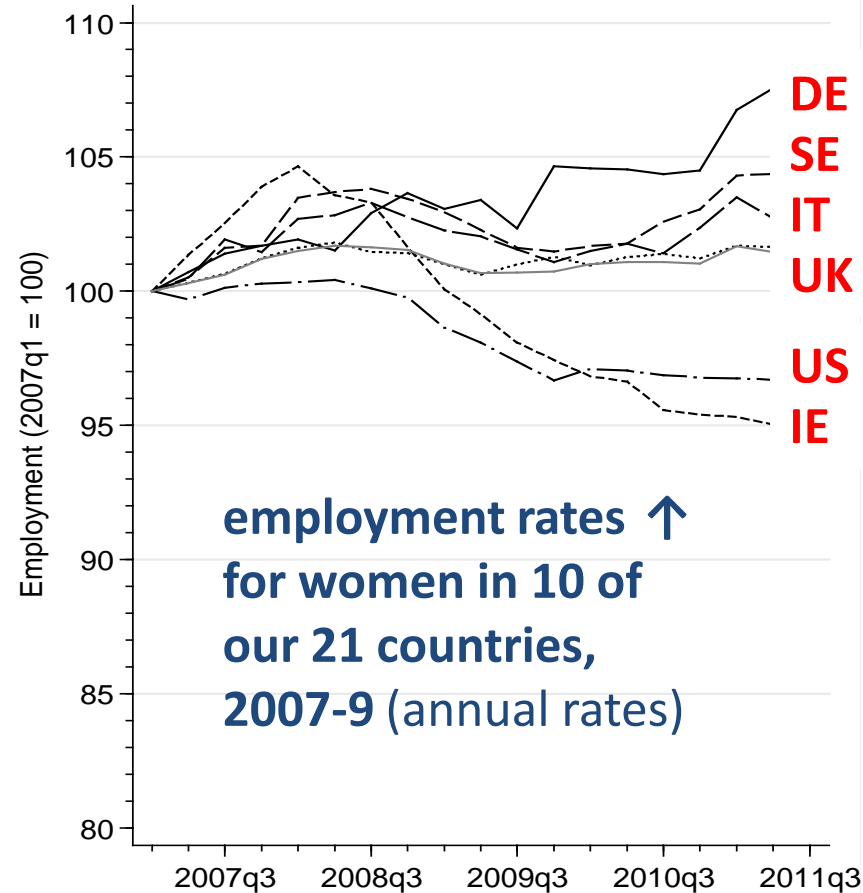
- labour earnings:
 - employment and hours among individuals
 - employment among households (% with *no* work)
 - earnings among individuals (average and distribution)
- other income sources (but fewer data)

Employment falls larger for men than women

Men



Women

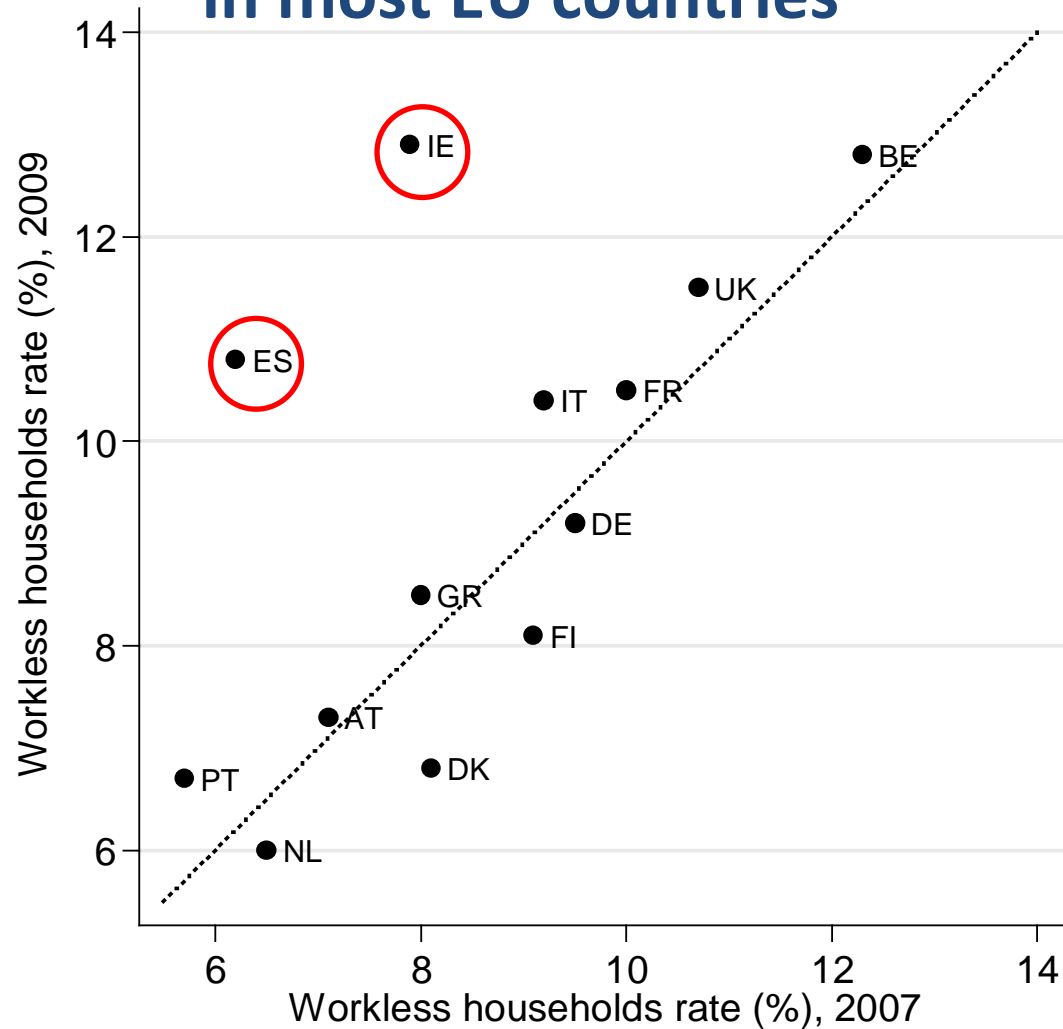


employment rates ↑
for women in 10 of
our 21 countries,
2007-9 (annual rates)

... and much larger for the young (15-24) than middle aged (25-54); rises for 55+ in 12 countries

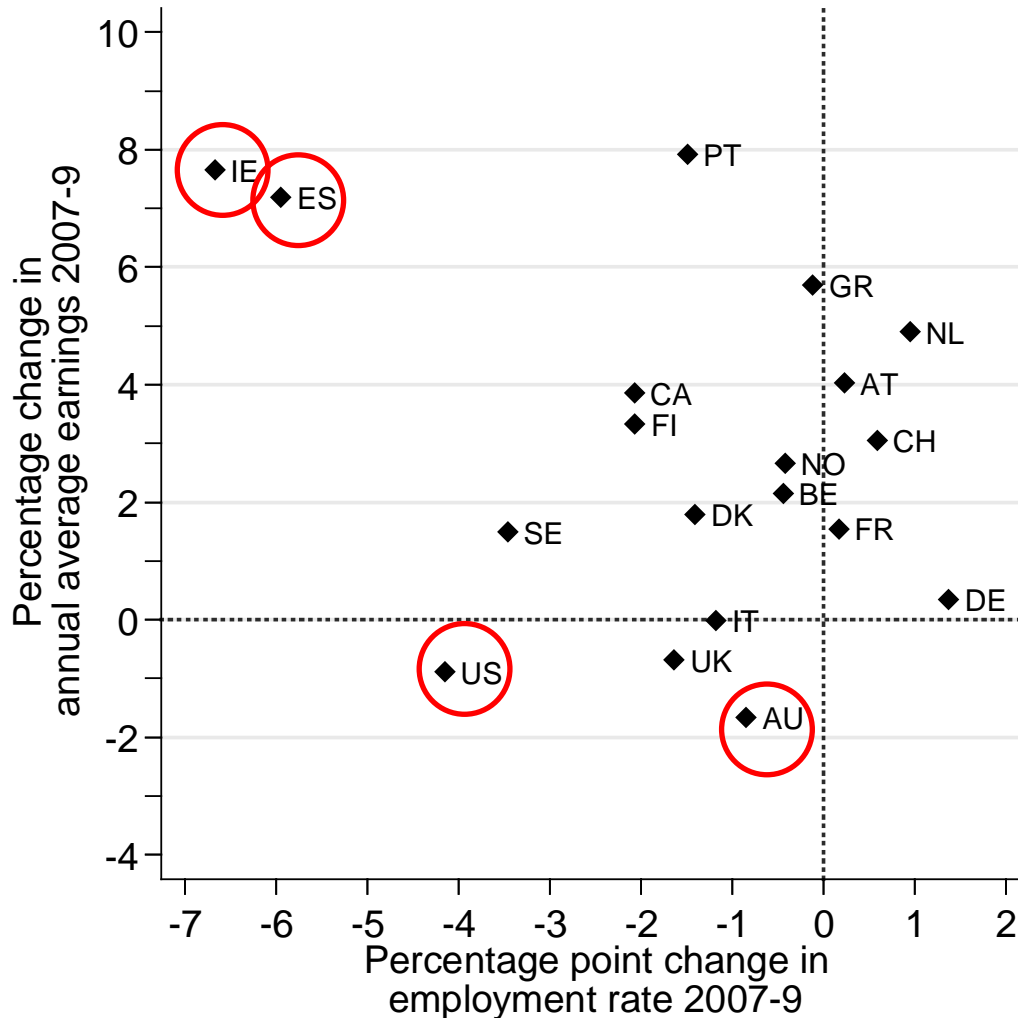
More adults in households with no workers in most EU countries

% of 18–59
year olds
in workless
households,
2009



% of 18–59 year olds
in workless households,
2007

Average earnings increased in most countries when employment rates fell



Changes in annual av. earnings (%) and in empl. rates (percent points), 2007–9

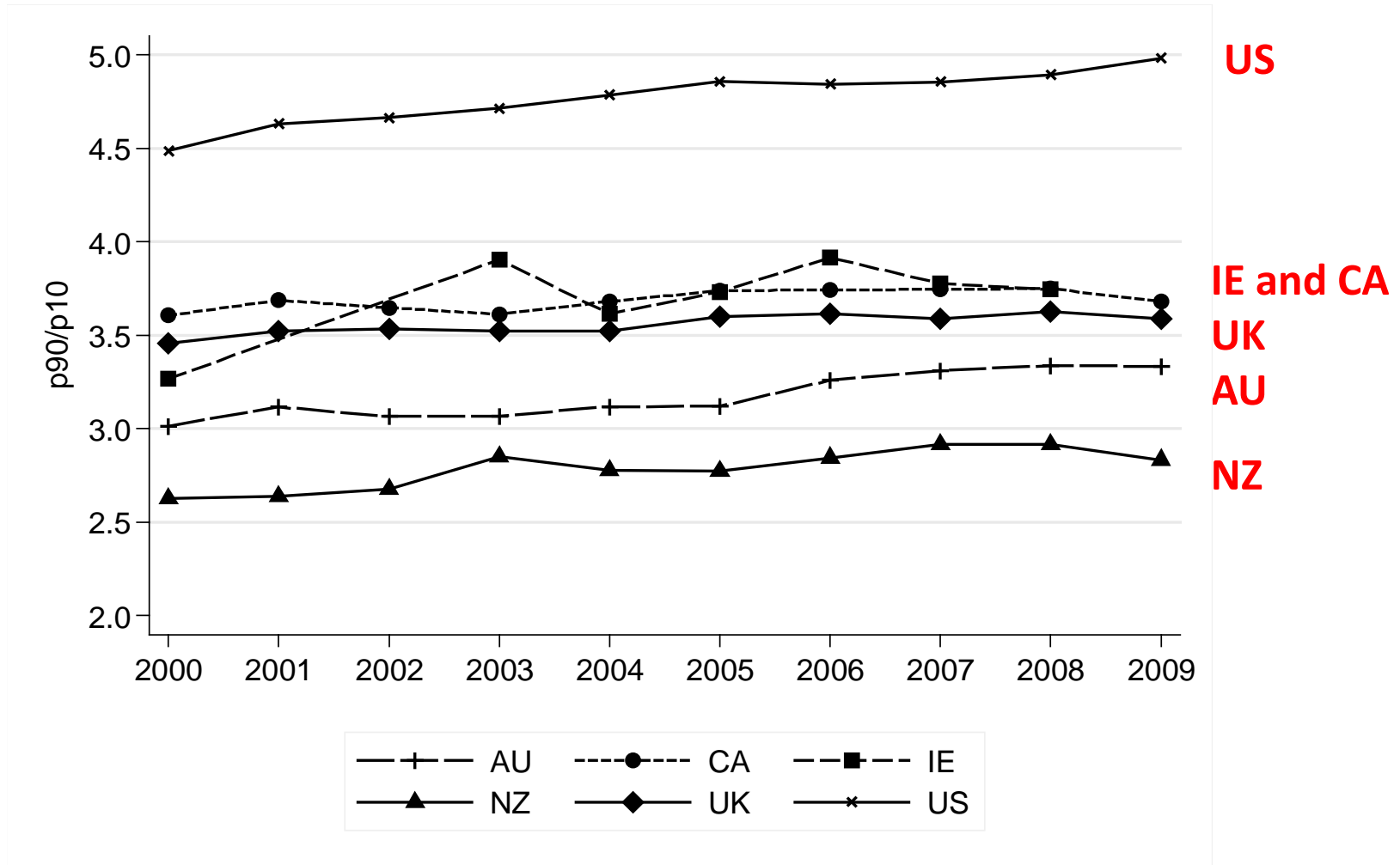
↑ earnings

← employment

Earnings inequality: little change in 'Anglo' countries

gross earnings of FT employees:

ratio of 90th percentile to 10th percentile, 2000–9

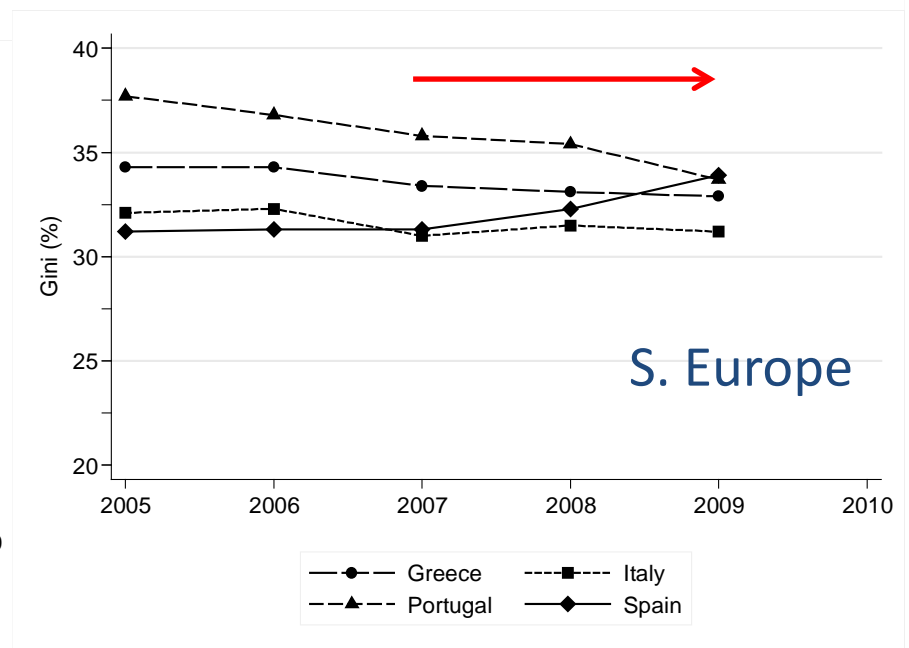
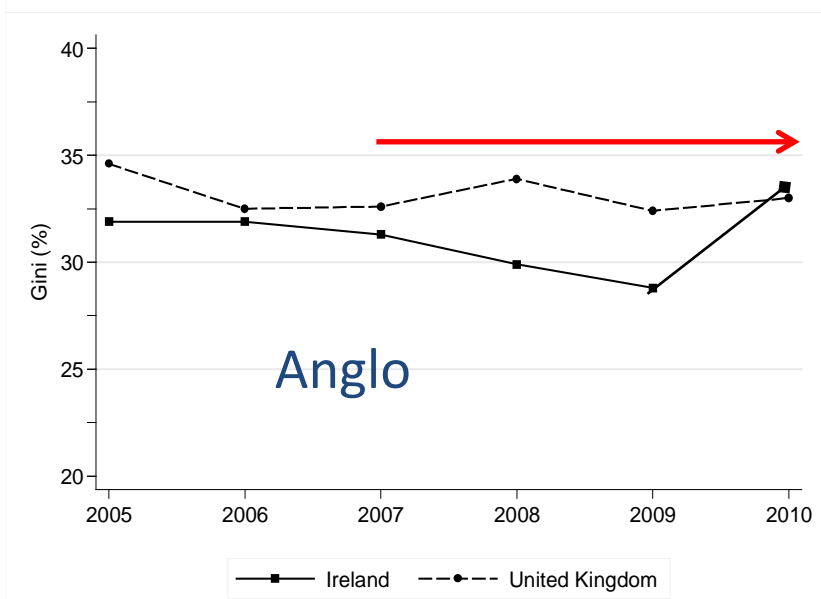
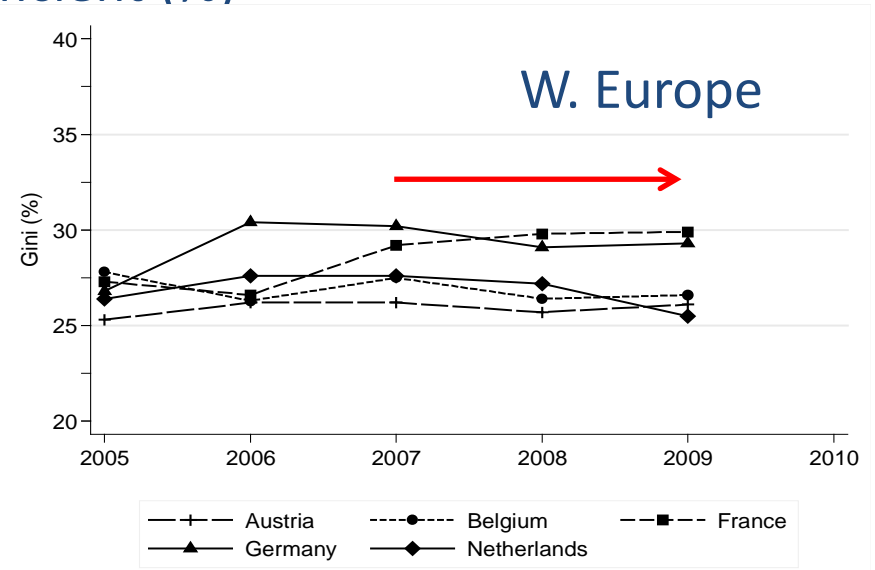
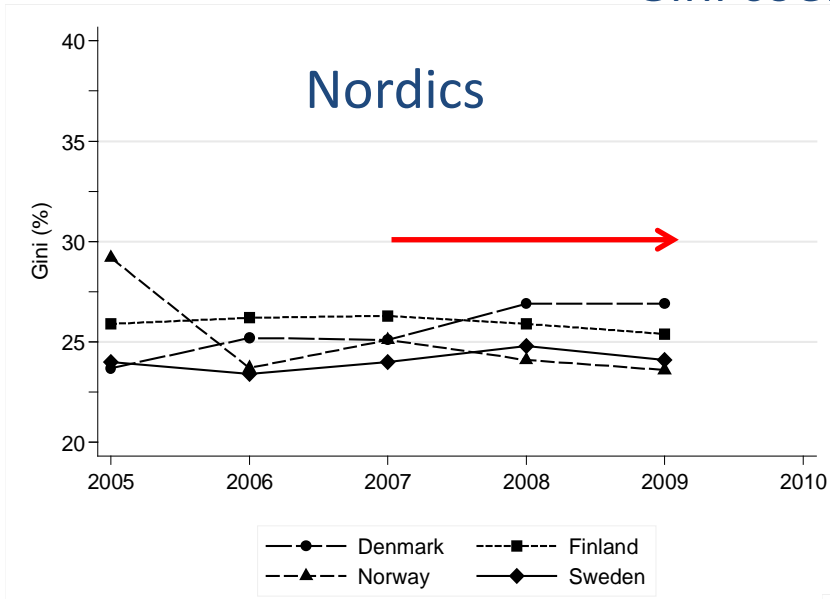


Short-term changes over 2007-9 in the distribution of household income

- Eurostat figures for EU countries (harmonised surveys 'Statistics on Income and Living Conditions' - SILC)
- Census Bureau figures for the USA (2007-10)
- median incomes: story similar to total income in National Accounts (*modest change, often +ve*)

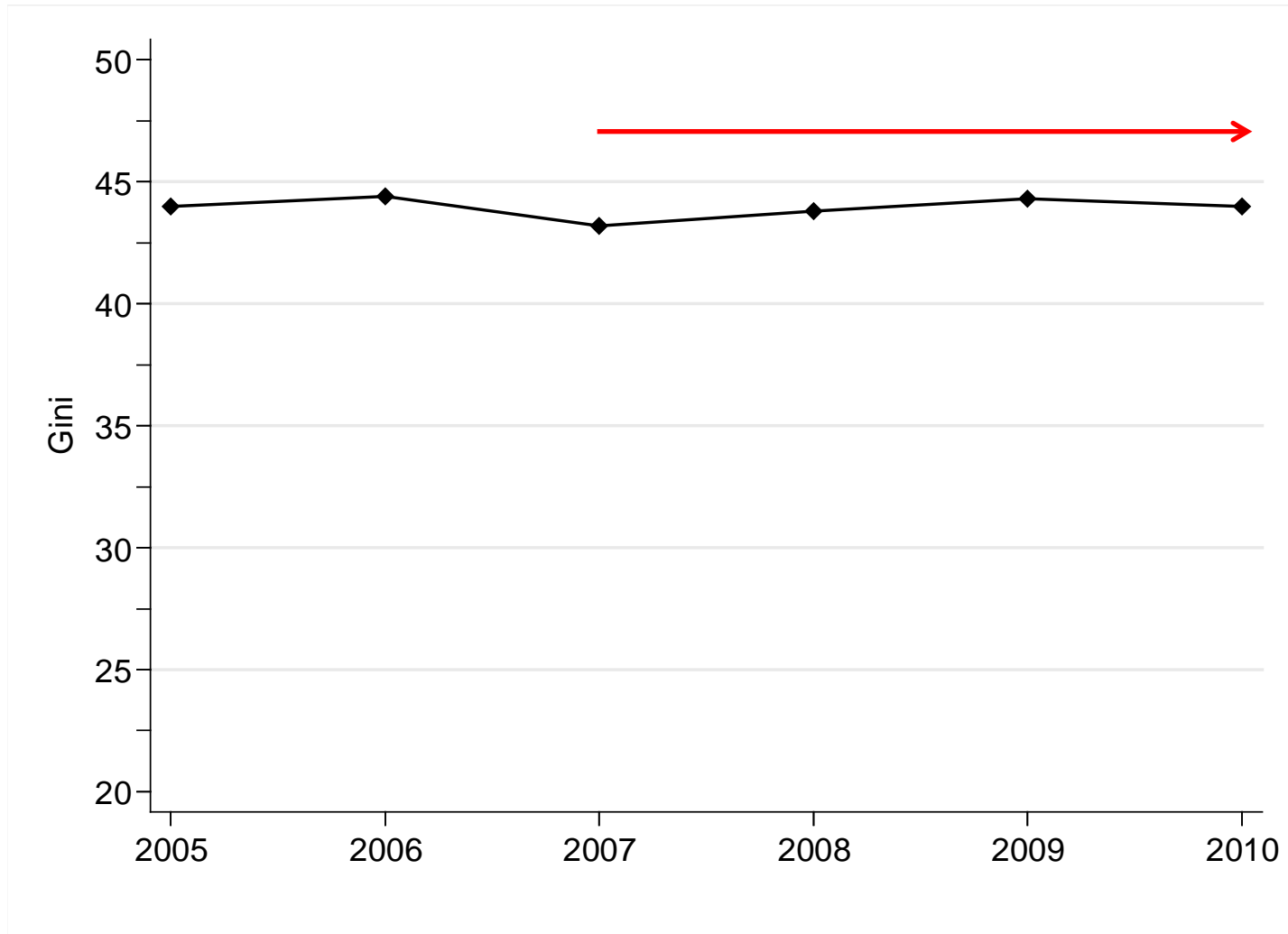
Little change in inequality of household incomes in Europe

Gini coefficient (%)

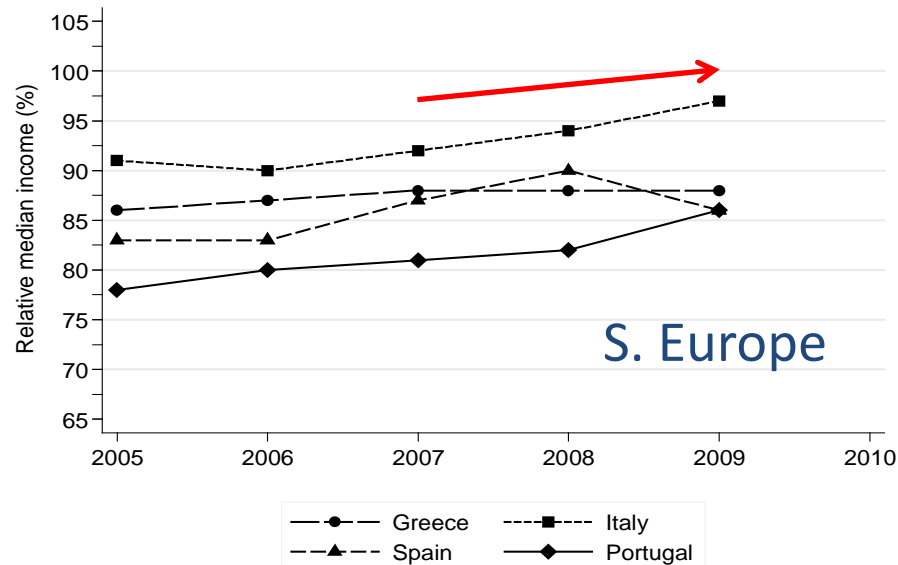
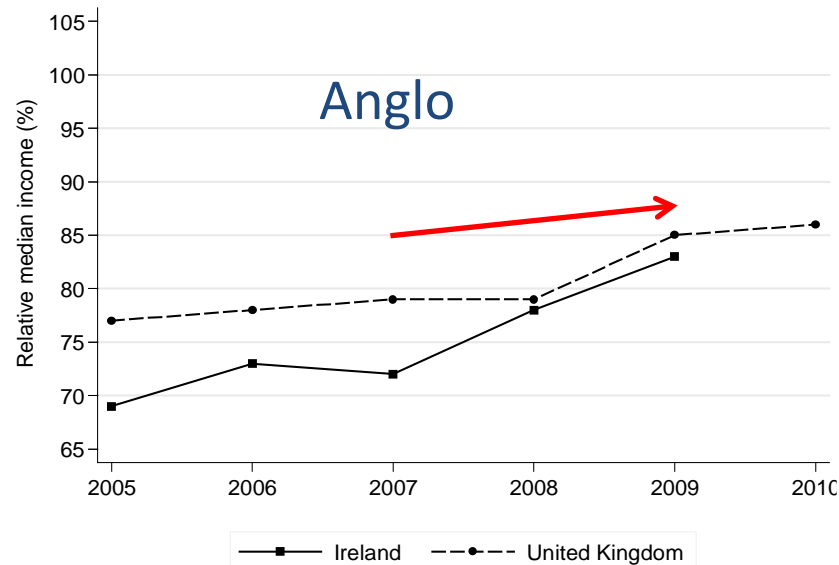
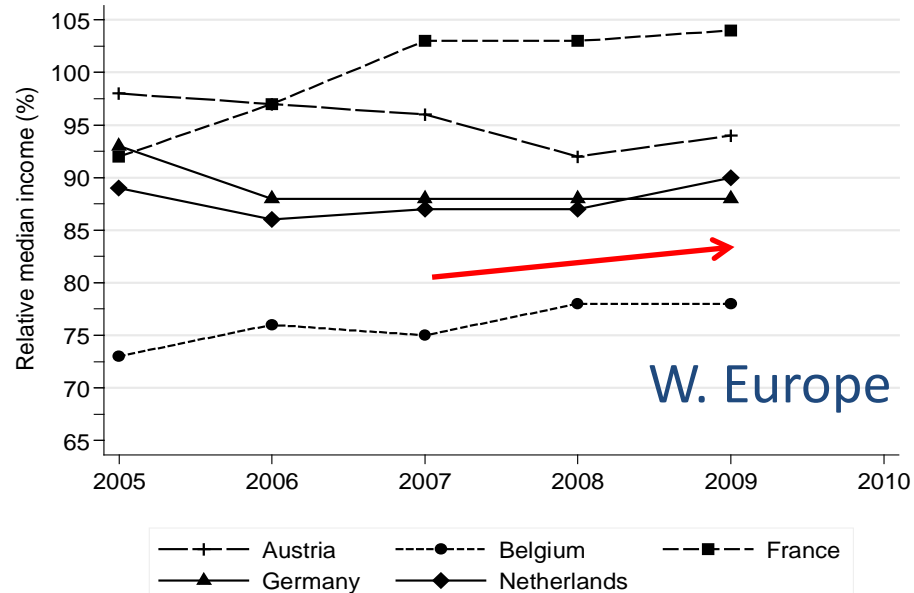
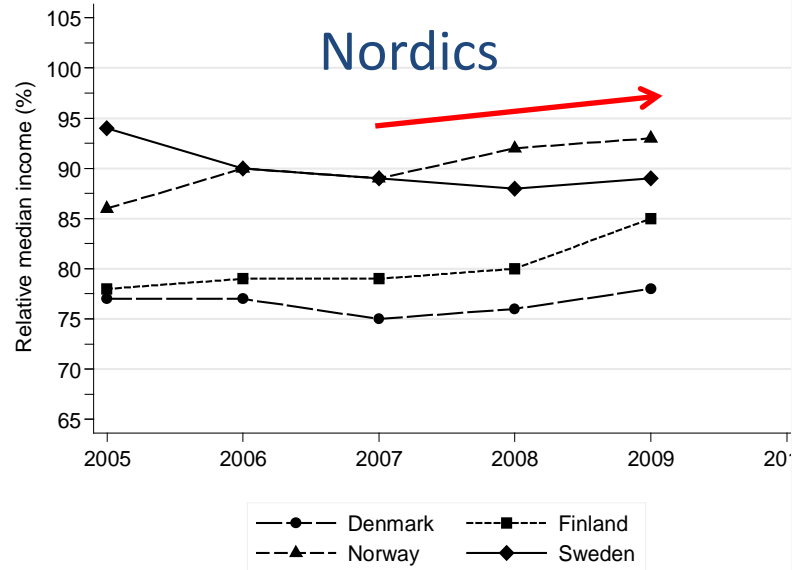


...or in the USA

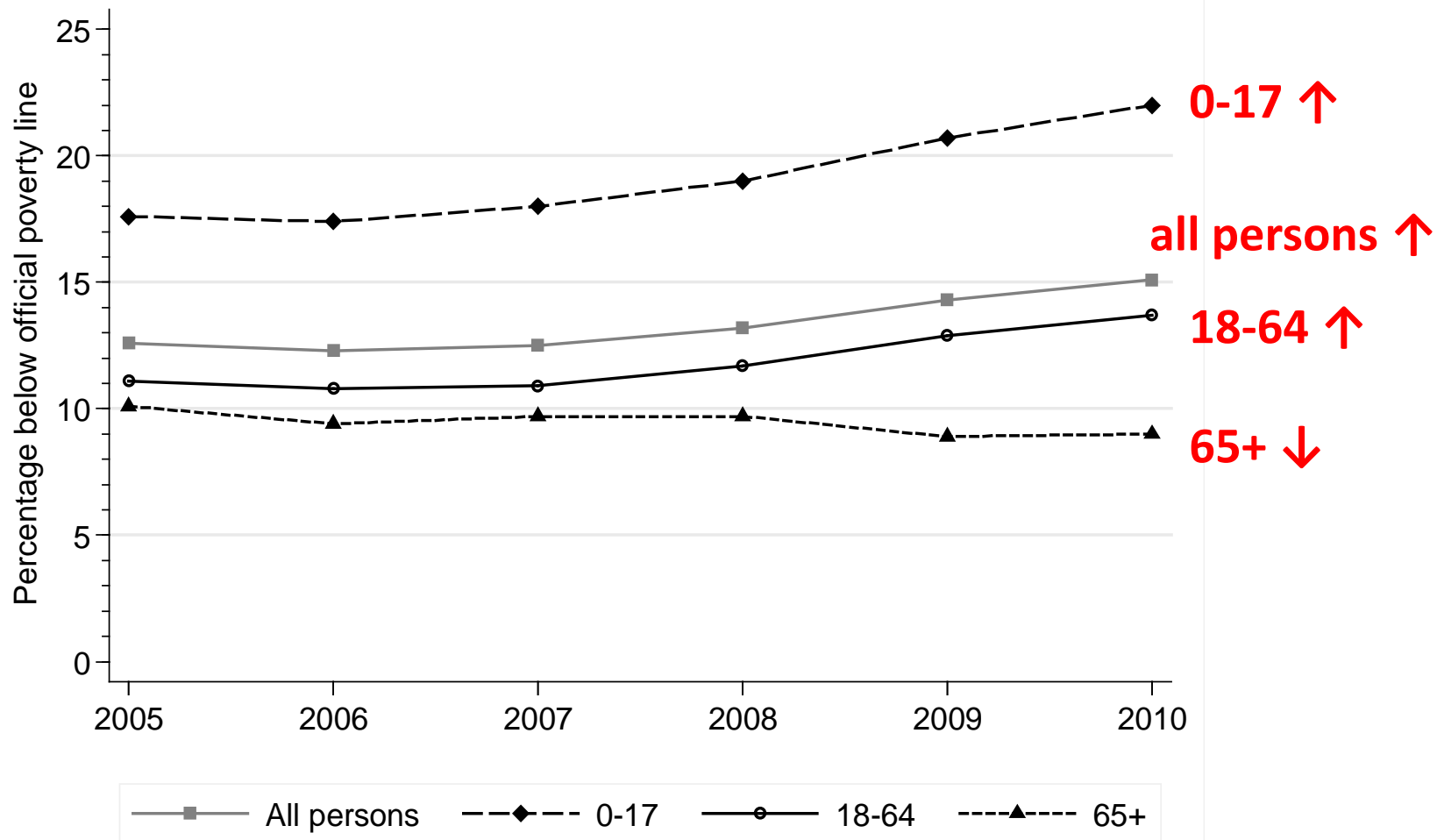
Gini coefficient (%)



Elderly fared relatively well 2007-9 in Europe: median income of persons 60+ as % of median for persons aged <60



... and in the US: % of persons with 'money incomes' below the official US poverty line



Government balances worsened almost everywhere

general government balance as % of GDP, 2007 and 2009



Fiscal consolidation plans

Survey of 30 OECD member states, Autumn 2010:
most frequently cited 'areas'

Expenditure		Revenue	
Area	Number of countries	Area	Number of countries
'Welfare'	18	Consumption taxes	20
Health	15	Tax expenditures	14
Pensions	14	Income taxes	12
Infrastructure	13	Tax on financial sector	8

Distributional consequences?

- cuts in cash benefits hit bottom of distrib → poverty up
- impact on inequality – depends on measures

Conclusions and Caveats

1. *short-term* changes modest
 - the elderly have done relatively well
2. distributional impacts will differ between short-, medium-, and longer-term
3. need to go beyond cash incomes
4. case study countries exclude GR, PT, and ES

Policy lessons

1. stabilisation of incomes achievable in the short-term (cf. 1930s)
2. stronger welfare states provide greater 'automatic stabilisation'
3. timely monitoring of distributional outcomes essential