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PILLAR 3

STATE OF THE ART

BE-PARADIS
The Paradox of Belgian Inequality Studies

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[Introduction]

Inequality and poverty remain high on the agenda. The IMF has labelled inequality as the 'defining challenge' of our time because it signals a lack of income mobility and opportunity, and because it has important consequences for growth and macroeconomic stability, and carries a risk of concentrating decision making in the hands of a few. In the last fifteen years also the OECD has gathered 'a significant body of evidence on the increased inequalities of income and opportunities in many countries', and concludes that inequality is 'bad and getting worse' (OECD, 2018).

We start from two observations. First, the existing statistics and research on Belgium indicate that income inequality remained fairly stable the last decades. These findings do not only stand in sharp contrast with the conclusions for many other countries, they also seem to contradict the widespread perception that inequality is on the rise. A glance at newspaper articles and public statements by politicians, journalists and experts alike suggests that the prevailing sentiment in the Belgian society is quite different, indicating a broad feeling of increasing income inequality. Understanding this 'paradox' is one of the central objectives or the project (and explains the acronym).

[State of the art]

The academic literature indicates that in most OECD countries, after a period of decrease, income inequality has been on the rise again since the 1980's. This is mainly attributed to an increasing income share of the top of the distribution combined with the increasing share of capital income in total income (e.g., OECD, 2015; Alvaredo et al., 2018; Milanovic, 2019; Piketty, 2020). Belgium, however, often stands out as an exceptional case in comparative studies. Contrary to the rise in income inequality in most OECD countries, the OECD (2015) observes a rather stable and low level of income inequality in Belgium between the mid 1980's and mid 2010's.

Empirical work on income inequality faces essential methodological choices:

- the income concept: the income concept can vary from 'market income', which is the total income from the production factors labour and capital before taxes or social security contributions are paid or any replacement income is received (such as pensions, unemployment benefits), to 'disposable income' which is the income available for consumption expenditures and savings;
- the underlying dataset: different primary datasets are used in Belgian inequality studies: administrative datasets, survey datasets and national accounts;
- the reference period: income is a flow concept and, hence, one must choose a reference period over which this flow is measured. Most studies choose one month or one year;
- the reference unit: next to selecting an income concept and reference period, any study of income inequality which goes beyond the functional distribution, needs to define the reference unit. Income inequality can be analysed at the level of the individual or the household, be it defined in a sociological way or as a tax unit;
- the summary inequality measure: various measures have been used to summarise income inequality in Belgium. The Gini coefficient, income shares (and ratios thereof), and interdecile ratios are the most commonly used.

Numerous published academic studies and publicly available databases, each with their own methodological choices, have charted the evolution of income inequality in Belgium, and none of these have pointed out an outspoken rise of inequality in Belgium. The labour share, which is the functional distribution of market income between labour and capital, shows a pronounced decrease since 1980 after a sharp increase in the 1970s (AMECO database). Decoster et al. (2017) and Valenduc (2017) analyzed the evolution of the distribution of taxable income and found a rather stable and even

decreasing trend of the top income shares (i.e. the share of total income that goes to the richest top 1% or 10%). The income distribution that most widely has been studied and documented is the distribution of disposable income (e.g. Van Rie & Marx, 2014; EUROSTAT database; OECD database). This is done by analyzing information from different household surveys such as SEP, ECHP, and SILC. Studies that use data from SEP (1985-1997) report a modest increase of inequality (measured by the Gini coefficient). Studies using ECHP (1992-2001) obtain more capricious results without a clear trend. Studies and databases using SILC (2004-2020) show a mildly decreasing inequality. Unfortunately, it is far from obvious how to connect these separate trends, as different datasets indicate a different level of inequality for overlapping years (notably for 1997 ECHP reports a considerably higher level of inequality compared to SEP). This observation suggests that the changes are - at least to some degree - driven by differences in survey design (i.e. differences in weighting, income definitions, sample design or reference periods), rather than by real world changes. This finding complicates research on long-term trends in inequality in Belgium.

Research objective 1

The BE-PARADIS project is motivated by the documented lack of a consistent long-term data series on income inequality for Belgium. The project aims to carry out renewed inquiry of existing and available data, concepts and methods. We will investigate whether the three main survey datasets (SEP, ECHP and SILC) can be harmonized to allow for meaningful comparisons of income inequality over time. Next, we will extend this harmonized dataset with expenditure information (from HBS data) and wealth information (from HFCS data). We will use imputation methods to combine the different available micro-level datasets to construct one generic dataset with key variables necessary to explore innovative perspectives on the evolution of inequality.

The so-called 'Distributional National Accounts (DINA) allows for the construction of harmonized long-time trend of income inequality based on the combination of micro data and national accounts. The DINA-methodology is essentially an extension of the pioneering methods of Kuznets, who combined national income series (macro-data) with income tax data (micro-data). Recently, the upgrade of national accounts to incorporate distributional information has been initiated by the late Tony Atkinson, and further developed by scholars such as Thomas Piketty and Emmanuel Saez. In early 2018, their team at the Paris School of Economics launched the World Wealth and Income Database (now World Inequality Database, WID), which gives access to data about inequality and other macroeconomic indicators for many countries. Also these DINA series show a more or less stable trend of income inequality for Belgium.

Research objective 2

We will deepen the DINA methodology of WID and apply it at a more disaggregated level to construct a dataset for distributional analysis that is consistent with the information in the national accounts for Belgium. We will combine the use of different underlying micro datasets to distribute the national account aggregates as precise as possible.

Inequality is the result of a complex interplay of different factors. Sologon et al. (2021) developed a framework for studying differences in the distribution of household income. An integration of micro-econometric and micro-simulation approaches allow the decompose the role of four possible drivers of inequality: the role of the tax-benefits system (policy), demography, market income and labour market structures. Such a detailed decomposition analysis does not exist for Belgium. A second potential driver of growing or, in the case of Belgium, stable household income inequality is related to decision making of, and within, households. Assortative mating is such a potential driver in Western countries: if high income people are more likely to marry high income partners, inequality at the household level increases mechanically (Ciscato & Weber, 2019, Eika et al. 2018).

Research objective 3

We will explore new empirical perspectives on the evolution of inequality in Belgium. We will develop a decomposition framework that allows to shed light on the drivers of inequality in Belgium. The objective is to highlight and quantify the relative importance of specific drivers of the changing income distribution:

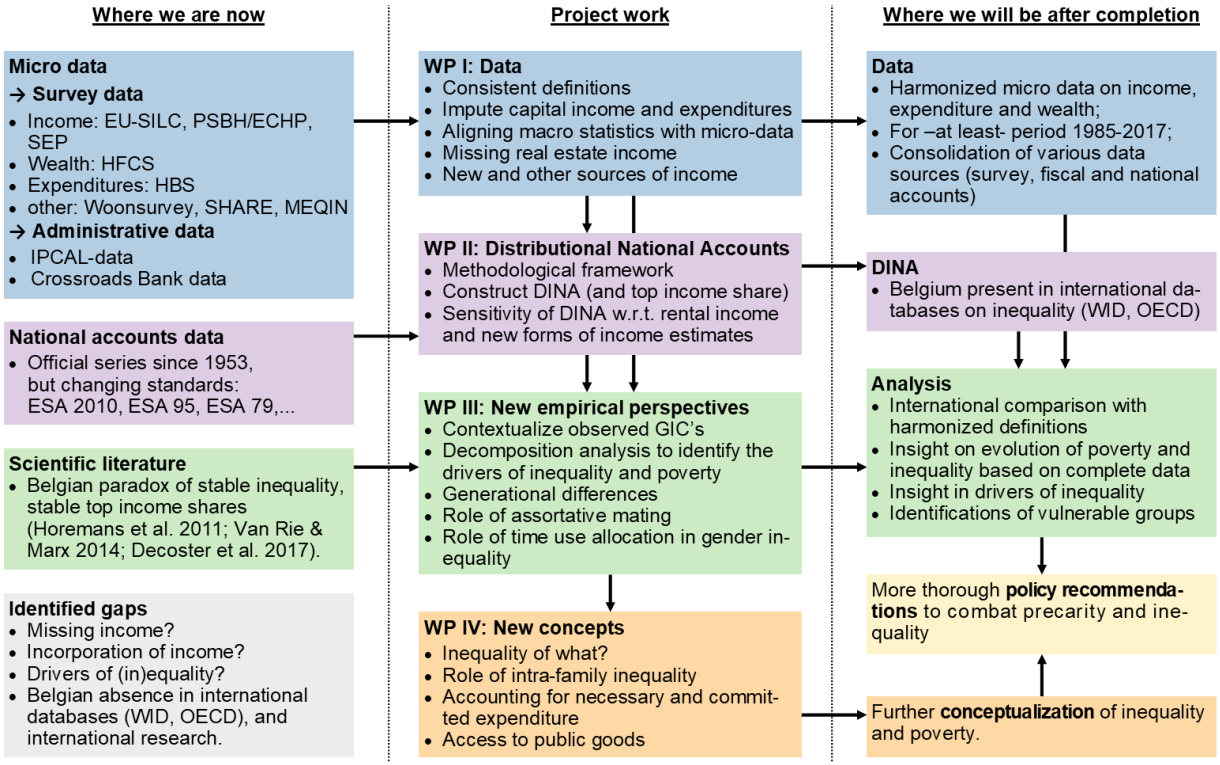
1. socio-demographic changes (family size, assortativeness in living arrangements, migration status, age structure …);
2. changes in primary market incomes (including the effects of technological changes, the emergence of new forms of income, globalization, changes in the wage negotiation process and in market regulation determining the relative power of labour and capital, …);
3. policy changes (the tax-benefit system, eligibility conditions, universality or selectivity of benefits, …);
4. labour market evolutions.

The starting point of the project is the paradox between on the one hand the widespread perception that inequality is on the rise is, and on the other hand the empirical evidence of stable income inequality in Belgium. A possible explanation is that inequality in other dimension (than income) has increased. It is not unconceivable that inequality in other dimensions has increased.

Research objective 4

The last objective of the project is to enlarge and deepen the conceptual framework of distributional analysis by going beyond mere household disposable income, to allow the integration of a) a multidimensional perspective of well-being, incorporating non-income dimensions such as health, job quality, housing, and security; b) intra-household inequality in the analysis; c) the impact of the necessary character of some expenditures, and the differential effect of price changes across households with different expenditure patterns; and d) the availability of and access to public goods.

These four research objectives are translated in four Work Packages as presented in the central column of the figure below. The left column summarizes the state of the art and the right column lists the main project outputs.



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