THE INEQUALITY PARADOX IN BELGIUM

A summary of the results of BELSPO Project B2/191/P3/BE-PARADIS (2020-2024)

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Has income inequality in Belgium increased in recent decades? If you ask that question to the man or woman in the street, they will probably answer yes. The general perception is that inequality is increasing in Belgium, just as it is in many other countries. Yet there is hardly any scientific evidence for this, and official statistics on Belgian inequality, as published by OECD or EUROSTAT, contradict this feeling. This contradiction between perception and objective figures has been the starting point for an in-depth study on the evolution of inequality in Belgium: *the Belgian Paradox of Inequality Studies (BE-PARADIS).*

In the first part of the research project, the evolution of income inequality is carefully mapped and explained on the basis of existing and frequently used data sources. These are income surveys, conducted among a representative sample of the Belgian population. Methodological changes over time make it difficult to paint a consistent picture of the evolution since the first survey in 1985. But thorough **screening of the existing data** does confirm the picture that income inequality in Belgium is low compared to other rich countries, and that it is not increasing.

This stable trend in inequality is the result of two counteracting 'forces'. On the one hand, socio-demographic changes, such as ageing, changing household composition and higher levels of education, have exerted upward pressure on the level of inequality. But these upward pressures were more than neutralized by policy changes in taxes and benefits.

But income surveys have their limitations. While earned income is well captured, capital income remains largely under the radar. And rich people tend to participate less in such income surveys. To better and more fully capture income inequality, other data sources have therefore been tapped: a survey of (income from) wealth, administrative tax returns and national accounts.

This much broader view thoroughly alters the picture painted earlier. **Income inequality** is not only **higher** than revealed in standard surveys, it is also **less stable** than thought so far. The downward trend until around 2010 is coming to a halt, and since the financial crisis income inequality in Belgium has been on the rise. Unlike in the US, but also in some European countries such as Germany, the explanation in Belgium does not lie in rising inequality in labour income. The **explanation for the increase in inequality lies with income from capital**. First, since 2010 capital income has grown more than national income. And on top of that, inequality within that property income has also increased sharply. This is due to interest on fixed-income assets melting away since 2010, while other capital incomes such as dividends - which are much more unequally distributed - and undistributed profits, have continued to rise.

The second part of the research project attempted to explain the paradox rather by means of a discrepancy between what people understand by the word "inequality" and the interpretation embedded in standard reporting of inequality.

Certainly the recent energy crisis has fueled the perception that ***inflation*** increases inequality in purchasing power among households. The research results point out that this seems to be true for the particular price rise in 2021-2022, but also makes two important caveats. First, the most important factor driving the distributional effects of price changes is not the income gradient of poor versus rich, but rather the large heterogeneity in spending patterns. And second, the finding of adverse distributional consequences of the price changes in 2021-22 does not apply to the price increases observed over a much longer period. These have sometimes increased inequality, but also sometimes reduced it.

Also ***housing prices*** are often the subject of public debate. Yet inequality in housing values appears to be relatively low and it is fairly stable. However, housing location is crucial for ***access to public goods***, such as schools and hospitals. The research has been innovative in being the first to map inequality in access to public goods, and found that this specific form of inequality is higher than income inequality. The same goes for factors other than income, which determine **well-being**, such as **health**, or the **distribution within families**. An analysis which integrates these other factors finds higher inequality than when the research is confined to an analysis of household disposable income. Yet, this adoption of a broader scope has no impact on the evolution over time: inequality in well-being remains stable.

Finally, the research also charted ***inequality between generations***. The perception that young people might be less well off than previous generations, and that they might find it harder to become home-owner, for example, is widespread. This research argues for comparing generations appropriately: that is, at the same point in their life cycle. In that case, there is, still to this day, little evidence for the stated sentiment. The income of today's young people is certainly higher than that of older generations when the latter entered the labour market. And neither has the purchase of one's own home shifted to a later point in the life cycle.