

Life Cycle Inequality and Welfare

Two thoughts and a gedankenexperiment

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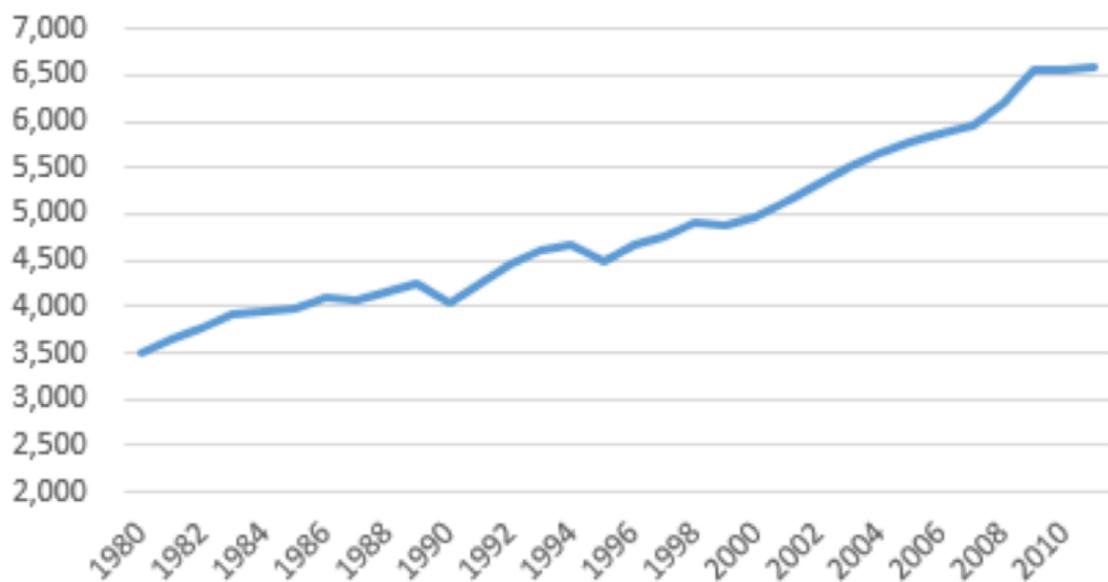
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Thought 1

- ▶ Society is composed, mostly, of people. Inequality has always been with us. Global inequality is falling.
- ▶ We can measure inequality across the lifecycles of these people by staring at the distributional dynamics of things like wages, earnings, income and consumption, and wealth.
- ▶ We care about labour market and non-labour market outcomes.
- ▶ The 'insurance' metaphor for social protection expenditure matters a lot in this space.

Every OECD country has spent significantly more on social spending in real terms since 1980s (OECD.stat)

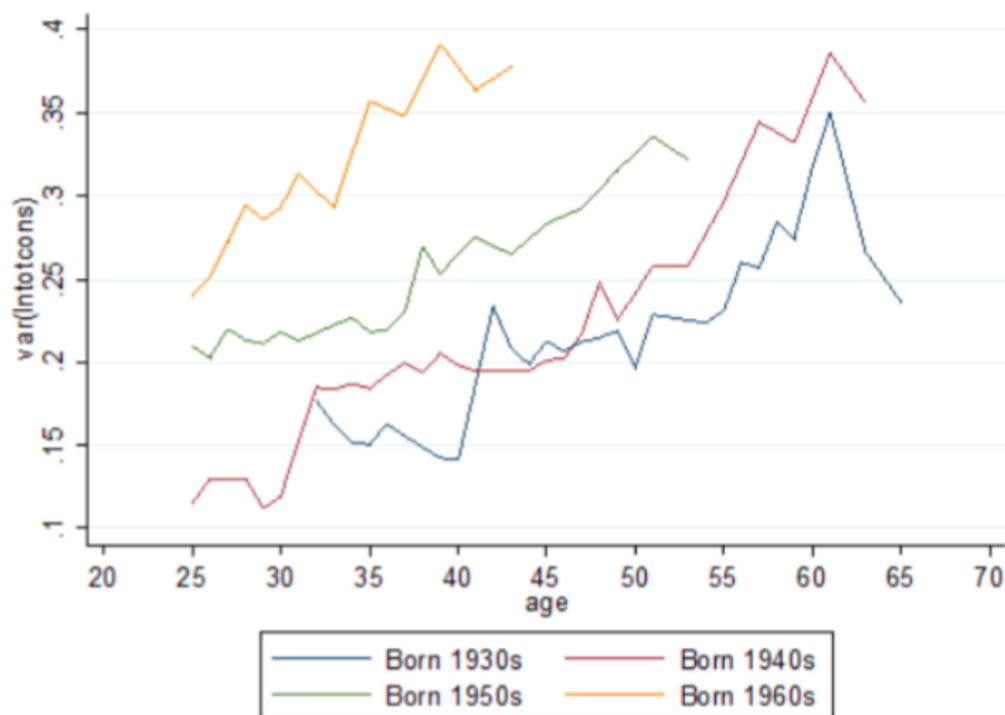
Social spending per head in the OECD
constant prices (2005) and constant PPPs (2005), in US dollars
Source: OECD



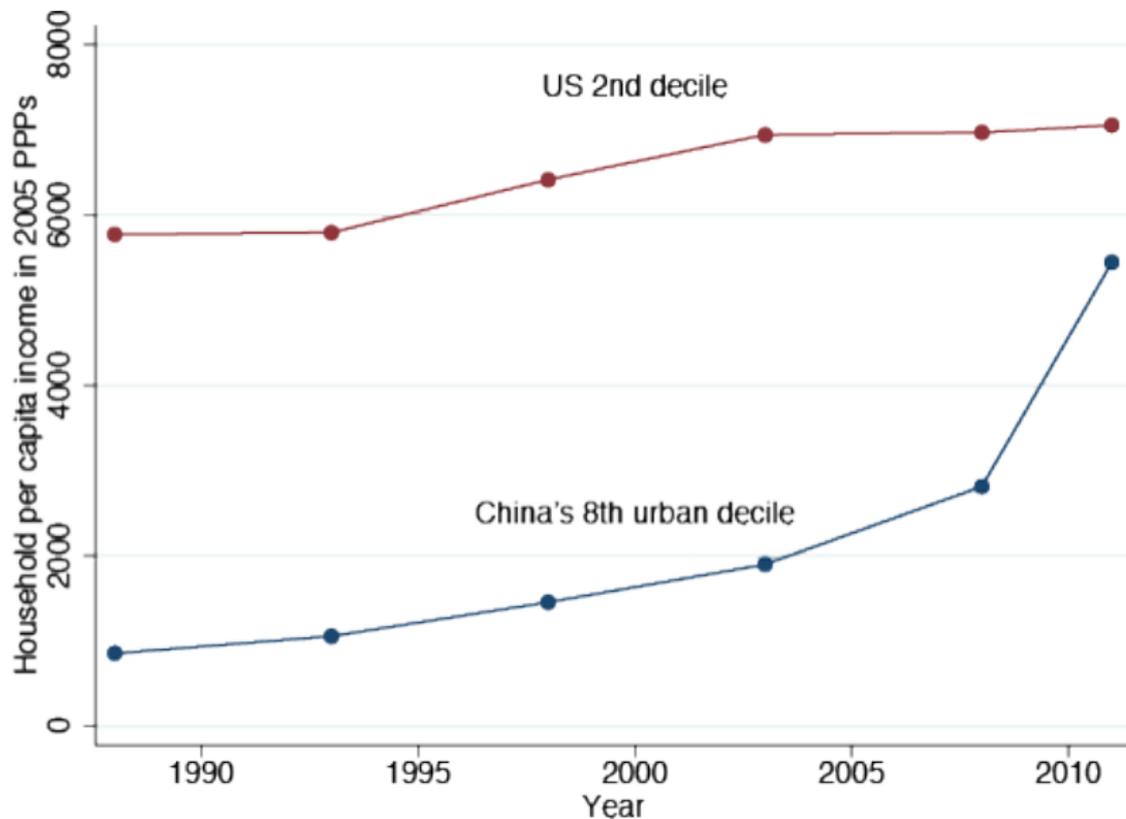
We know life cycle inequality has increased

- ▶ Younger birth cohorts are facing higher overall consumption inequality during their working life than similarly aged older cohorts.
- ▶ This has profound implications for the welfare state.

Variance of log nondurable consumption by age for the USA (Blundell, 2014)



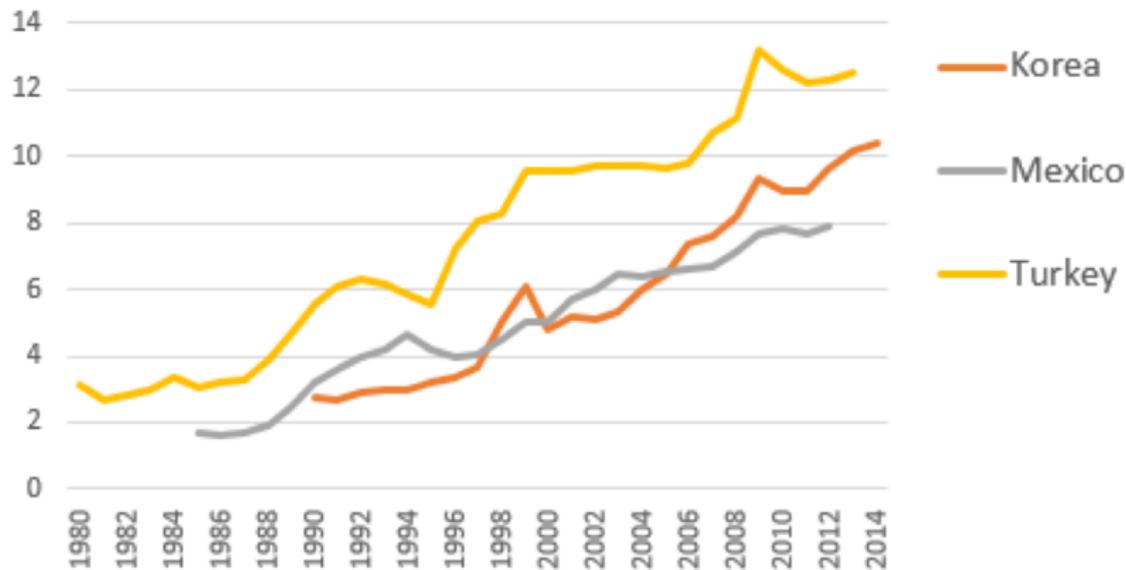
We know the global middle class is emerging as developing economies pass key thresholds (Milanovic, 2015)



We know that as countries develop, social protection expenditure increases (O'Brien, 2016)

Social spending as a % of GDP

Source: OECD



Finally, we know we'll have more people, living longer, into the future. (Case and Deaton, 2016)

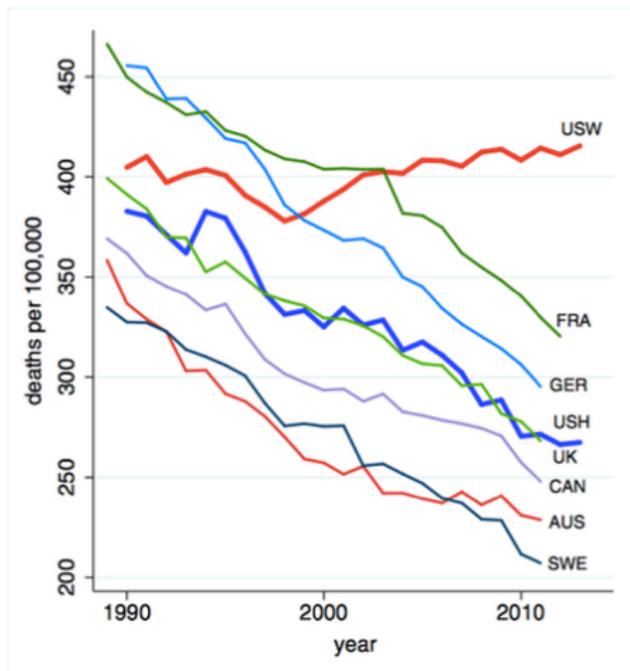


Fig. 1. All-cause mortality, ages 45–54 for US White non-Hispanics (USW), US Hispanics (USH), and six comparison countries: France (FRA), Germany (GER), the United Kingdom (UK), Canada (CAN), Australia (AUS), and Sweden (SWE).

So: does the insurance metaphor still work?

1. Our society is composed almost entirely of people. These people have things, they want things, they need things.
2. It is the task of the economy to produce and distribute these things. In late 20th Century versions of 'the economy', this production and distribution machine has faltered somewhat in Western Europe, while continuing to work spectacularly well in the developing world, as a global middle class begins to assert itself.
3. Today fewer people experience poverty in advanced economies, and reductions in mortality can be seen almost everywhere.
4. The role of the welfare state in supporting this progress remains contested by practitioners, scholars, policy makers, and the general public.
5. What is not contested is the brute fact that in the near future, the welfare state will serve ever more people, with an enlarged mandate and for more diffuse purposes.
6. We might discuss what these purposes might be, and how we might pay for them.

Thought 2: Work allergies

Some time ago, Ireland's Minister for Finance asserted that

*"... we all know there will be people who will never work.
They're allergic to work."*

Is that true. If so, what does it mean for social policy?
Structural issues abound.

1. Business cycles & Unemployment rates
2. Labour market activation/work intensity measures
3. Pathways out of joblessness
4. Differential worker categorisation
5. Worker search & discouragement

One person's experience

...I hate it (being unemployed). It looks like you are doing nothing but after a year of it (unemployment) I actually felt more tired now than I ever did after a week's work on the (construction) site. It just seems to get in on you...It's very wearing...

The paradox is that the costs of searching for jobs increase as the length of unemployment increases. Policy has to step in.

Policy can work if thought through and resourced: Pathways to work

- ▶ A piece of joined up thinking: social protection, health, education
- ▶ Little read, but working
- ▶ Detailed youth unemployment strategy embedded
- ▶ Target-driven, resourced framework.

Finally, a little *gedankenexperiment*

1. Say a welfare state exists to provide the only two people in the world, Andy and Bob, with corn.
2. Like monkeys being fed grapes to perform tasks, Andy and Bob must fulfil a set of tasks to get their corn. Two problems arise.
3. First: are Andy and Bob free? What does 'free' means in this context? Could Andy be given one very large payment of corn as compensation for never asking for corn again? Where would that leave Andy? Are Bob and Andy now even in the same society if the same welfare requirements no longer apply? What happens if Andy loses all of his corn? Should Bob let him starve?
4. Second, what is the role of bureaucracy in all this? Who decides how much corn Andy and Bob get? What is the cost of this administration?
5. Finally: What if this administration is *not* benevolent?