

ECONOMIC DATA and the DISTRIBUTION OF INCOME

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LECTURE I

- 1. Richard Stone and economic statistics**
- 2. Economic statistics in the relegation zone**
- 3. Does data quality matter?**
- 4. Making progress: Data on the distribution of earnings in the UK and Ireland**
- 5. Conclusions**

LECTURE I

Economic Data and Data in Economics

LECTURE II

The World Distribution of Income: the \cap and U hypothesis

1. Richard Stone and economic statistics

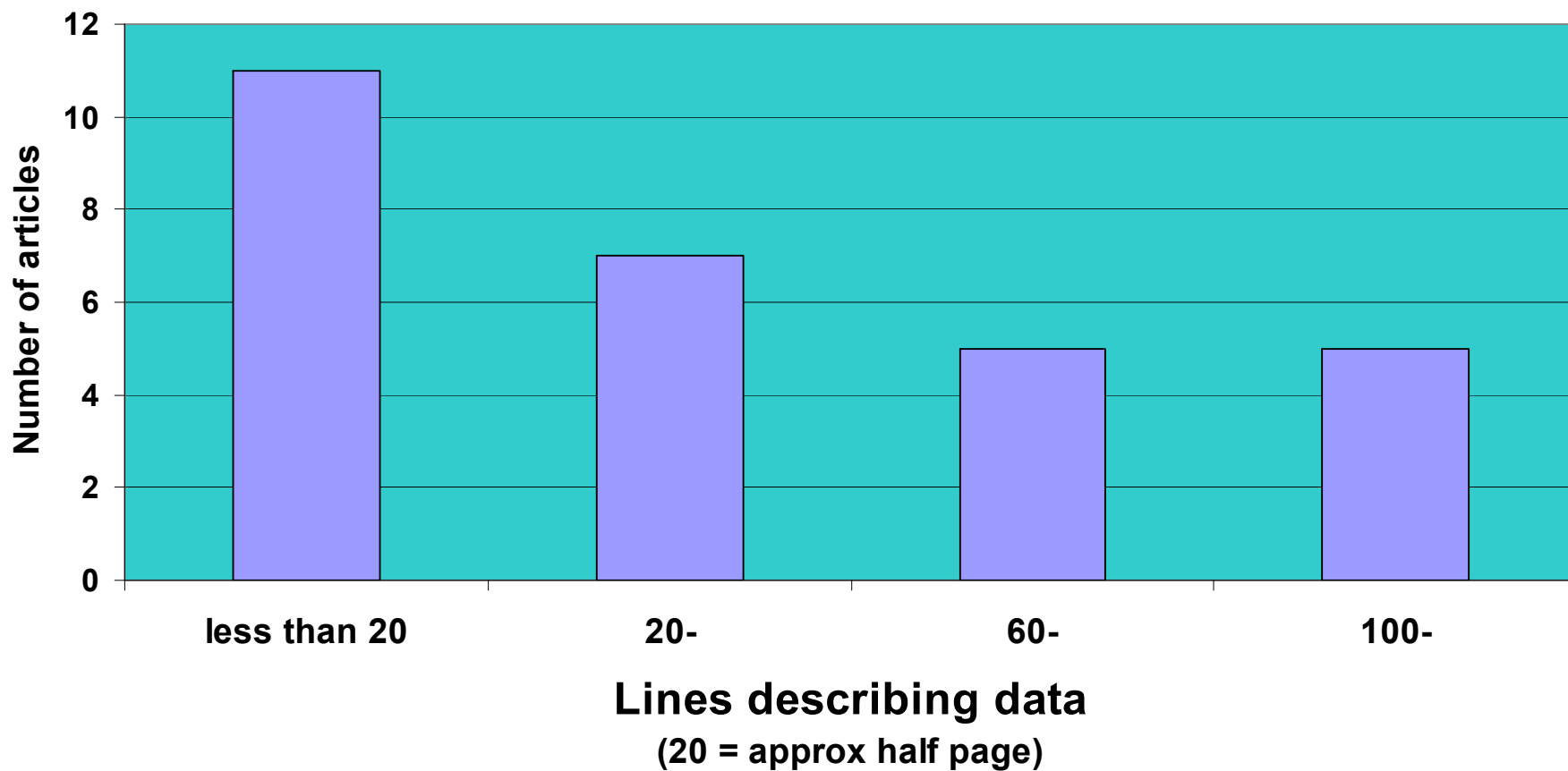
2. *Economic statistics in the relegation zone*
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4. *Making progress: data on the distribution of earnings in the UK and Ireland*
5. *Conclusions*

- **Theoretical framework**
- **Pragmatic approach**
- **Public purpose**

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- **Textbooks and teaching**
- **The practice of economists**
- **A structured approach**

Articles using economic data in *Economic Journal* 2006: number of lines describing data



STRATEGY

1. Establishment of the desirable features of the data *for the purpose at hand.*
2. Identification of all possible sources of data.
3. Grading of data ex ante according to specified criteria (not just 0/1).
4. Inspection of data, and possible revision of grading.
5. Decision how to use data and take account of data shortcomings.

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- **Inequality → faster economic growth**
- **Inequality → lower life expectancy**
- **Consensus democracy → equality**
- **Inflation → inequality**

A: Inequality and economic growth

The results reported in this paper clearly challenge the current belief that income inequality has a negative effect on economic growth. ... [This paper finds] a positive relationship between inequality and growth” (Forbes, *American Economic Review*, 2000, pages 884-885).

Figure 4A Finland

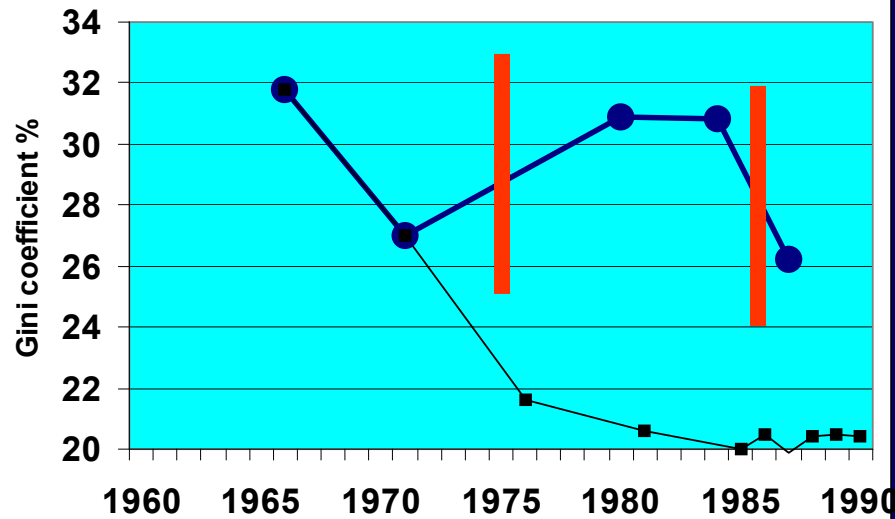
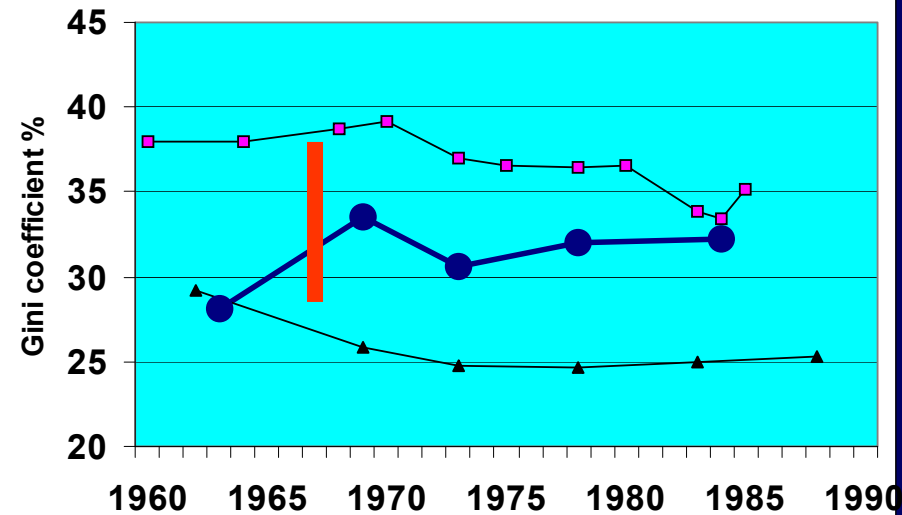


Figure 4B West Germany



Forbes' data in bold

Figure 4C Sweden

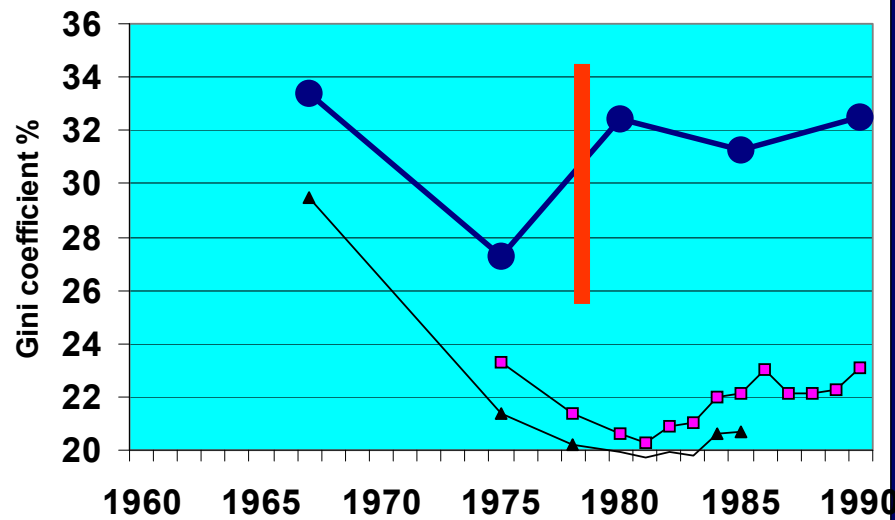
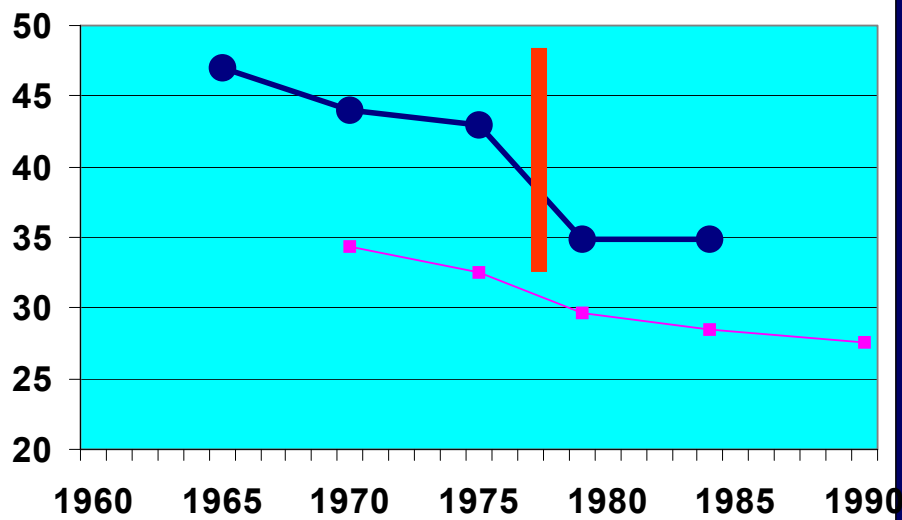


Figure 4D France

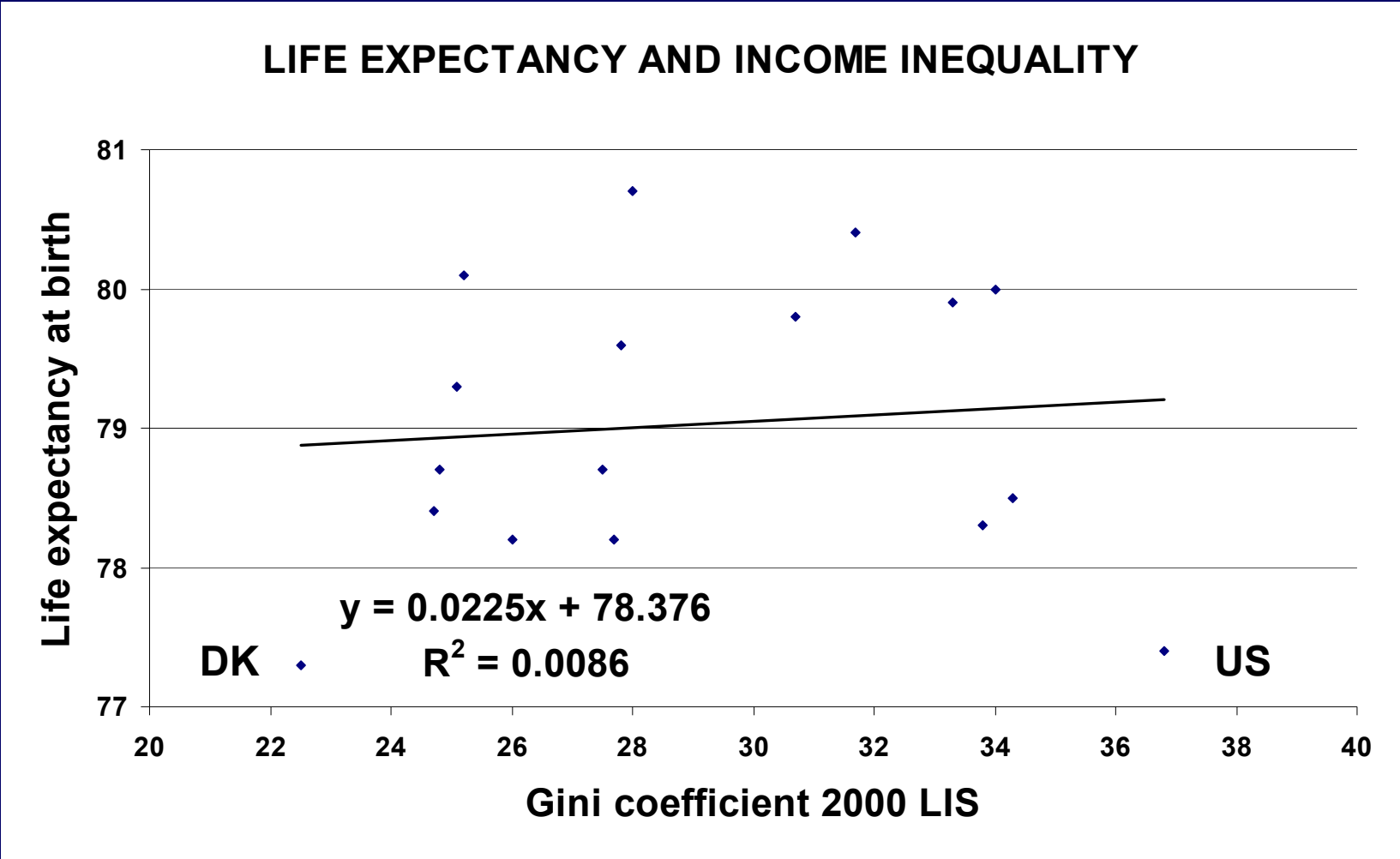


B: Inequality and life expectancy

Based on scatter plot of Life expectancy “research shows that more equal societies have higher average standards of health and longer life expectancy” (*Final Report of the Equalities Review*, March 2007).

against Gini for 21 countries $r = -0.864$

Using comparable data from Luxembourg Income Study, and life expectancy from UN 2006 World Population Prospects

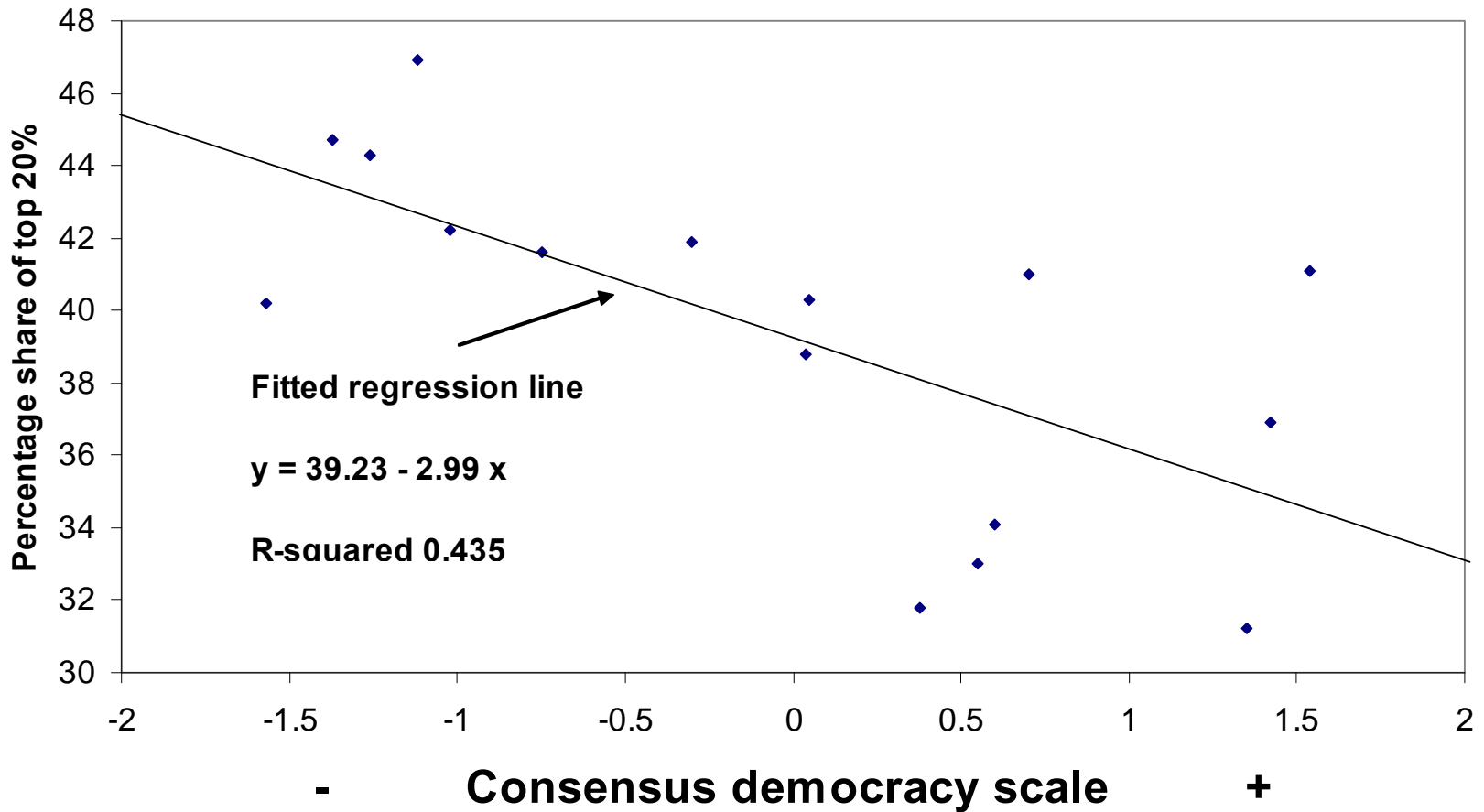


C: Consensual democracy and inequality

Consensus democracies have less income inequality (Birchfield and Crepaz, 1998).

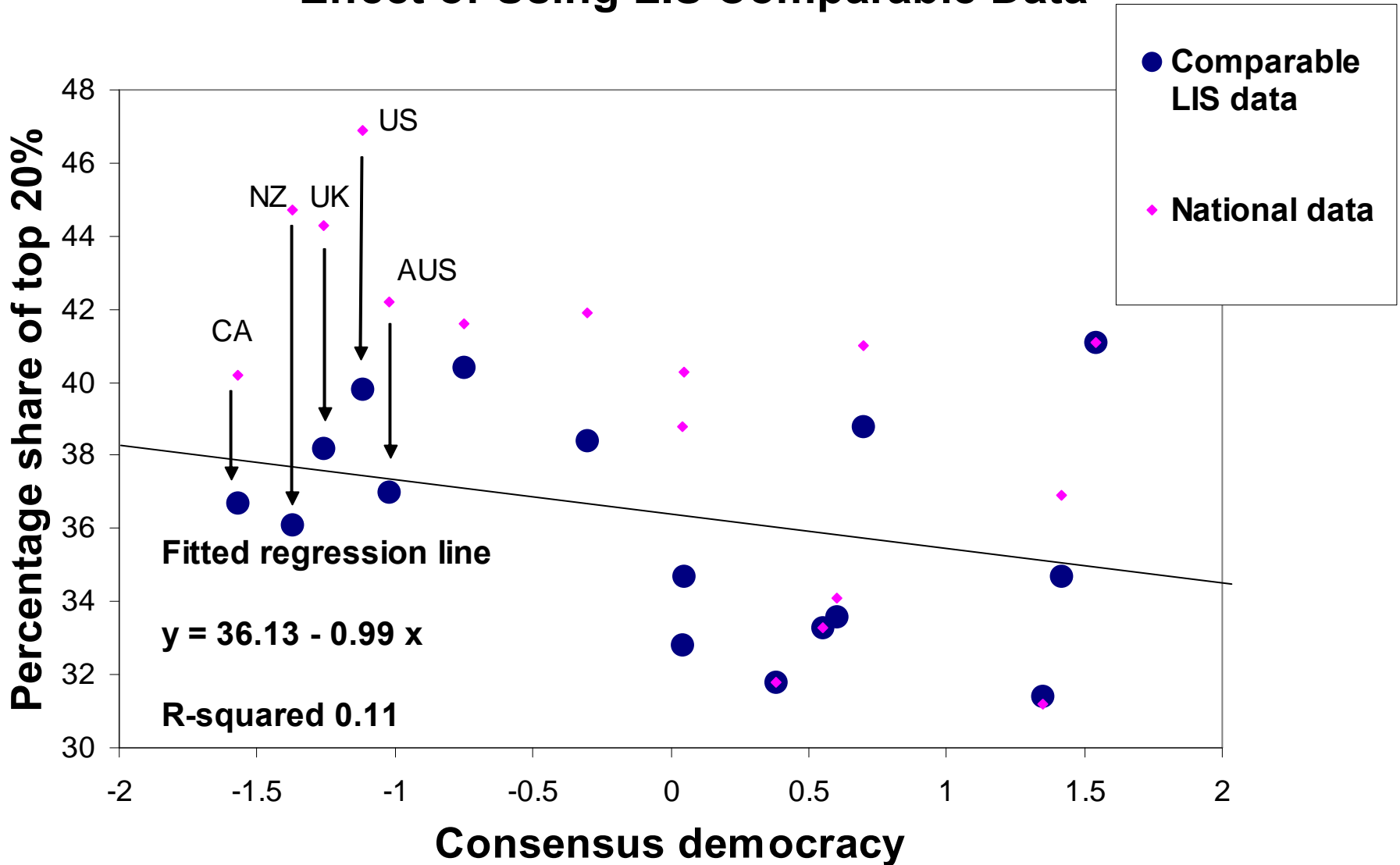
Based on regression of income inequality on the Lijphart and Crepaz index of consensus democracy.

Findings of Birchfield and Crepaz (1998) that Consensus democracy leads to lower income inequality



Based on national data

Effect of Using LIS Comparable Data



D: Inflation and inequality

"There is a quantitatively large and statistically significant positive association between inequality and average inflation" (Romer and Romer, Jackson Hole meeting, 1999).

Ranking of countries according to data used by Romer and Romer	Ranking of countries according to LIS data
Spain	Finland
Finland	Sweden
Belgium	Norway
Luxembourg	Belgium
Canada	Luxembourg
Netherlands	Denmark
Italy	West Germany
West Germany	Italy
UK	Netherlands
Sweden	Canada
Denmark	France
Norway	Spain
Ireland	Australia
France	UK
Australia	Ireland
US	US

The conclusion of Romer and Romer is based on a regression coefficient of 0.46 with a t-statistic of 3.41. What happens if we replace their data by consistent LIS data?

First, reducing the sample to the 16 OECD countries covered by LIS, while retaining their data, lowers the t-statistic, but it remains in excess of 2.0.

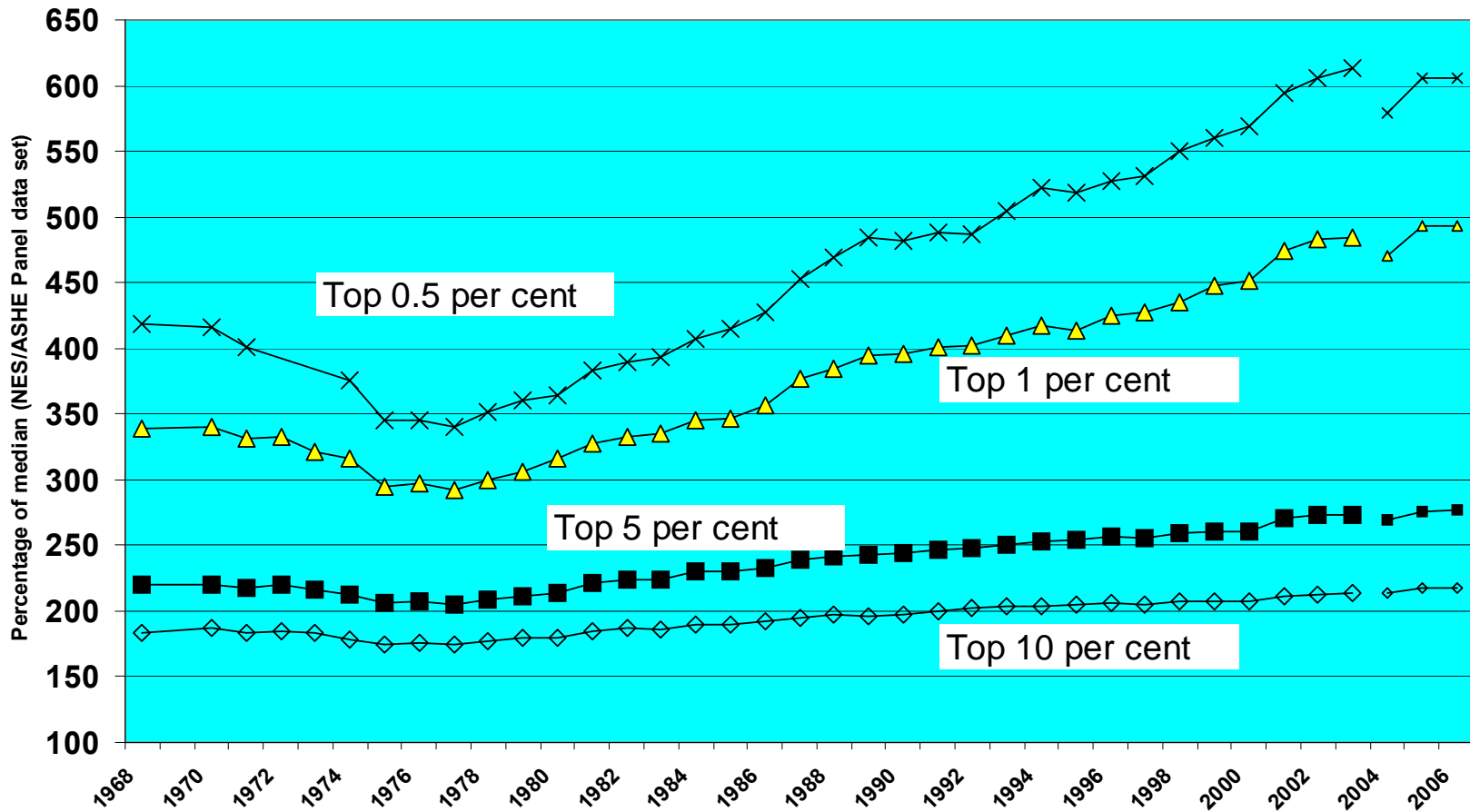
But with the LIS data, the inflation variable ceases to be significantly different from zero, and the R^2 drops to 0.11.

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New Earnings Survey (now Annual Survey of Hours and Earnings)

Survey of 1 per cent of employees, conducted via employers' pay records.

Percentiles of UK earnings distribution 1968-2006



Historically unprecedented? Can we go back in time?

Employer survey

Household survey

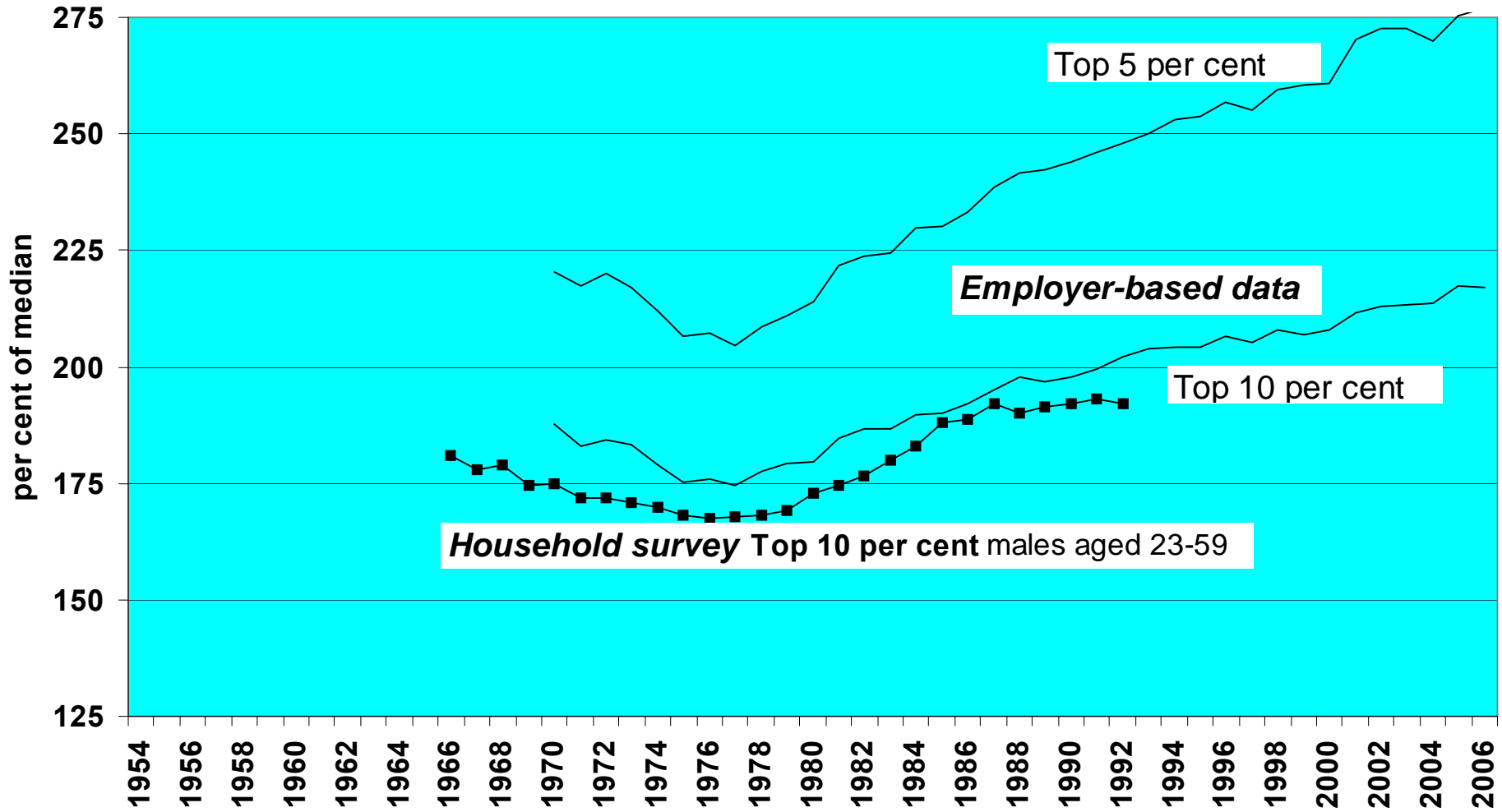
Employer ↔ **Worker**



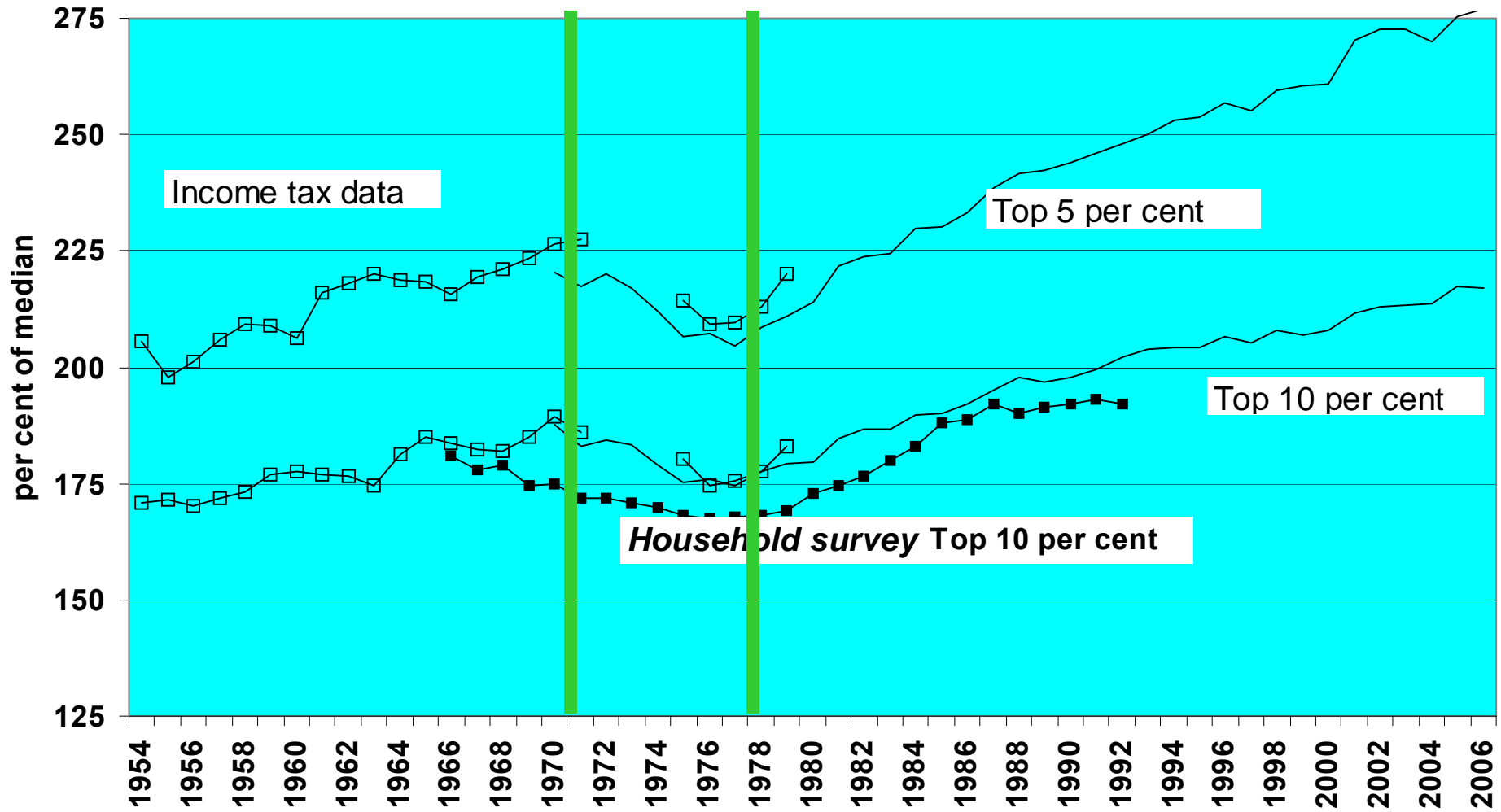
Government

Tax records

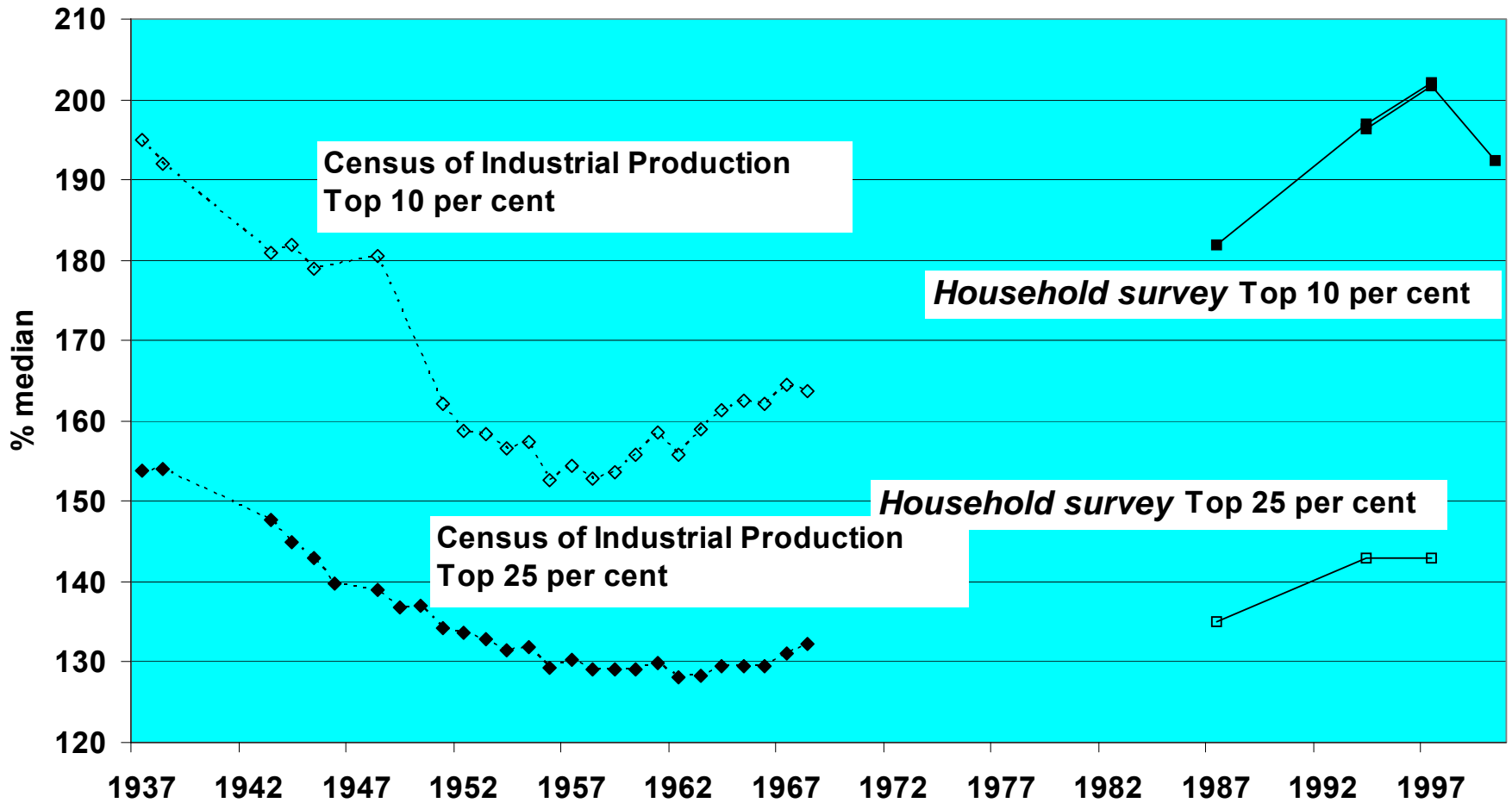
Triangulation



Going Back in Time II



IRELAND upper part of distribution 1937-2000



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