Intrahousehold inequality and gender impacts of taxes and benefits: UK vs other European countries

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Motivation

• The UK has taken action to reduce the gender wage gap (19.9% in 2019), but tax-benefit (T-B) system plays an important role in shaping the final income resources available to individuals.

• In theory T-B rules are gender neutral. In practice T-B policies can affect women and men differently.

• Disposable income is conventionally measured at the household level, assuming full income pooling and equal sharing.
  – Questionable assumptions!
  – Impractical- cannot study income inequality within couples

• This results in a substantial bias in assessing gender inequality and the impacts of T-B policies on men and women.
What we do

• We document the gender inequality in earnings and disposable income in the UK and other European welfare states (BE, CZ, DE, ES, FI, FR, RO).

• We examine the extent to which various T-B policies contribute to/mitigate gender inequality in disposable incomes.

• We propose a methodology for measuring income at the individual level for coupled men and women, using microsimulation techniques:
  – We use microsimulation T-B models UKMOD and EUROMOD (https://www.microsimulation.ac.uk/ukmod/)
  – FRS and EU-SILC data
What does individual income measure?

• We use ‘minimum income pooling’ assumption
  • Consistent with non-unitary models of household decision making

• Households do pool their incomes (but to varying degree)

• Individual income does not measure consumption

• Indicator of an individual’s relative economic independence and bargaining power
  • Multiple studies showing that women’s consumption and deprivation is correlated with their share of income

• Important indicator for gender equality
How we measure individual income

- We attribute all individual sources of income (earnings, pensions, benefits received in an individual capacity) to the individual receiving them

- We attribute social insurance contributions and individual taxes to the liable individual

- We split joint personal income taxes in proportion to taxable income

- We split common sources of income (family benefits, housing benefits, social assistance) equally among all adults in the entitled unit (may be smaller than the household).
  - We sensitivity test this assumption!

- We apply a special equivalence scale based on the 'modified OECD' scale adjusted to assign children's weights to their parents
Gender earnings and income ratios (1/2)

Notes: Gender earnings (income) ratios = ratios of average female to average male earnings (incomes), percent.
Gender earnings and income ratios (2/2)

Notes: Gender earnings (income) ratios = ratios of average female to average male earnings (incomes), percent. **Main**=equal split of household benefits; **S1**=all household benefits attached to the primary earner; **S2**=all household benefits are attached to the second earner; **Household pooling**=equivalised household income scenario
Decomposition of disposable income (1/2)

Notes: Incomes are shown as percent of median equivalised disposable income; private pensions are included in market income

Main = equal split of household benefits; S1 = all household benefits attached to the primary earner; S2 = all household benefits are attached to the second earner; Household pooling = equivalised household income scenario

W = women, M = men.
Decomposition of disposable income (2/2)

Notes: Incomes are shown as percent of median equivalised disposable income; private pensions are included in market income

**Main**=equal split of household benefits; **S1**=all household benefits attached to the primary earner; **S2**=all household benefits are attached to the second earner; **Household pooling**=equivalised household income scenario

**W**=women, **M**=men.
Decomposition of benefit income (1/2)

Notes: Incomes are shown as percent of median equivalised disposable income; private pensions are included in market income.

- **Main** = equal split of household benefits;
- **S1** = all household benefits attached to the primary earner;
- **S2** = all household benefits are attached to the second earner;
- **Household pooling** = equivalised household income scenario.

W = women, M = men.
Notes: Incomes are shown as percent of median equivalised disposable income; private pensions are included in market income

- **Main** = equal split of household benefits
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- **Household pooling** = equivalised household income scenario

**W** = women, **M** = men.
Conclusions

• T-B system reduces the gender income gap

• Taxes – larger equalizing effects for the working age individuals and consistent across groups

• The effects of benefits are strong among certain groups (e.g. family benefits)

• Main exception: pension income is highly skewed towards men (but less so in the UK)

• Gender income inequality is driven by the gender gap in earnings

• T-B system cannot make up for high gender earnings gaps
Working Paper:

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ADDITIONAL SLIDES
Gender earnings and income ratios, all countries (1/2)

Notes: Incomes are shown as percent of median equivalised disposable income; \( W = \) women, \( M = \) men. Countries are ordered in ascending order of their gender income ratios for the total population.
Gender earnings and income ratios, all countries (2/2)

Notes: Incomes are shown as percent of median equivalised disposable income; $W$=women, $M$=men. Countries are ordered in ascending order of their gender income ratios for the total population.
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