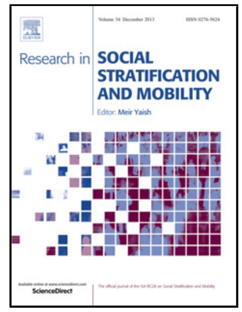
Accepted Manuscript



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PII: S0276-5624(17)30100-2
DOI: https://doi.org/doi:10.1016/j.rssm.2017.12.003
Reference: RSSM 348

To appear in: *Research in Social Stratification and Mobility*

Received date: 6-6-2017
Revised date: 23-11-2017
Accepted date: 15-12-2017

Please cite this article as: Michael Savage, Poorest made poorer? Welfare implications of cross-sectional and longitudinal income changes during the Great Recession, *<![CDATA[Research in Social Stratification and Mobility]]>* (2017), https://doi.org/10.1016/j.rssm.2017.12.003

Poorest Made Poorer? Welfare implications of cross-sectional and longitudinal income changes during the Great Recession

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Abstract

Many of the countries worst affected by the Great Recession displayed regressive patterns of income change over the recessionary period; the poorest individuals seemed to have been disproportionately impacted by falls in real incomes. But the question remains, to what extent were the higher than average losses at the bottom of the income distribution driven by income losses for the individuals that started out poorest, or to what extent were these losses driven by individuals who fell into the poorest income positions during the recession. In this paper, I apply a decomposition of income changes at the bottom of the income distribution using a longitudinal approach, which allows us to answer this question. The results show that for five European countries with regressive patterns of income loss between 2007 and 2010, the higher than average losses in the poorest deciles were driven to a large extent by changes in composition at the bottom of the income distribution, rather than income losses for individuals that started out poorest. Welfare implications of the changes in the distribution of income are shown to depend critically on whether a longitudinal (non-anonymous) perspective is taken, and indeed how this non-anonymity is interpreted in the underlying social welfare function.

Keywords: Income Distribution, Anonymity, Mobility, Decomposition, Social Welfare

JEL: D31, D63, I32

[1]Substantial portion of research done while author was at Economic and Social Research Institute, Dublin and University College Dublin.