

Let me involve you in a thought experiment. Think about your income. Think about it really hard, and try to project this to the future, let's say for the next five years. Think of all possible paths, and while doing so include promotions, raises, changes in employment, (potential) unemployment spells, and try to identify the most likely. Tired, yet. No? Well, let me ask one more question then, how likely do you think it is that you will follow that path over the next five years? My guess is that the number provided is close to zero.

Income processes are riddled with uncertainty. It is difficult enough to predict what will happen over the next years, let alone how these possible events will ripple over time. Our research will precisely focus on characterizing income processes in Poland and Lithuania using high-quality data. We will study to what extent these processes are driven by personal characteristics and to what extent they are the results of a series of random shocks. Moreover, we plan to study the properties of those random shocks. Do these shocks endure or are there one-time events from which one can return easily to the prevailing levels? Taking these questions one step further, what are the implications for insurance and redistributive policies?

The research project is conceived as a series of five interconnected research studies that explore income dynamics from different angles. The project aims to provide a comprehensive view of these processes and its evolution since the year 2000 to uncover the relative importance of each component and its variation across time and personal characteristics. We will also seek to characterize income processes at the household level. We will study not so much whether single and married individuals are exposed to the same uncertainty, but rather how able are couples to insure each member, and whether the search for a stable income affects retirement decisions.

Finally, our research project inquires on the perceptions of fairness, and concretely whether inequality arising from different sources is regarded differently by the society at large. This question resembles the debate on the optimal level of income inequality, though we approach it from a positive perspective on how income inequality came to be and not from a normative view.

This research project is not born out of pure intellectual curiosity. Macroeconomic models used to evaluate policies usually rely on available estimates of income processes, and their conclusions hinge on these inputs. Understanding these processes will help to build more policy relevant models. Moreover, by quantifying the importance of different inequality sources, we can inform on the type of policy instruments that are better able to address them.