Inequalities in Europe and their impacts

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Five points to make

• Inequalities rise, with significant cross-country differences [István]
• Strong underlying drivers of inequalities [2]
• Clearest impacts of inequalities are in the political sphere [3]
• Effects of policies are important [4]
GINI project <gini-research.org>

- EU FP7 funded major international and interdisciplinary research project, 2010 – mid 2013
- Coordinating team: Brian Nolan, Daniele Checchi, Ive Marx, Abigail McKnight, István Tóth and Herman van de Werfhorst
- 27 country teams, many Associates
- 30 Countries, 30 years since 1980: EU (ex. CY and MT), plus USA, Canada, Australia, Japan and Korea

GINI publications

At Oxford University Press:
- Changing Inequalities in Rich Countries: Analytical and Comparative Perspectives
- Changing Inequalities and Societal Impacts in Rich Countries: Thirty Countries’ Experiences

At GINI website:
- 27 Country Reports
- 94 Discussion Papers
- 5 Policy Papers
[2] Structural drivers of inequality

• Earnings from labour
  – individually increasingly skewed (CEO pay & bonuses; little growth for many others)
  – increased importance at the top of the household income distribution

• Demise of the single breadwinner and secular rise of dual & multiple-earner households

• Thinning of households: many singles and smaller high-income households

[2] Prime importance of earnings

% working-age households depending on earnings in income deciles, 2010
[2] Strong role for multiple earners

Earners by household type and household earnings deciles, EU, 2010

[Diagram showing distribution of earners by household type and earnings deciles]

[2] Structural drivers of inequality

- Importance of joblessness, but increasingly also of single-earning
- Majority of earning individuals are found in multiple-earner households
- They combine earnings from lower levels in the individual earnings distribution
- Their efforts combine towards the top of the income distribution (and reduce poverty)
[3] Impacts of inequalities

Why worry? (the social ‘bads’)
- Higher inequality may go together with more poverty, weaker welfare state institutions and policies, and aspects of culture/history that exacerbate social problems
- Inequality in itself may be a key driver

[3] Approach to impacts

*Social impacts:* Poverty, family, crime, health, social solidarity and trust, status anxiety, happiness, intergenerational mobility/transmission

*Political and cultural impacts:* Political participation and legitimacy

Patterns across 30 countries & 30 years: Measures not always identical, assessed whether increasing income inequality was *associated* with worsening outcomes
[3] Key findings on social impacts

- Income inequality explains little of dramatic change in family structures in recent decades
- Crime rates not strongly linked to inequality, but more unequal societies may be more punitive
- Levels of social solidarity and trust at most weakly related to income inequality
- Economic stress not directly influenced by income inequality, deprivation is key
- Limited negative association between inequality and happiness (and not over time in USA)

[3] Key findings on social impacts

- Health gradients/inequalities may increase with income inequality while population health outcomes improve
- Key interactions between income inequality and housing as homeownership encouraged
- Intergenerational mobility tends to be higher in lower-inequality countries, but limited evidence that increasing inequality has generated lower mobility over time
[3] Key findings on political impacts

- Increasing inequality associated with increase in preferences/demands for redistribution
- ‘Discontent’ with inequality rises as inequality rises, but only moderately
  - extent of increasing inequality not fully recognised
  - Acceptance of higher inequality may increase somewhat
  - ‘salience’ of inequality may be less

- Higher inequality associated with lower civic participation, lower turnout among poor: their interests less represented in democratic decision making
- Increasing income/wealth concentration => greater political influence for the rich
[4] Inequality and policies

- Diverging trends and episodes point to role of policies
- Further research into redistributive policies
  - Effectiveness of WORK-WORK-WORK
  - Cash transfers matter but minimum income protection falls short
- Best performing countries have a large protective and activating welfare state

[4] Inequality and policies

- Work-work-work and poverty
  
  *Jobs went to other than jobless households*
  *jobs may keep household in poverty*
  *income protection declined and is often insufficient to bring at poverty threshold, and take-up is problematic*

- Cash transfers matter
  
  *High poverty rates among jobless households*
  *Households with jobs may still be poor and they are a large group (in EU most poor children are there)*
[4] Policies matter

- Growing primary inequality – even extended redistribution cannot keep pace with that
- Puts spotlight on market-incomes distribution
- Top pay – taxation helps (Piketty & Saez)
- Improve minimum wage
  – extend to all EU countries (.. Germany)
  – put focus on the labour market and look forward

[4] Policies matter

- Find a way to cope with demise of the single breadwinner: consider EITC-type targeting
- Can at the same time lower costs of redistribution
- Minimum wage can help containing the costs
- Multiple-earner households combine lower earnings
  > rethink taxation and solidarity
- Make EU2020 Income & poverty developments legally binding (and add minimum wage)
GINI Overall conclusion

• Income inequality has generally been increasing, but with marked country differences in inequality trends and timing
• This highlights important role of politics (episodes), institutions and policies, including education, which need to be better understood → policies can change
• The political sphere is most at risk of high inequality