



***Economic Inequality:  
Which Way the Future?***

Wiemer Salverda  
GINI and AIAS and AMCIS (U. of Amsterdam)

*The Social Consequences of the Crisis in Europe and Greece:  
Politics and Policies for Solidarity and Growth*  
ELIAMEP / Crisis Observatory, 2<sup>nd</sup> Annual Conference  
Athens, 16 December 2014




## Lay out

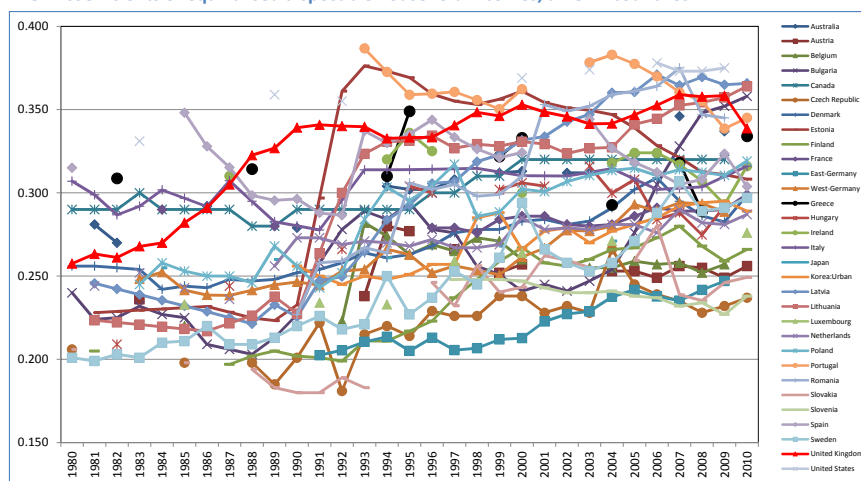
- 1. Growing inequality - with episodes
- 2. Mechanisms of inequality growth: Don't rely on the Gini coefficient & and a tale of two literatures
  - Concentration (top-income shares) and 'tectonics' of (labour) incomes
  - Individuals earnings vs households incomes, and ensuing interhousehold labour-market competition
- 3. A future of growing inequality?
  - Top-income households compete for low-skill jobs
  - Exploding educational attainment is losing Tinbergen's race
  - Austerity and budget cuts threaten low incomes
- 4. Policies
  - Plight of redistribution and need for a new social contract
  - Are an EITC plus Minimum wage the solution?

## 1. Growing inequality, with episodes

- The Top-incomes project, the OECD, and the **GINI** research project **all find growing inequality** in many countries (though not all always). The **GINI** project found political impacts, but the jury on social impacts is still out.
- **Episodes** of inequality growth suggest effects of policies/institutions.

### *Aggregate income inequality has risen across 30 countries, though not all the time everywhere*

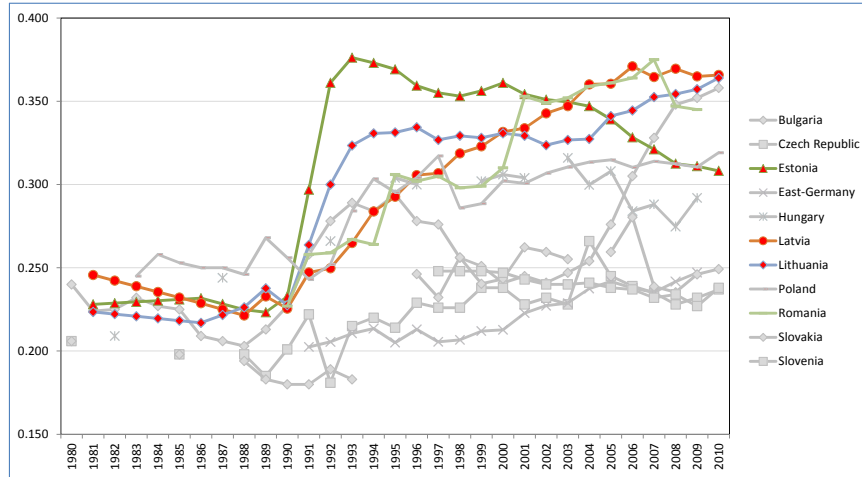
Gini coefficients of equivalised disposable household incomes, all GINI countries



GINI project Country Reports

### Wide variation in spite of the common shock of transition from communism

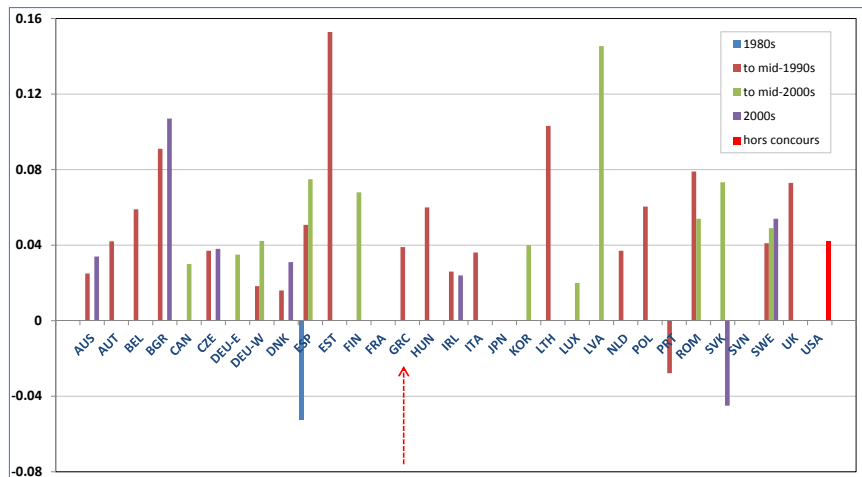
Gini coefficients of equivalised disposable household incomes, Baltics and other transition countries



GINI project Country Reports

### General evolution of inequality shows episodes, which suggest effects of policy and institutions

Episodic changes in Gini coefficients of equivalised disposable household incomes



GINI project Country Reports

## 2. Mechanisms of inequality growth

- Don't rely on the [Gini coefficient](#)
- A tale of [two literatures](#): Household income inequality versus individual wage inequality

- 
- [Thomas Piketty \(2014, 243\)](#)

*"... synthetic indices, such as the Gini coefficient, .. mix very different things, such as inequality with respect to labour and capital, so that it is impossible to distinguish clearly among multiple dimensions of inequality and the various mechanisms at work"*

- [Jan Pen and Jan Tinbergen \(1976, in Dutch\)](#)

*"We are of the opinion that the distribution of incomes is too complex to be captured by a single indicator, even if it is an advanced measure such as the Theil coefficient ... The Gini coefficient is a very unwieldy measure. ... We like decile ratios very much, but we realise very well that they mask extreme inequalities . The top-1.25% share already helps a lot in this respect."*

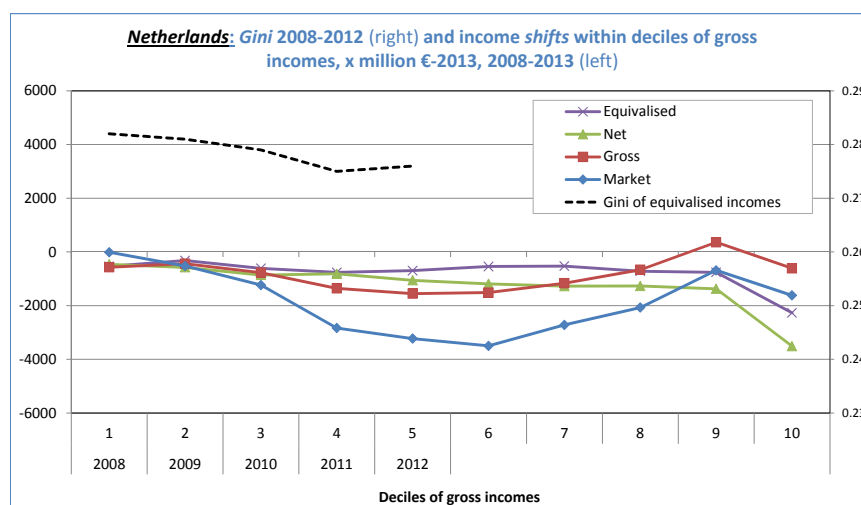
### *a. Don't rely on the Gini coefficient*

- The rise in top-incomes is a clear demonstration of [important concentration effects](#), which general measures have difficulty to gauge
- At the same time '[tectonics](#)' are working their way below the surface – strong shifts may go together with a stable aggregate outcome
- Tectonics can be easily detected [using quantiles](#) (even just deciles)
- The most important (= massive) tectonics regard [labour incomes](#) as combined within households, which increasingly influence incomes at the top
- At the bottom, [household joblessness](#) mirrors the unequal distribution of jobs and (part-time) hours worked over households
- In principle, the household combination makes the distribution more equal than the wage distribution of the individuals *involved*, unless perfectly correlated within households – that [correlation](#) is on the rise and the households with joint individuals drift away from others who do not or cannot combine earnings in a household (note that share of single-person households has also doubled)

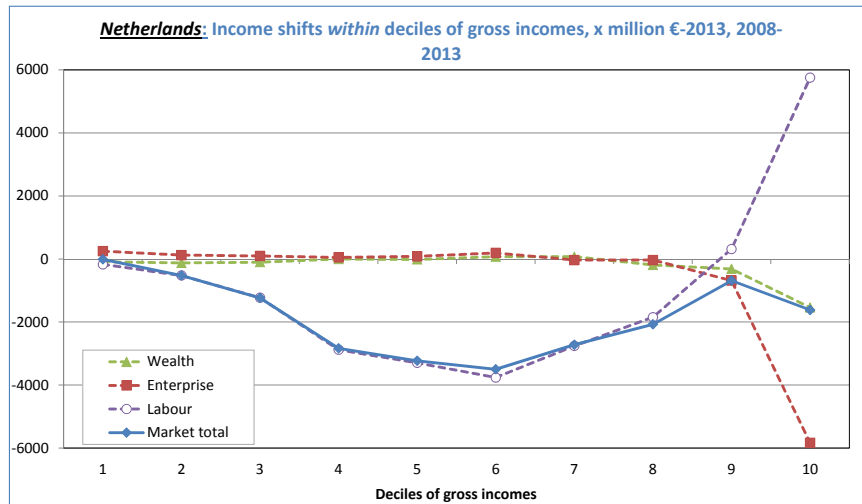
### *b. A tale of two literatures*

- There is a **disconnect between the literatures** on wage inequality and on household income inequality, though wage earnings are the most important source of incomes and the income distribution affects labour supply. The literatures have own focus (hourly vs annually) and measurement (decile ratios vs Gini/quantile shares); household labour supply also brings new institutions into play.
- Urgent need to bridge the gap, esp. when aware of the rapidly changing context of household labour supply. We have come a long way from the fully-employed single-breadwinner society – reflecting a **national 'doubling of the labour force'** as much as Richard Freeman's global one.
- Then wage inequality and income inequality were virtually identical, enabling the labour market to 'care' for inequality; nowadays, the household dimension complicates this and also **reinforces labour-market inequality**.
- A lack of comparable detailed **data** hampers the analysis; work in progress, largely focused on gross incomes (= currency of top-incomes and the US median).

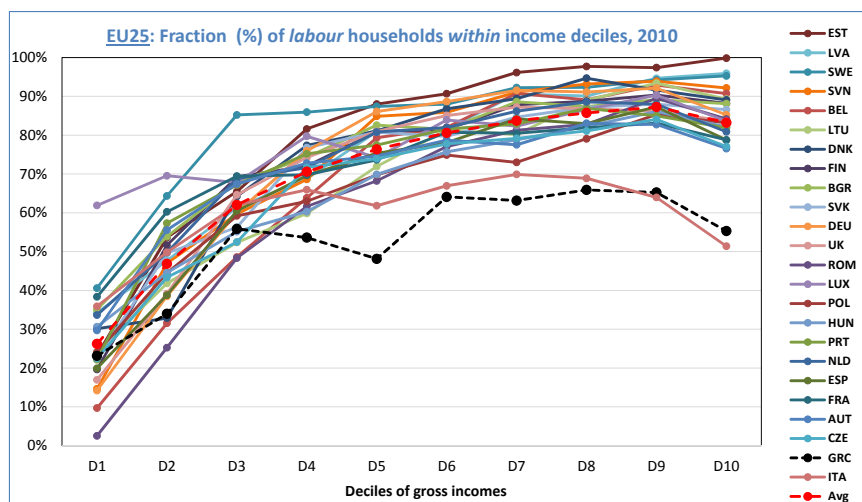
### *Gini focused on equivalised incomes hardly moves, market incomes show strong swings though*



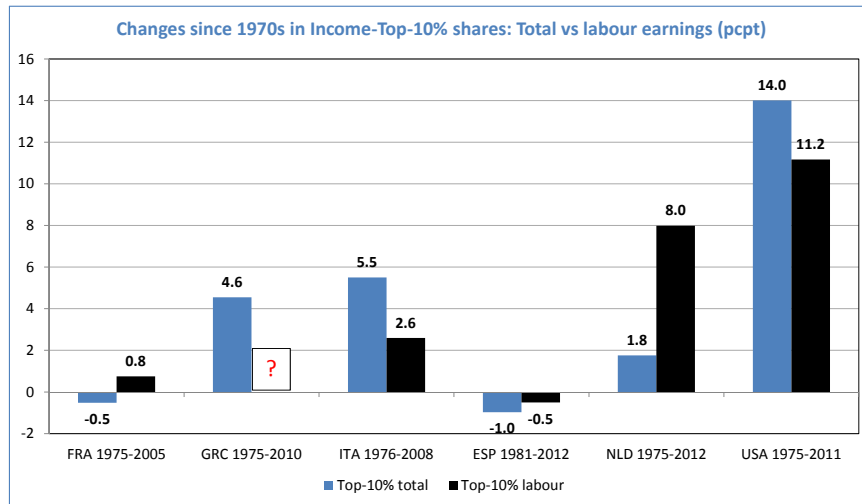
### Market-income types evolve very differently, led by polarising labour incomes



### Labour households concentrate towards the top of the income distribution

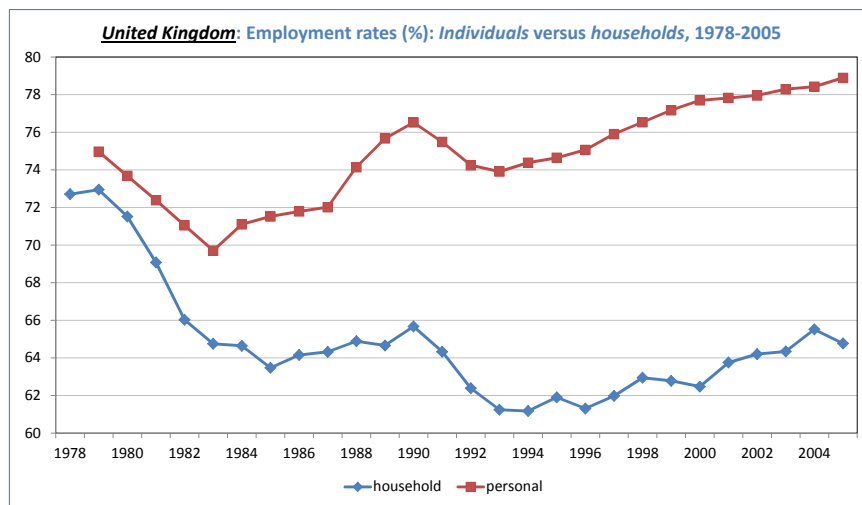


### Labour households move up to top incomes, in countries for which we know this



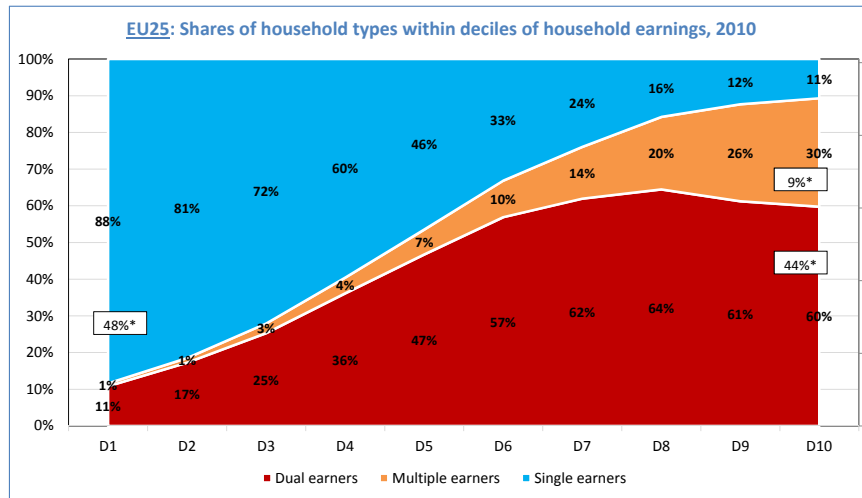
Author's calculations on World Top Incomes Database (incl. new Netherlands data for labour and excl. 2000-2001 shift) and Chrissis & Livada

### Employment growth benefits individuals more than households



Blundell and Etheridge, RED, 2010

*Earner-types household distribution is skewed;  
dual- and multi-earners trump single earners*

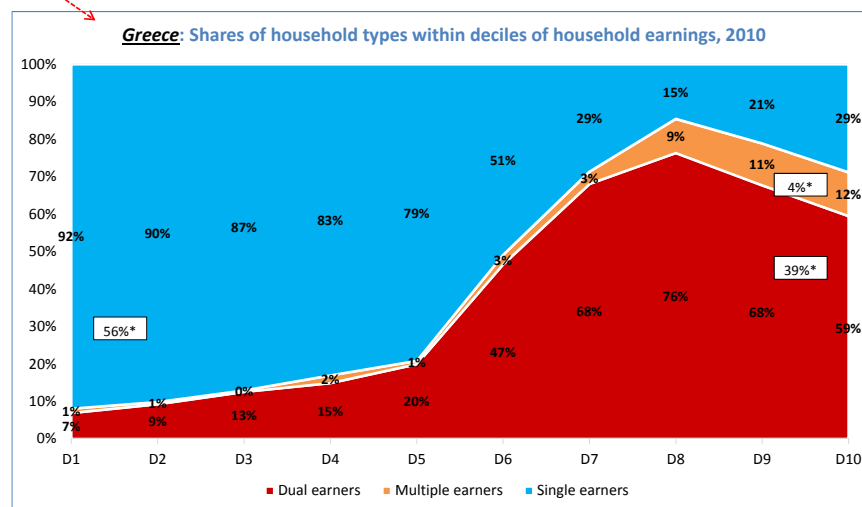


Calculations on SILC 2011

*Little international variation*

\*) % of all households

*Household-earner types distribution is skewed;  
dual- and multi-earners trump single earners*

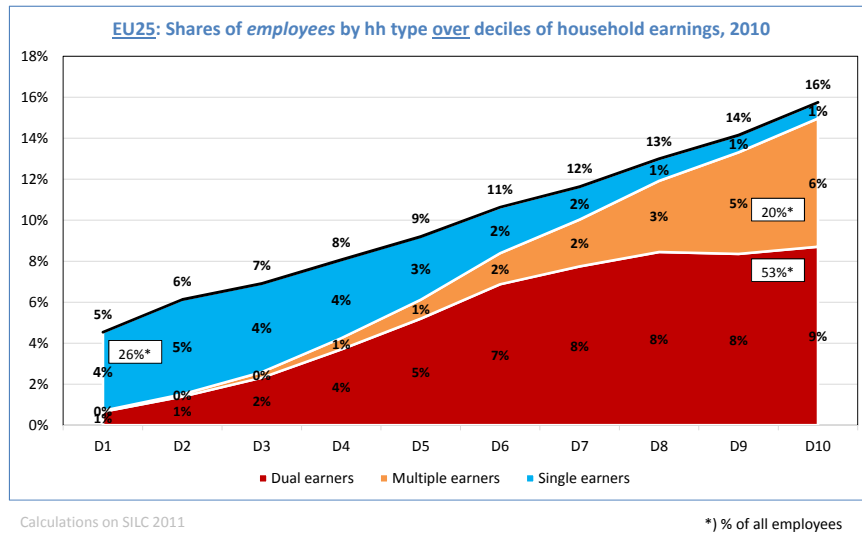


Calculations on SILC 2011

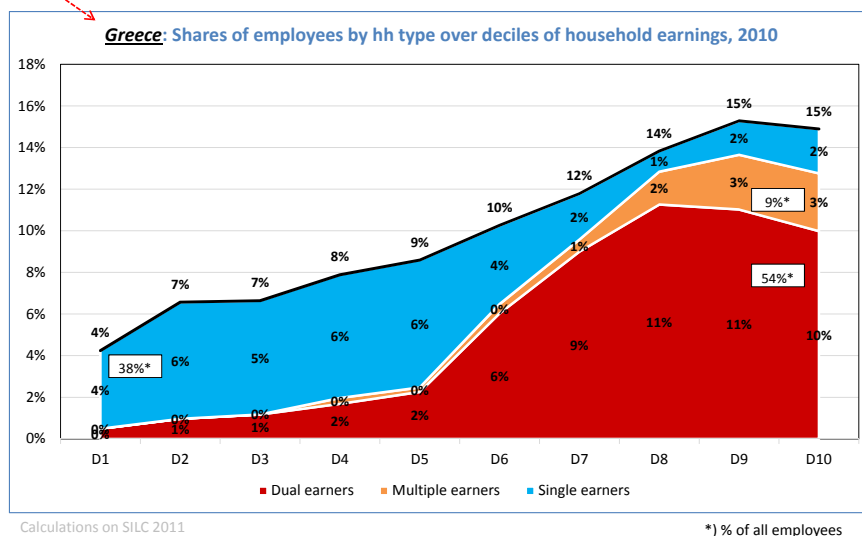
\*) % of all households



*Employees distribution by household-earner types is even more skewed: 75% > one earner*



*Employees distribution by household-earner types is more strongly skewed: 60% > one earner*



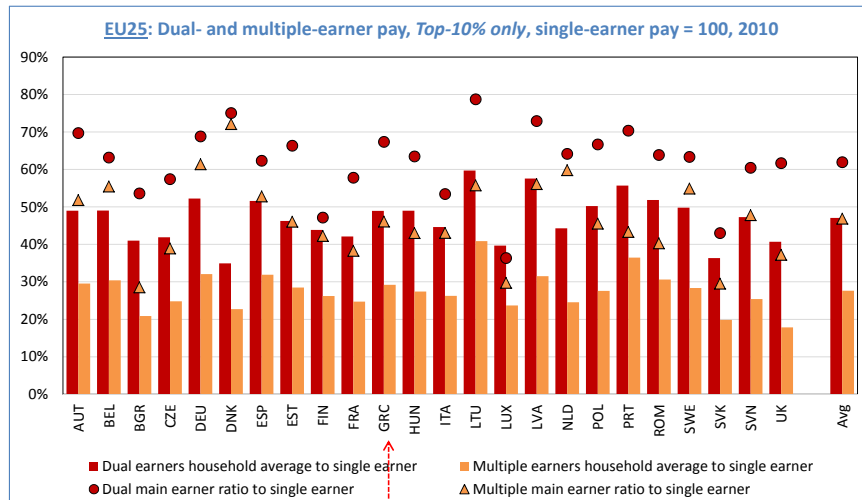
### 3. A future of growing inequality?

- Top-income households *compete for low-skill jobs*
- Exploding educational attainment is losing *Tinbergen's race*
- *Austerity* and budget cuts threaten low incomes

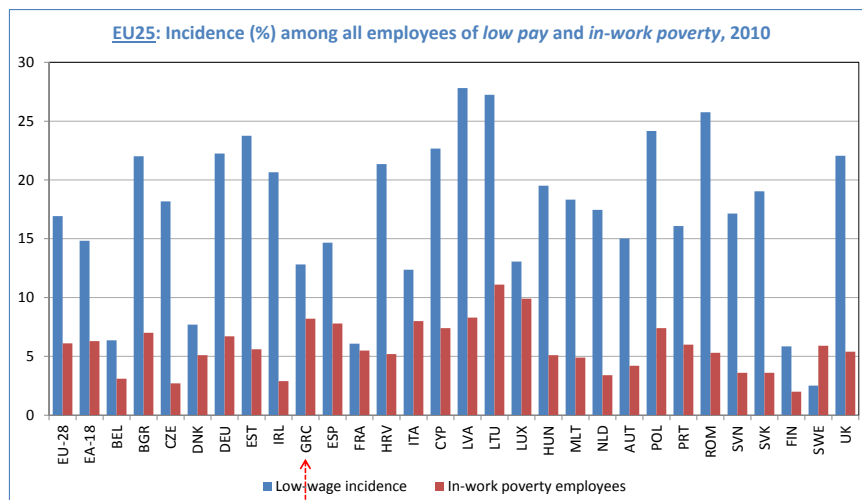
#### *a. Joint labour earnings at higher incomes feed back into inequality via the labour market*

- Joint earnings *spread over the earnings distribution*; the earnings correlation within households is far from perfect but likely growing (e.g., RED: USA 0.4 to 0.6)
- Individual low pay is much more frequent than in-work poverty, implying the presence of *low pay in non-poor households*
- Additional earners pursue *combination scenario(s)*, with household care or education, occupying part-time and/or low-paid jobs, likely compete on different terms (RED: correlation between hours of work and hourly pay for women)
- Such jobs are often found at low occupational levels with a wide geographical spread, and are suitable for low-skilled labour supply, who would however need full-time employment to sustain – thus resulting in either *in-work poverty or joblessness and demotivating human capital investment at lower levels*
- Note though that additional earners in a household may *also reduce in-work poverty*, for their own households (esp. Bulgaria and Romania)

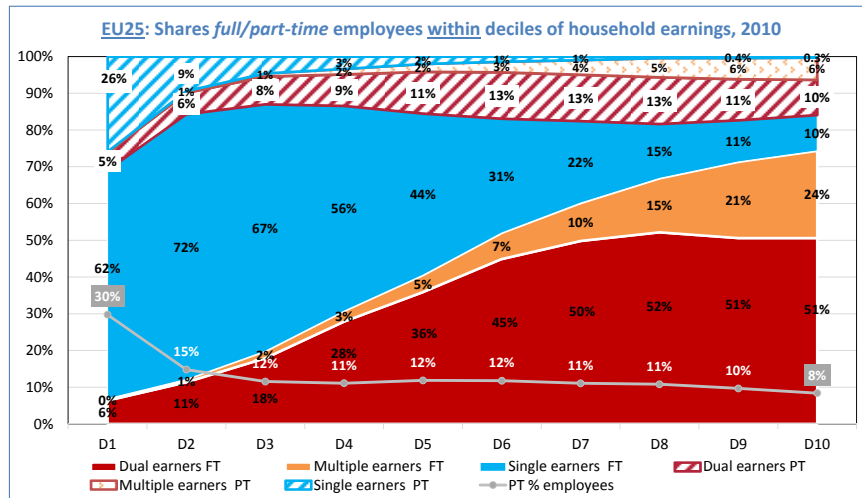
### More-earners (at the top) link to lower individual earnings than single-earners



### Higher individual low-pay frequency implies presence in non-poor households



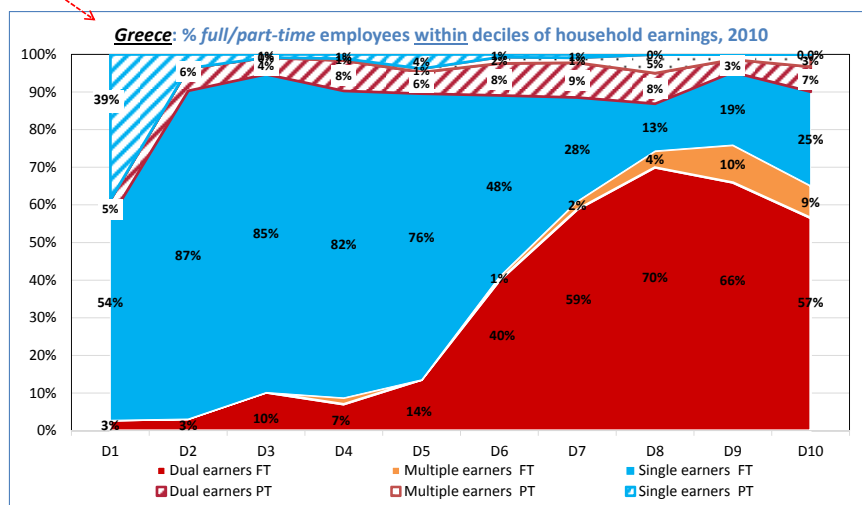
*Part-time employees are found up to the top, effectively receiving low (annual) earnings*



Calculations on SILC 2011

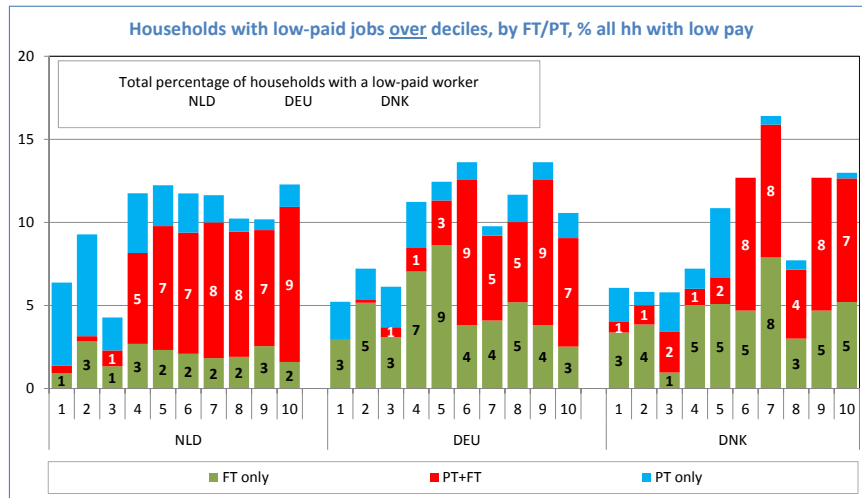
*Again little international variation*

*Part-time employees are found up to the top, effectively receiving low (annual) earnings*

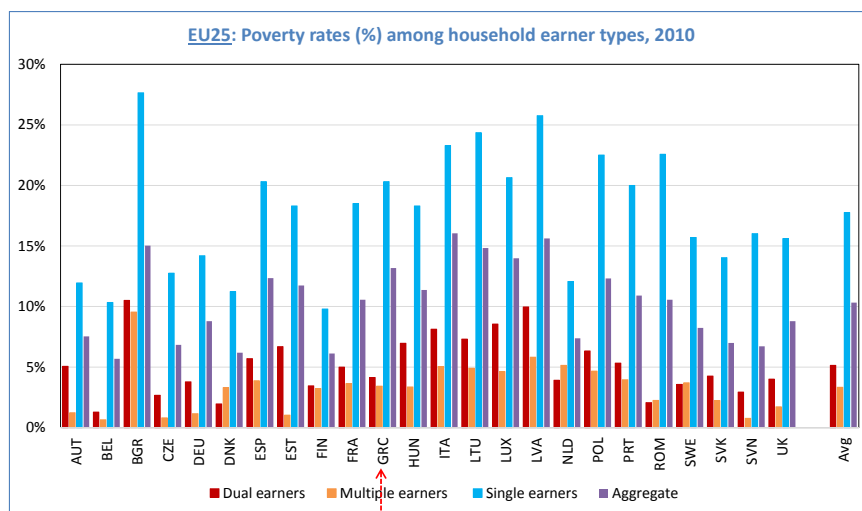


Calculations on SILC 2011

*Low-paid (hourly) workers found up to the top (1990s ECHP figures, unfortunately)*



*Poverty is very high among single earners but much reduced among dual- and multi-earners*



## *b. Exploding educational attainment has become much less unequal but loses the jobs race*

Average educational attainment and Gini coefficient of attainment by age cohorts, EU countries

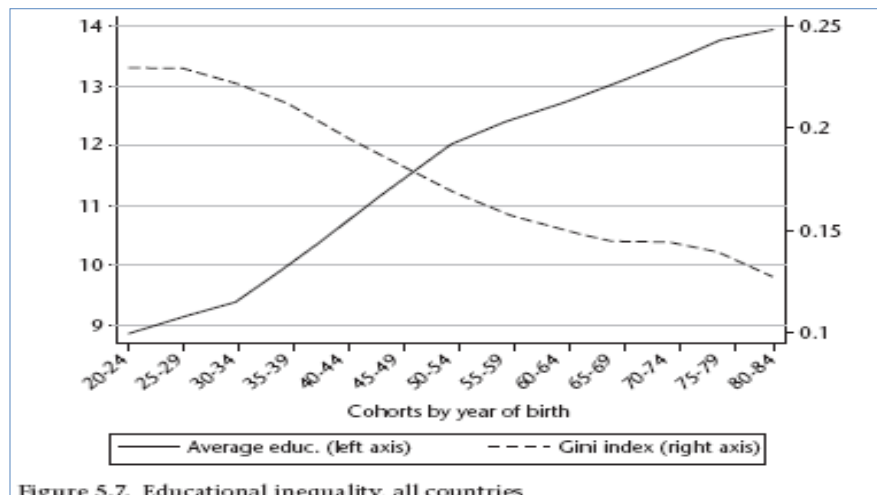


Figure 5.7. Educational inequality, all countries

Ballarino et al. (2014)

## *Future inequality: Résumé*

- Top earnings are only half the story: the **household dimension is essential** for inequality as an outcome and also as an input into it
- The inequality of household market-incomes will tend to grow **especially for labour earnings**
  - Dual earning will only increase, and its income effects reinforced as partners shift from part-time to full-time employment and **earnings correlation grows**; household labour incomes are drifting upwards like a tectonic plate towards the top of the distribution
  - Through **two combination scenarios** top-income households' 'additional' low-wage /part-time work reduces the employment (hours) chances for the low-skilled – lowering hourly and annual earnings and incomes or forcing them into household joblessness, and in the longer run damaging the incentives for attaining lower levels of education; thus putting pressure on the bottom of the distribution
- Educational attainment is losing Tinbergen's race
- The cyclical lapse of self-employment income will come to an end and further reinforce the top of the income distribution
- Growing wealth inequality will generate more income at the top
- Increasingly, (unemployment) benefits will come under pressure

## 4. Policy discussion

- Income redistribution, however important, cannot keep pace with the rapidly growing inequality of **market incomes** – some kind of intervention seems unavoidable
- After the demise of the single-breadwinner model the role of dual earning complicates **redistributive solidarity** – why support someone with the same or even higher individual earnings?
- **Traditional measures** of redistribution and reducing inequality, which target low individual earnings (tax credits, minimum wage), **are blunted** by the rise of more-earner households, as they may actually benefit high-income households comprising low-pay earners
- A **new 'social contract'** between dual earners and single earners needs to be found without dropping individual income taxation (caveat: country differences)

### *EITC plus Minimum wage?*


- To realise this introducing an *Earned Income Tax Credit* (EITC, USA) seems an **inevitable option** as it will also be a cheaper and more effective form of redistribution, focused directly on households in need, who may obtain a part-time job or a too-low-paid job at best
- This does not solve the lack of **low-educational incentives** though
- An adequate **minimum wage can keep the costs of an EITC in check**, and may also serve fairness in the labour market and at the work place, and hopefully provide some incentive for human-capital investment
- **Now is the chance for the EU to act** given the introduction of a minimum wage in Germany as of 1/1/2015; all member states could agree to establishing this or an equivalent and an EITC mechanism

## Summarising

Crisis of the European project or crisis of capitalism?

Certainly a crisis of capitalism;  
 however, the European project is essential to cope with this  
 but so far it (esp. Eurozone) has been unable to do so adequately  
 – perhaps even to the contrary.  
 (this throws up a wider issue of governance)

## Further reading

- Margarita Katsimi, Thomas Moutos, George Pagoulatos, & Dimitri Sotiropoulos (2014). Greece: The (eventual) social hardship of soft budget constraints. In: Nolan, Salverda et al., eds. *Changing Inequalities and Societal Impacts in Rich Countries: Thirty Countries' Experiences*. Chapter 13. Oxford University Press.
- Full **GINI** Country Report for Greece (171 p.): [www.gini-research.org/cr-greece](http://www.gini-research.org/cr-greece)
- Wiemer Salverda and Christina Haas (2014). "Earnings, Employment and Income Inequality". In: Salverda, Nolan et al., eds. *Changing Inequalities in Rich Countries: Analytical and Comparative Perspectives*. Chapter 3. Oxford University Press.
- For the two GINI volumes published by OUP see the GINI homepage for 
- *RED: Review of Economic Dynamics* (2010), Special issue 'Cross-sectional facts for macro-economists'. Vol. 13:1 (USA, UK, Canada, Germany, Italy, Spain, Sweden)
- Gabriele Ballarino, Massimiliano Bratti, Antonio Filippin, Carlo Fiorio, Marco Leonardi and Francesco Scervini (2014). Increasing Educational Inequalities? In: Salverda, Nolan et al., Ch. 5.
- Wiemer Salverda and Daniele Checchi (2014). "Labour-market Institutions and the Dispersion of Wage Earnings". In: Atkinson and Bourguignon, editors. *Handbook of Income Distribution*. Volume 2B, Ch. 18. Elsevier/North Holland (forthcoming). <http://ftp.iza.org/dp8220.pdf>



Thank you!

- [www.gini-research.org](http://www.gini-research.org)

- *Growing Inequalities' Impacts*

FP7 project (2010-2013) involving 200 scholars, covering 25 EU countries, USA, Japan, Korea, Canada and Australia

Extensive Country Reports, 100 Discussion Papers, 5 Policy Papers for DG EMPL

Two volumes at OUP: 1) comparative, 2) country chapters