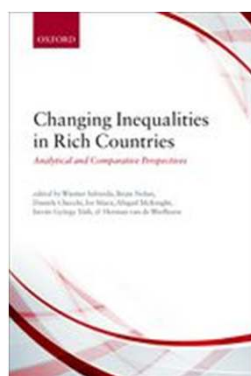
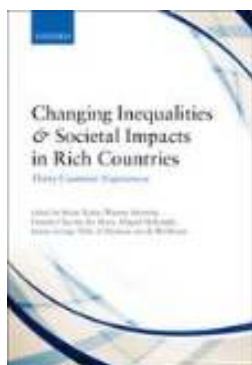


Beyond market forces: a story of changing economic inequalities in rich countries



Virginia Maestri

Social Inequalities in Europe, Athens
20 June 2014

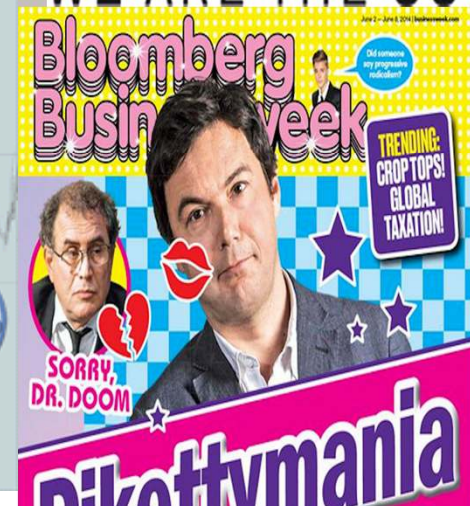
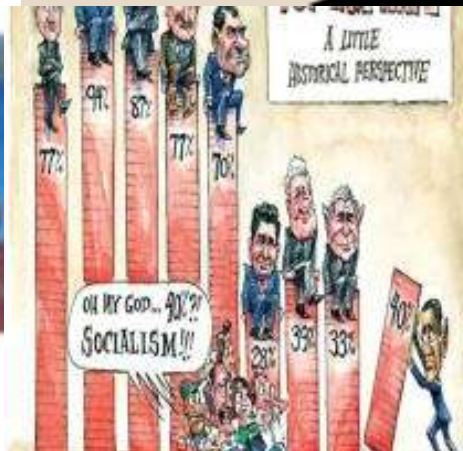
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Structure of presentation

- I. Introduction: Policy debate
- II. Facts on economic inequalities:
 1. Income inequality
 - a. Trends
 - b. Drivers
 2. Wealth inequality
 - a. Trends
 - b. Drivers
- III. Conclusion: Policy facts

Part I – Introduction: Policy debate

After decades of increasing inequality the debate took-off since the crisis



Part II –Facts on economic inequalities

Changing geography of income inequality trends in EU?

Past trends (mid '80s or '90s – late '00s)

Red=increasing inequality Green=decreasing inequality



Current trends (2008-2012)

Red=increasing inequality Green=decreasing inequality



Changing geography of inequality trends in EU?

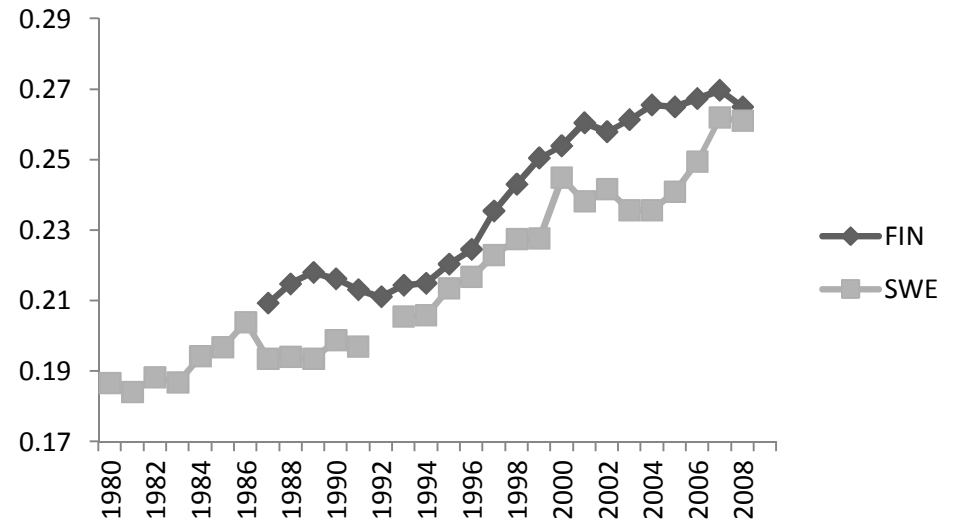
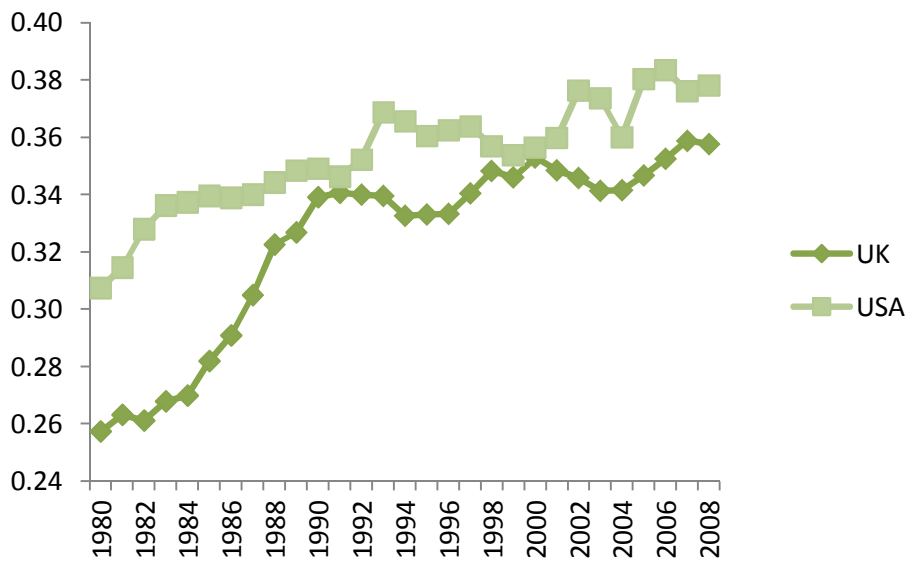
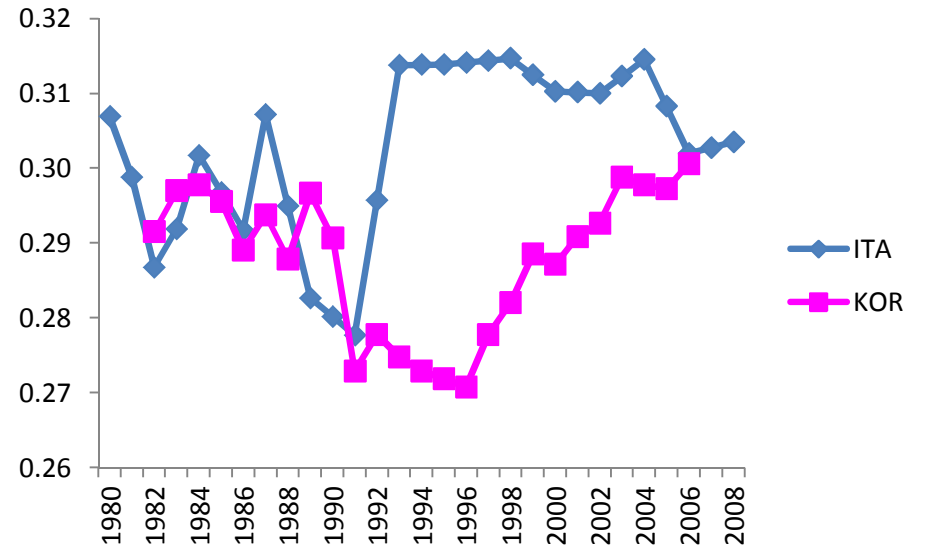
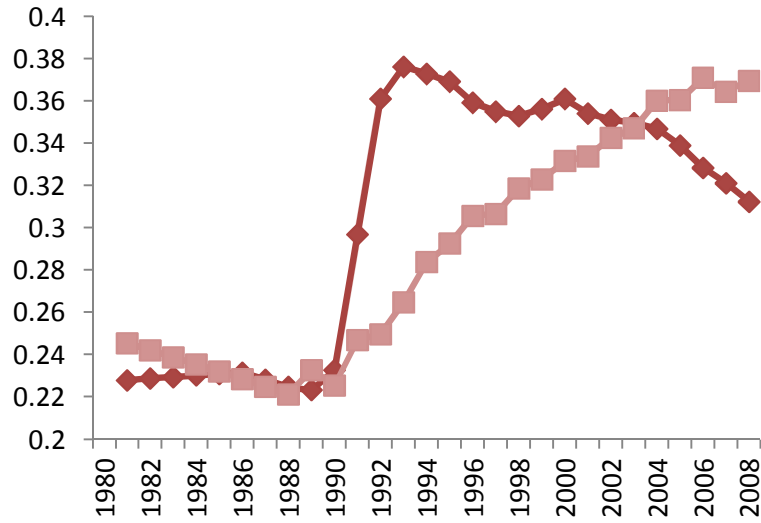
- More countries experienced an increase in inequality in the last decades than after the crisis
- The crisis changed the geography of income inequality trends:
 - income inequality started increasing in some countries where it was not previously increasing (e.g. ES, EL) and
 - decreased in some others which previously experienced increasing trends (e.g. FI, UK)
- But ...

Does it look better now?

1. The at-risk of poverty or social exclusion increased in most countries
2. And in some median income fell, resulting in a deterioration of living conditions
3. Optimistic estimates as these measures excludes consumption taxes and in-kind benefits

The geometry and timing of income inequality trends

Gini coefficient



The geometry and timing of income inequality trends

- Ex communist: abrupt increase in EE, LT, more gradual in LV
- Anglo-Saxon (excl. IE): persistent, in UK concentrated in the '80s
- In Nordic (esp. SE, FI) continuously in the '90s and '00s as in KOR (U-shaped) and in IT episodic ('92), following crises

Why beyond market forces?

- Standard theories of inequality (e.g. SBTC) cannot fully explain why:
 - The timing and patterns of inequality are different across (similar countries)
 - Increases in inequality following recessions are persistent (FI, SE, IT, KOR)
 - Wage inequality increased also in countries where the skill premium did not increase (e.g. CAN, IT, AT)

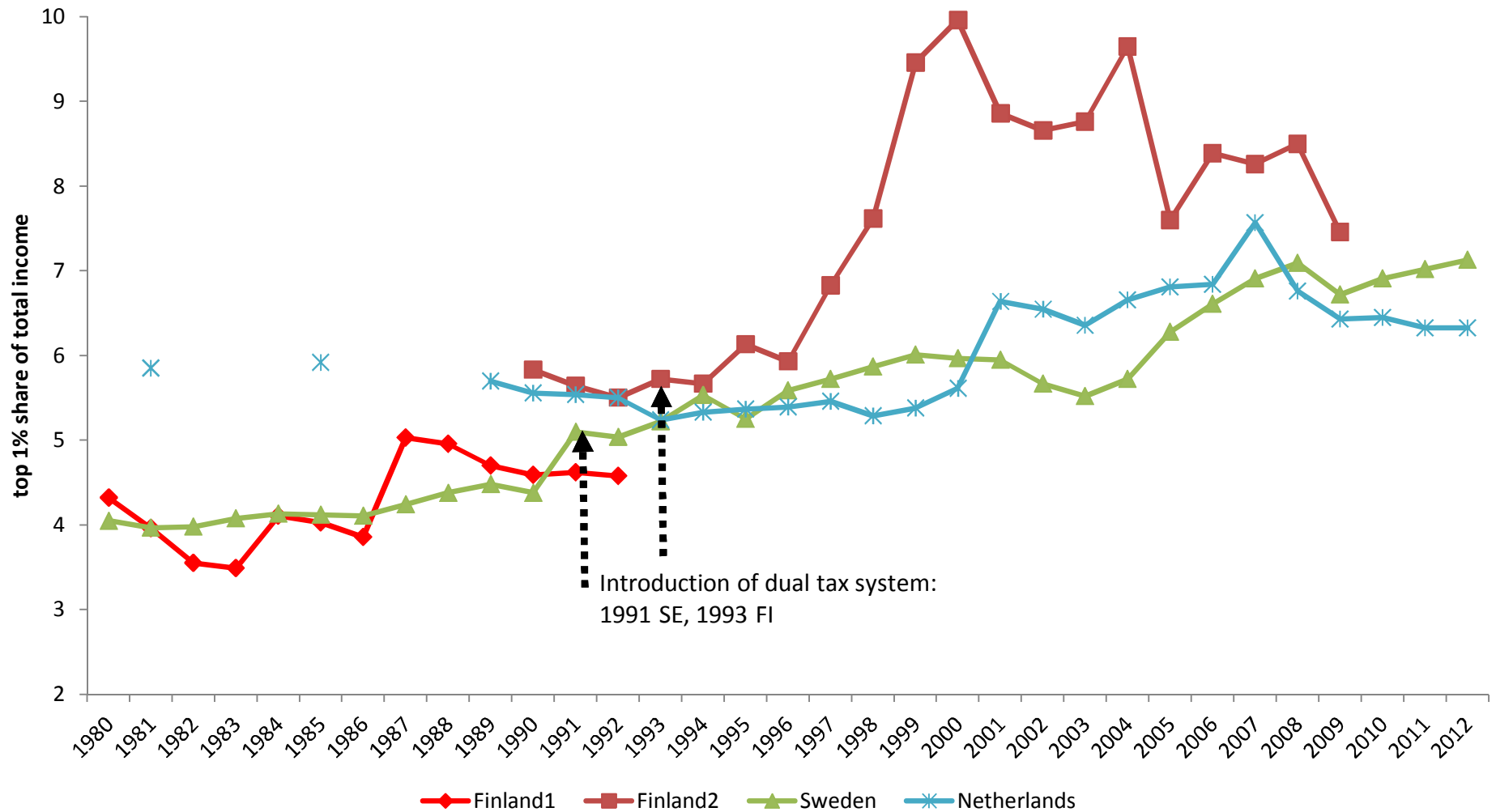
1. What's beyond market forces?

Labour market stylized facts - Overview of GINI Country Reports



2. What's beyond market forces?

Taxation and top incomes: the dual tax system in Sweden and Finland



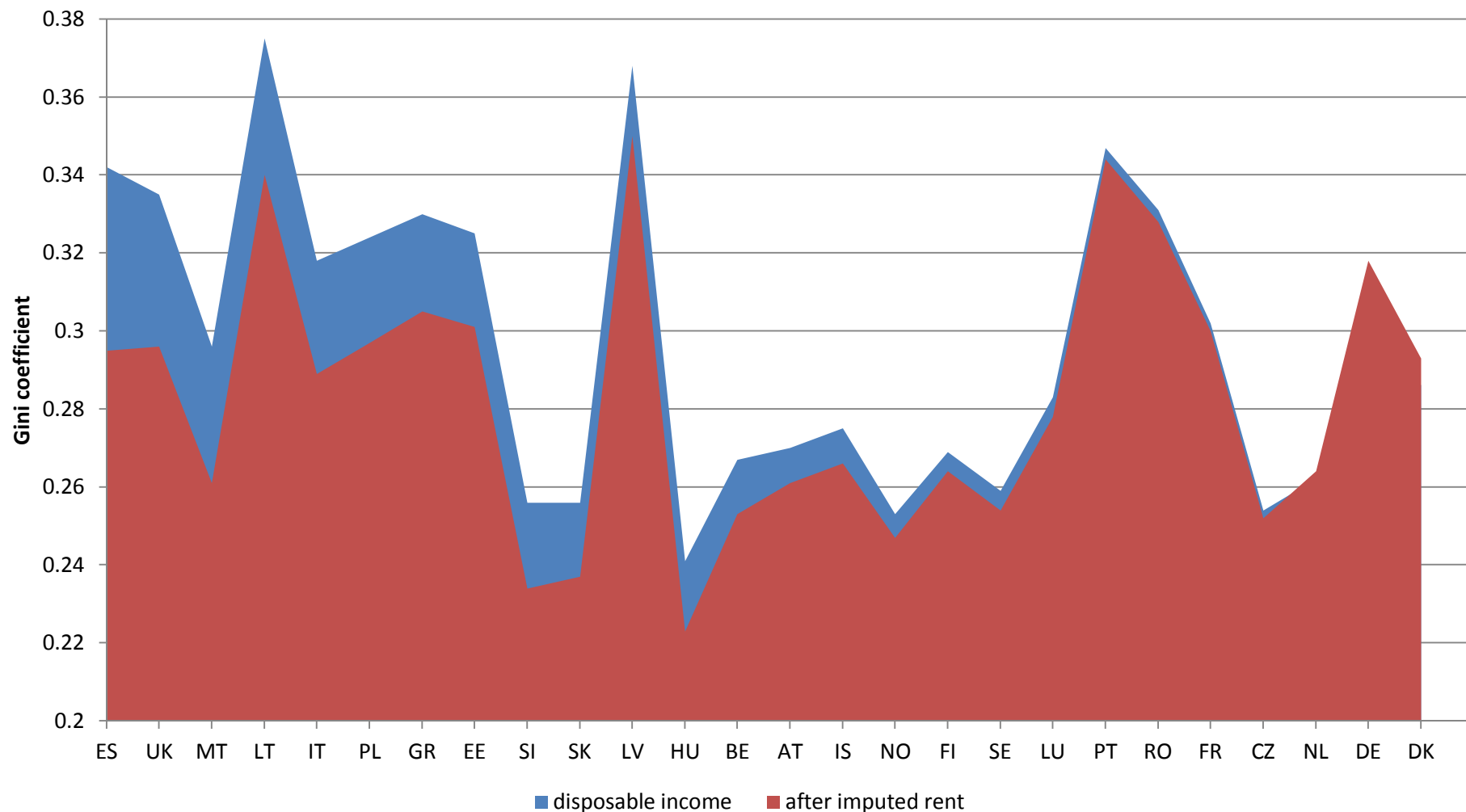
Summary drivers of income inequality

From the mid-90s increasing importance of capital income and reduced role of redistribution

- Proximate causes:
 - Labour market
 - Redistribution
 - Capital income and self-employment
- Underlying causes:
 - SBTC, globalization, structural imbalances
 - Ideology

A particular form of capital income

The redistributive effect of housing



From capital income to wealth and debt

- Increasing importance of wealth and debt
- Increasing wealth inequality and polarization
 - Possible underestimated due to tax avoidance and pension reforms
- Changing patterns since the crisis

Changing geography of income inequality trends in EU?

Past trends (80s-mid00s)

Current trends (2010-2011)

Red=increasing ineq. Green=decreasing ineq. Red=increasing ineq. Green=decreasing ineq.



What's beyond market forces?

Taxation, debt and wealth paradoxes

- Cross-country differences do not explain national stories: finance, billionaires, debt and taxation versus institutional factors
- Wealth paradoxes:
 - social spending
 - relationship with income inequality
 - Timing
 - Cross-country
 - Distribution

Equality of income, inequality of wealth?

Income inequality (late '00s)

Red=above median Green=below

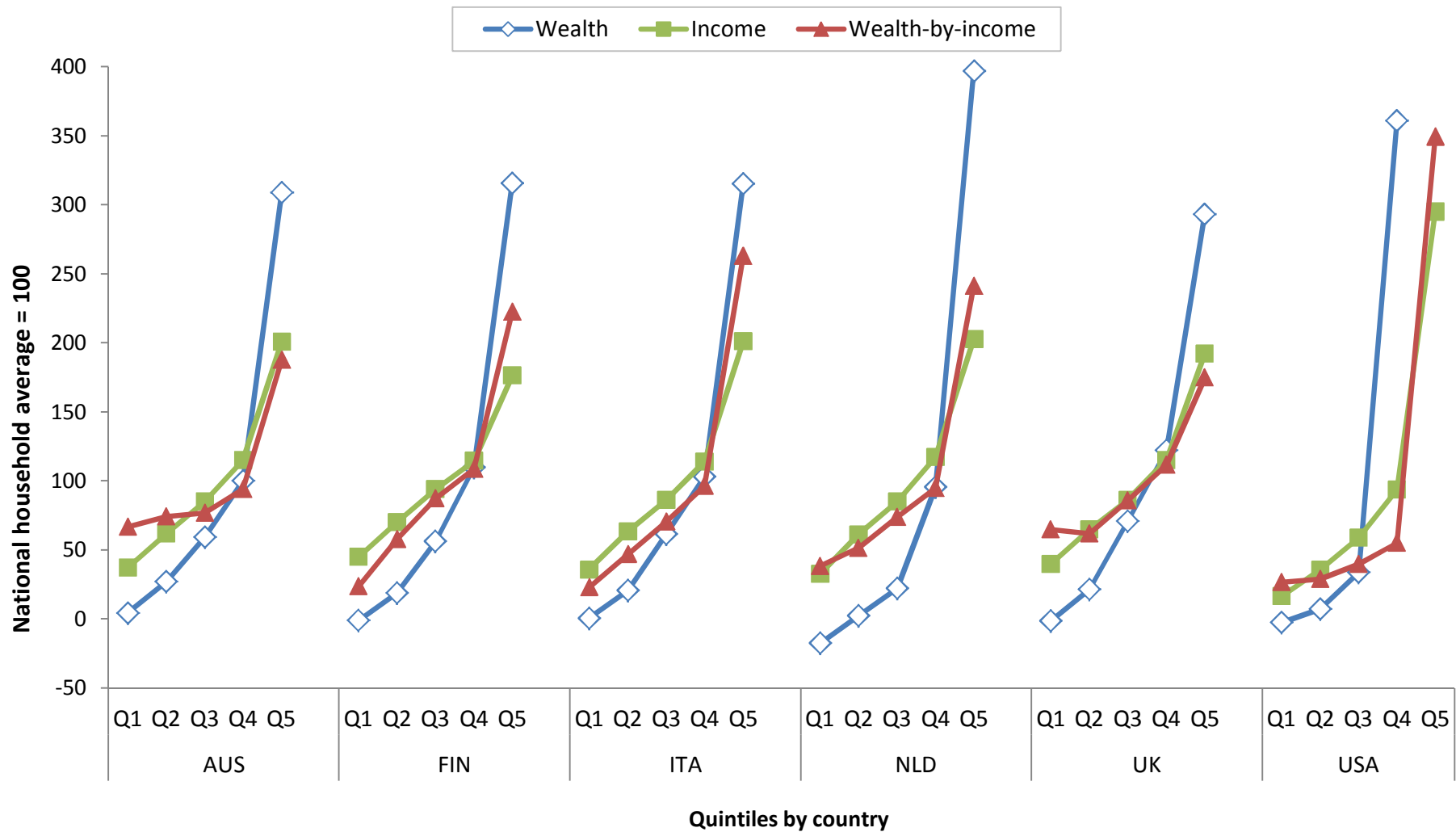


Wealth inequality (2010)

Red=above median Green=below



Income poor are not necessarily wealth poor and *viceversa*



Part III – Conclusions: Policy facts

Summary and progress

	Facts	Policy debate	Policy facts
Late 2000s	increasing income and wealth inequality; role of policy		
2014	increasing income and wealth inequality with changing patterns	new understanding of the mutual links between inequality and growth, acknowledgement of the role of policy and on the importance of wealth	cutting of benefits and weakening regulation, shift to regressive taxes, more attention to (poorly designed) property than to other wealth taxes and tax avoidance

Next...

- Use past lessons from crises and policy reactions
- Better address the causes of inequality than the effects of crises
- Shift the attention of policy to (a wise assessment of) wealth and top incomes

THANKS



JS 9/2/10