iAGS2016 - Chapter 2: Labour market, Inequality, the scars of the crisis

Summary

MAIN FINDINGS

European Labour Market	- We are seeing **improvements** in the European labour market **but** they are **slow**. It is clear that the crisis is far from over. - Overall, **labour underutilization** (summing up halo (= people willing to work but not actively searching and thus not counted as unemployed in the ILO sense) and underemployment) is increasing. - Today half of the unemployed in Europe are **long-term unemployed**. - 3.8% in the Eurozone and 3% of the active population in the EU are **very-long-term unemployed** (above 24 months). - Unemployment for young people finally seems to have peaked and now **youth unemployment** is starting to decline but remains at a very high level. In 2014 more than a third of the young unemployed in Europe were long term unemployed (more than 12 months). - Countries with **high youth unemployment** ratios also have **high NEET-rates** and the other way around. Germany, Sweden and Luxembourg are currently at a lower level than in 2008, but all other countries have experienced increases. Again, Greece is at a very high level along with Italy, Bulgaria and Spain.
An Unequal Europe	**Income inequality** - The **southern European countries** that were hit hard by the crisis, have experienced the largest rises in inequality mainly driven by a rise in the inequality in the bottom part of the distribution. - In the European Union as a whole, inequality (**global EU Gini**) fell rapidly between 2008 and 2009 and then stagnated. In 2013, global inequality is only slightly lower in the European Union than in the United States. Global inequality is lower in the Eurozone but it has been rising fast since 2010.
	Regional convergence turning into regional divergence - The **European Regional Development Fund (ERDF)**, established in 1975 is the first, and still main policy instrument aimed at reducing inequality across Europe. - Prior to the crisis, a **regional convergence** could be observed. The crisis has stopped this convergence in the EU.
	Increasing poverty since the crisis - The risk of poverty has increased in many European countries. It underlines that the countries that have been **hit hardest by the crisis** are also the countries that have experienced **the highest increase in poverty** (relative to 2008 income).

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	Severe material deprivation - **Children** are hit harder by material deprivation than other age groups. Growing deprivation among children is very concerning since lack of opportunities during childhood is likely to have long-term consequences for the individuals as well as for society as a whole. - Severe material deprivation for **single parents**, mainly single mothers, in comparison with other households with and without children. The share of single parents experiencing severe material deprivation is twice as large as in households **with dependent children** in general.
The impact of inequality on economic growth	**The long term fall in the wage share** - From a Post-Keynesian view, falling wage shares have led to **a stagnation of domestic demand** in most European countries.
	Rising income and wealth shares at the top - There is a widespread perception that particularly the **increasing income share of super-rich individuals has led to excessive speculation**. The intuition is simple: consumption possibilities exhaust with increasing income and speculative behaviour and risk-taking increases particularly at the top. Rising inequality may thus contribute to financial market bubbles which can further destabilize the economy as a whole. - Whilst the distribution of debt among all income groups remained rather stable until 2007, **debt relative to income has increased more for lower income groups**. The excessive indebtedness of private households has played a major role for the destabilization of several economies.
	New empirical evidence - If **the income share of the top 20 percent increases, economic growth declines over the medium term**, suggesting that the benefits do not trickle down (Dabla-Norris et al. 2015). If the income share of the top 20 percent rises by 1 percentage point, GDP growth is actually 0.08 percentage point lower in the following five years. In contrast, an increase in the income share of the bottom 20 percent generates higher GDP growth: 1 additional percentage point in the income share is associated with 0.38 percentage point higher growth. - The rise of income inequality between 1985 and 2005, for example, is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010, on average across OECD countries for which long term series are available. Furthermore, unequal countries invest too little in education for the lower-income and lower educated households. - In countries with high inequality, offspring of parents with the lowest education have smaller chances of obtaining a higher education compared to countries with a more equal income distribution. In the less equal countries, children with less-educated parents do worse in school and they are more likely to remain outside the labour market in their adulthood. 1. **For children of parents with the highest educational background, the chances of getting a higher education are around 40 percent smaller**, but similarly, they do not significantly change with the inequality in the country. 2. **For children of parents with middle educational background, the chances of getting a higher education are around 10 percent smaller**, but similarly, they do not significantly change with the inequality in the country.

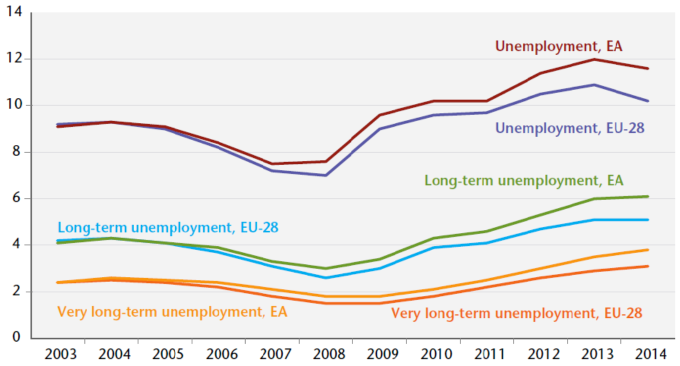
3. However, **for offspring from parents with the lowest educational background, the chances are even lower and furthermore, they depend on the level of inequality in the country**. In a country with relatively low inequality (Gini-coefficient of around 20), the chances are about 25 percent, but when inequality increases to a Gini coefficient of around 36, the chances fall to less than 15 percent.

RECOMMENDATIONS

Rebalancing the relation between capital and labour	- Europe's workers need a considerable **pay rise**. - **Collective bargaining** institutions and/or **minimum wages** are important tools to spur demand and ensure decent living standards for all workers. - In order to overcome the current crisis, the EU needs **a comprehensive strategy** for sustainable growth and high-quality jobs for the coming years. - To secure employment contracts, workers' rights must be respected through **trade union representation and effective sanctions and enforcement**.
Reducing unemployment and improving job security	- Fighting unemployment and **creating not only more but also better jobs** (jobs with decent working conditions and fair pay in order to combat in-work poverty and wage dispersion), in the **public and the private sector**, must remain a number one priority for policy makers. - To tackle huge gaps in **social protection**. - The current employment rate target should be replaced by **a target corrected for full-time equivalents and with differentiated targets for women and men**. - **Working time** has to be distributed **more equally** within the labour force. **Reducing** working time entails lots of positive side effects. It can contribute to lowering unemployment rates and to distribute unpaid work more equally. Reductions in working time can be **negotiated within collective bargaining systems or by legislation**. Increasing the overtime premium paid by employers and putting all-in-contracts under strong legislative control can contribute to effectively reducing working hours.
Addressing the gender gaps and labour market segregation	- Legislation has to contribute to establishing **equal working conditions and equal pay** for the same work in all sectors and professions, also by regulating wage transparency and pay audits on the company level. Women are not only overrepresented in part-time positions, but generally in low-wage and non-standard occupations. - Although **increasing minimum wages** to an appropriate level can help to reduce income inequality and decrease poverty, more has to be done. - **Parental leave arrangements** for the exclusive use of fathers have to be intensified. - **Public investment** is needed to provide childcare opportunities and all-day schools.
Strengthening the role of welfare states and	- Overall, current tax structures in European countries are less progressive today than 20 years ago. Increased **progressivity in the taxation of incomes** is not only a question of introducing higher marginal tax rates on high incomes; also the tax base has to be considered. Most of the **tax exemptions and deductions** in place today disproportionally benefit high-income and wealthy households. With the aim of broadening the tax base, these exemptions should be abolished.

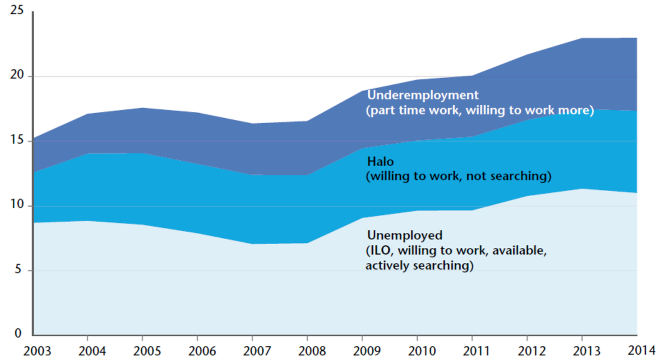
increasing progressivity of tax systems	- It is essential to **shift taxes away from labour** towards immovable property, financial assets, inheritances, and green taxes. - **Tax compliance** has to be improved across Europe.
Reducing wealth inequality	- The IMF and the European Commission refer to **recurrent taxes on residential properties** as an underexploited, although growth-enhancing, revenue source with a tax base that is hardly movable and hard to hide. Further, **property taxes** can be made progressive easily, for example via a basic allowance or by varying the tax rate with the value of the property. - In 2014, Thomas Piketty suggested **a global tax on capital ownership**, meaning a tax being annually vacant, using net wealth stocks as the tax base. - **Abolishing bank secrecy and implementing systems for the automatic exchange of information** on asset ownership between European countries are necessary pre-conditions for an effective taxation of wealth stocks. - The ETUC calls for establishing a **European Tax Investigation Agency**.
The European Regional Development Fund	- **The European Regional Development Fund (ERDF)**, established in 1975 is the first, and still main policy instrument aimed at reducing inequality across Europe.
Enhancing social mobility by taxing inheritances	- Taxing inheritances massively **contributes to decreasing wealth and income inequality and equalizing opportunities**. While most European countries levy such taxes, some member countries have to catch up.

Figure 1. Unemployment rate in the EU and the euro area



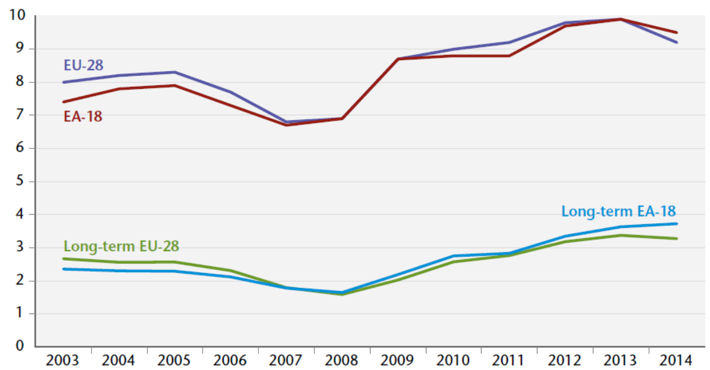
Source: Eurostat.

Figure 2. Halo of unemployment, euro area



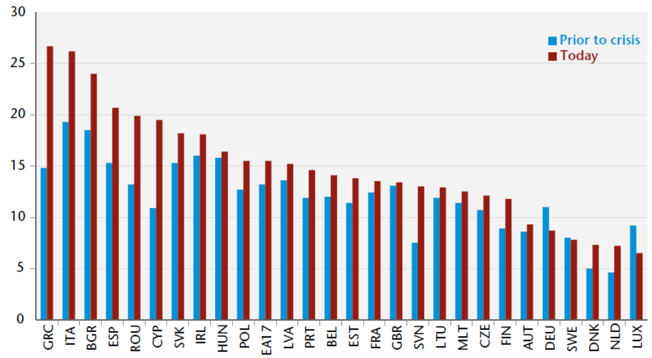
Source: Eurostat.

Figure 4. Youth unemployment ratio in the EU and the euro area



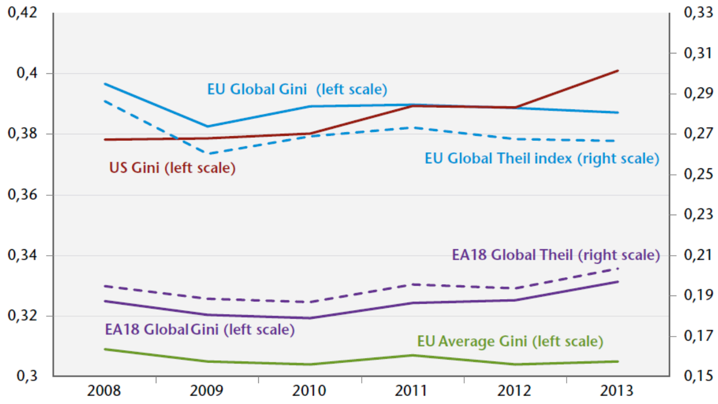
Source: Eurostat.

Figure 6. NEET-rates (young people not employed nor in education or training)



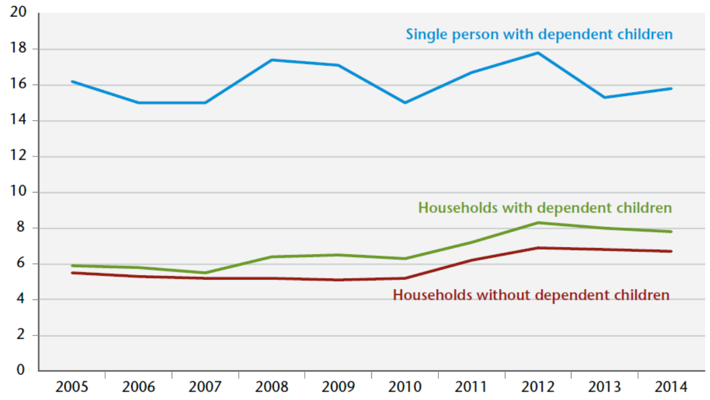
Note: prior to the crisis is 2008 and today is 2014.
Source: Eurostat.

Figure 8. Evolution of income inequality in the EU, the euro area and the US



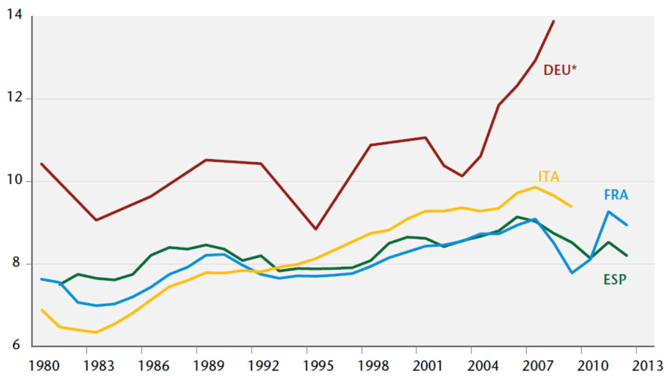
Sources: EU-SILC, OECD, iAGS calculations.

Figure 14. Severe material deprivation in different household types, the euro area



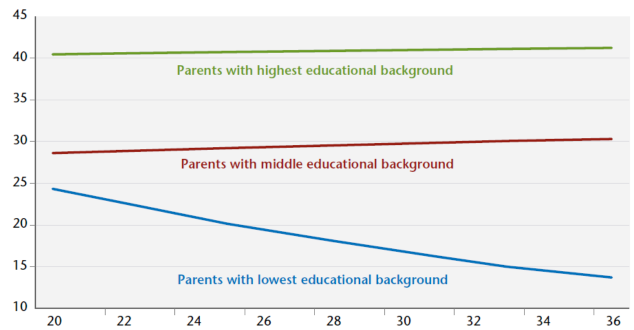
Source: Eurostat.

Figure 16. Top 1% income shares in selected European countries



Note: (*) 1980-1990 West Germany.
Source: World Top Income Database.

Figure 18. The probability of obtaining a higher education distributed on parents' level of education and the inequality of the country measured by the Gini coefficient



Note: The figure shows the relation between the chance for children of obtaining a higher education distributed on their parents' educational level and the Gini coefficient in the country when the child was around 14 years old.
Source: OECD 2015a.