MARCH 2014 - Issue n°2

JOURNAL FOR A PROGRESSIVE ECONOMY

INEQUALITY
The challenge of the century

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- Inequality on the Rise
- Multiple Effects of Inequality
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The Progressive Economy Initiative was launched in 2012 and is supported by the Socialists and Democrats Group in the European Parliament.

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Group of the Progressive Alliance of
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in the European Parliament

WHAT IS...
Progressive Economy

PROGRESSIVE ECONOMY

OBJECTIVE

Progressive Economy is a new initiative launched in 2012 with a major objective: to generate a truly public and informed debate on economic and social policy at European and national, as well as global, levels and actively promote progressive thinking in these areas at academic and at political levels. Progressive Economy is a long-term initiative with a strategic vision of its contribution to progressive thinking and action, not a one-off event.

Without public debate, without clear policy choices, there can be no real democracy. Lack of choice breeds frustration, populism and the growth of anti-politics. Progressives have a duty to demonstrate to citizens that they do have a choice and to do what it takes to win the battle of ideas in these core areas for the future of our societies.

That is why the S&D Group has launched the Progressive Economy initiative, which will create a new and open space for public and informed debate, and which will contribute to build a contemporary progressive economic and social vision for Europe.

ONGOING ACTIVITIES

The initiative started back in November 2012 with support given to the publication of the first **Independent Annual Growth Survey (iAGS)**. Each year, several economic institutes (OFCE, IMK, and ECLM) will publish an iAGS, providing detailed analysis, forecasts and recommendations for the European economy. The next iAGS will be released in November 2013. Progressive Economy is proud to support this work, which for the first time provides a solid alternative to the Commission's own Annual Growth Survey report that forms the basis for the annual definition of Europe's economic policy at European Council level, and of country-specific recommendations.

The initiative was then publicly launched at a first annual conference in Brussels on Thursday 7 March 2013, close to the Spring European Council, with high-level participants from politics, academia, media and civil society. The initiative will retain the concept of one major annual gathering, within which the different parts of its activities and the many people involved can come together. The next annual conference will take place in March 2014 in Brussels in the form of a **"Progressive Economy Forum"** under the theme "INEQUALITY". The aim of this annual Forum is to bring together an ever larger number of progressive individuals from academia, politics, trades unions and civil society actively engaged in, and committed to reinforcing and promoting progressive ideas in the economic and social fields across Europe and globally.

NEW ACTIVITIES

PEAC: The PEAC project is aimed at fostering progressive academic research and networking on economic and social issues, and at facilitating the transmission of academic knowledge into political processes (Progressive Economy Academic project), notably through an annual "Call for papers".

PEPA: The PEPA project is aimed at deepening and broadening the democratic dimension of European economic and social governance at EU, Eurozone and Member States' levels, and at contributing to a fundamental and durable change of policy in the economic and social fields in line with commonly defined progressive policy concepts and values (Progressive Economy Parliamentary Alliance). It includes an Annual PEPA Assembly, of which a first meeting is envisaged for 4-5 December 2013.

PROGRESSIVE ECONOMY EVENTS: In order to contribute to an open and inclusive exchange of ideas and experiences among progressives across Europe, Progressive Economy will run a rich programme of events in different parts of Europe. In 2013, a series of successful and high-level events have already been held in Lisbon, Brighton, Bordeaux and Budapest.

POLICY ISSUES: Across its range of activities, the initiative will, in particular, address three policy issues, being: "Growth in Crisis", "Progressive Labour Markets", "Equal Society" and "Global Progressive Economy". Furthermore the initiative will aim at strengthening both knowledge and policy responses in these areas through tailored studies and a series of workshops.

JOURNAL FOR A PROGRESSIVE ECONOMY: The initiative's activities will feed into a regular publication of contributions from academics, policymakers and other key stakeholders, the aim of which will be the circulation of progressive thinking and the transmission of knowledge and ideas between the academic and political spheres.

WEBSITE: The new Progressive Economy website will play an active role in developing the PEAC and PEPA projects and, more generally, in providing an important source of information and exchange for progressives on economic and social challenges.

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Foreword

Hannes Swoboda,
MEP, Austria,
President of the S&D Group in the European Parliament

Welcome to this second edition of the Progressive Economy Journal, which focuses on inequalities and is co-edited with two of the foremost thinkers in this domain – Kate Pickett and Gosta Esping-Andersen.

Inequality is an issue which needs to be the heart of policy planning, in Europe and beyond. The link between economic inequality and overall well-being is clear. But the issue of inequality is far wider than that. Inequality is not simply about poverty. It's about the failure to provide everyone with access to opportunities, to public services, to a work-life balance.

This Journal is intended as a small contribution towards this debate – by asking academics and policymakers to address issues as diverse as gender and the environment, we hope to give some food for thought as to why inequality must be at the forefront of our minds in all policy areas.

These issues will be addressed at our prestigious Annual Forum, taking place in the European Parliament in Brussels in March. This event is open to the public, and will be webstreamed, and will feature contributions from many of the authors featured in this Journal, as well as other prominent figures such as Joseph Stiglitz and Martin Schulz. More details are available on the Progressive Economy website – progressiveeconomy.eu

I hope to see you there!

Reducing Inequality Through Economic Democracy*

Richard Wilkinson,
Professor Emeritus of Social Epidemiology, University of Nottingham

Kate Pickett,
Professor of Epidemiology, University of York

Kate and Richard are co-founders of The Equality Trust and the Alliance for Sustainability and Prosperity

Pickett and Wilkinson note the extent of just how damaging large inequalities can be on the wellbeing of the vast majority in society. In this article, they focus on the ways in which greater equality can be achieved through economic democracy.

Few people understand how damaging large inequalities can be. There is a common view that inequality only matters if it creates poverty or if it is widely regarded as unfair – that the rich and poor do not deserve what they get. But this is a naïve view. In reality, inequality has deep and powerful effects on the wellbeing of the vast majority. Our own research, and that of many other researchers around the world, shows that almost all the health and social problems which tend to be more common lower down the social ladder also tend to be worse in societies with bigger income differences between rich and poor. As human beings, we have deep seated psychological responses to inequality and these are reflected in worse population health and wellbeing, less social cohesion, more violence and many other problems. We have described these in an earlier article in this journal[4] – here we concentrate on ways in which greater equality can be achieved through economic democracy.

Creating a more equal society

There are several quite different approaches to increasing equality. Most often people think in terms of more progressive taxation and more generous social security systems. We must indeed tackle tax avoidance, end tax havens and make taxation more progressive, so that the rich pay a higher proportion of their income in taxes than the less well off. However, there are two weaknesses to this approach: first, any progress on taxes and benefits can very easily be reversed by changes in government, and second, there is always a tendency for people to think that taxes are a kind of legalised theft – that the government is taking their money. This is despite the fact that almost all production and wealth creation is a cooperative process. Everyone's income and living standards depend on the whole society and its infrastructure. The wealthy would not be wealthy were it not for an educated population, electricity supplies, transport systems, accumulated technical and scientific knowledge and so on. Living standards are a product of the combined efforts of vast numbers of people.

A much more fundamental approach to reducing inequality is to reduce differences in people's incomes before tax. In our research we have found that some of the more equal societies gain their greater equality by redistribution, but others start out with smaller differences in pre-tax incomes.[1] The social benefits of greater equality do not seem to depend on how greater equality is attained.

* This paper is based on material from Wilkinson RG and Pickett KE, The World We Want. International Labour Review, Spring 2014

[1] Wilkinson RG, Pickett K. *The Spirit Level: Why Equality is Better for Everyone*. London: Penguin, 2010.

The widening income differences seen in so many countries are primarily a reflection of a tendency for top income to grow faster than incomes throughout the rest of society. Over the last few decades large international corporations have been powerful generators of inequality. From the 1970s to the early 1980s, the CEOs of the largest 350 US companies were paid 20 or 30 times as much as the average production worker. By the first decade of the 21st century they were getting between 200 and 400 times as much.[2] Among the 100 largest UK companies (FTSE 100 companies), the average CEO received just above 300 times the minimum wage.[3] Though differentials have widened in most countries they have usually done so less rapidly than in the USA. Top pay has, at best, been only very weakly related to company performance. In the absence of strong trade unions and an effective labour movement, the trends seem to reflect a lack of any effective democratic constraint on top incomes. If that is so, then part of the solution is to build effective constraints by extending democracy into our economic institutions.

The importance of the labour movement

The long term changes in inequality for many developed countries show a 'U'-shaped pattern of change during the 20th and early 21st centuries, with high inequality until the 1930s followed by a long decline until sometime in the 1970s. Then, from around 1980 or a little later, inequality starts to grow again until, by the early 21st century, some countries have returned to levels of inequality not seen since the 1920s.

This pattern reflects the strengthening and then the weakening of the labour movement during the 20th century. If we consider the proportion of the labour force in trade unions as a measure of the strength of the labour movement, the relationship with inequality is very clear. Figure 1 shows the relation between inequality and the proportion of the labour force in trade unions in 16 OECD countries at various points between 1966 and 1994.[5] Each point is a country at a particular date. As trade union membership declined, inequality increased. The picture holds for more recent data (Figure 2). Even in Sweden, the recent rapid increases in inequality are associated with declining trade union membership since the early 1990s and particularly since 2006. Within individual countries, union membership and inequality track closely, see, for example, the case of the USA at http://www.epi.org/publication/unions-decline-inequality-rises/. [Eisenbray R, Gordon C. As Unions decline, inequality rises. Economic Policy Institute 2012]

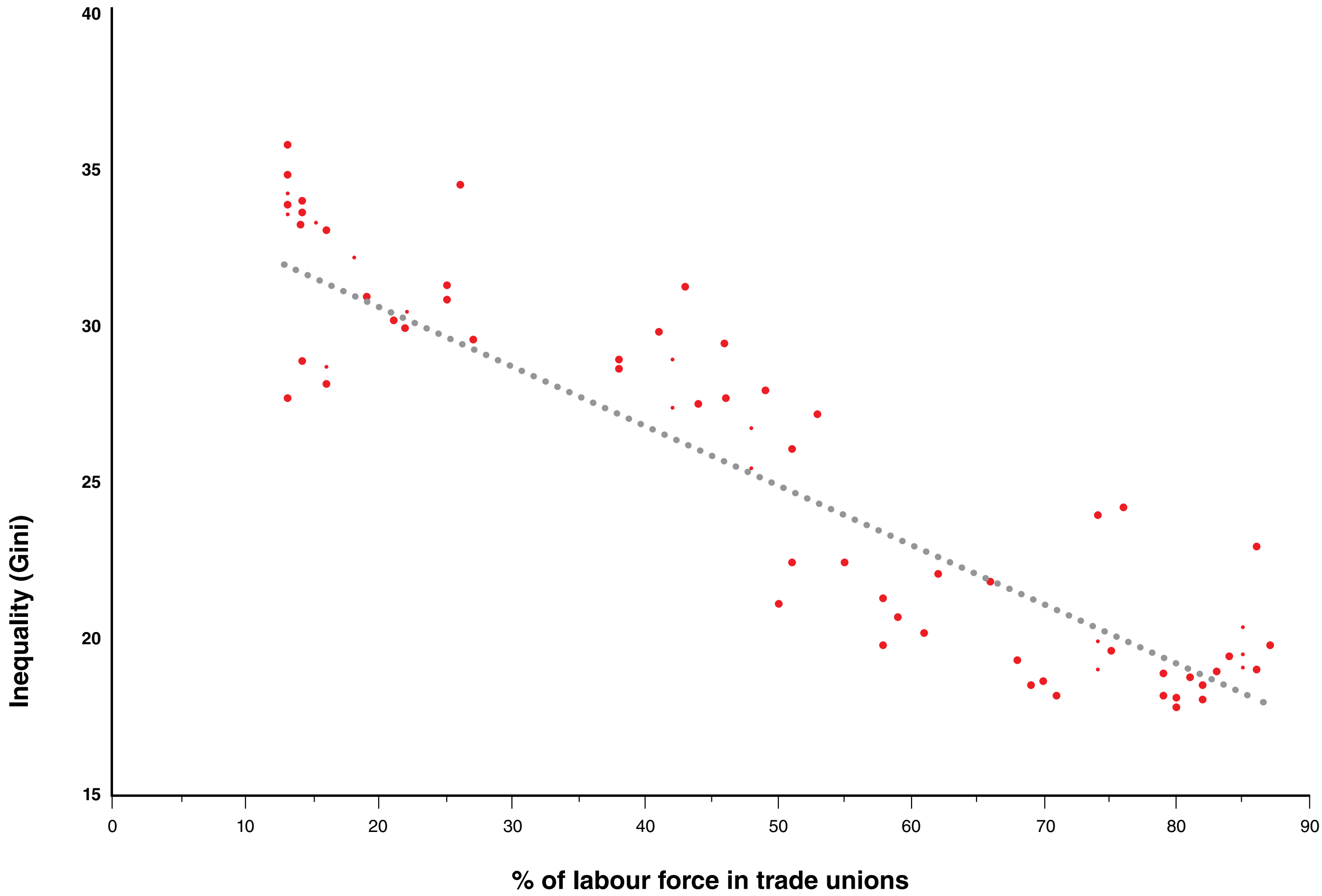
The connection between trade union membership and inequality should not be seen simply as a reflection of what trade unions manage to do for the wages of their members. Instead, the relationship indicates the strengthening and then the weakening of the overall political and ideological influence of progressive movements. The rise in inequality since around 1980 is almost certainly largely attributable to the political power of neoliberal ideology. To gain substantial reductions in inequality in the future will require the recreation of a sustained political movement.

The role of politics – as opposed to strict market forces – in the 20th century reduction and subsequent widening of inequality is also

[2] Mishel L, Sabadish N. Pay and the top 1%: How executive compensation and financial-sector pay have fuelled income inequality. Issue Brief: Economic Policy Institute, 2012.
[3] One Society. A third of a percent. London: The Equality Trust, 2012.
[4] Pickett, Reducing Inequality: an essential step for development and wellbeing, *Journal for a Progressive Economy*, November 2013.
[5] Gustafsson B, Johansson M. In search of smoking guns: What makes income inequality vary over time in different countries? *American Sociological Review* 1999:585-605.

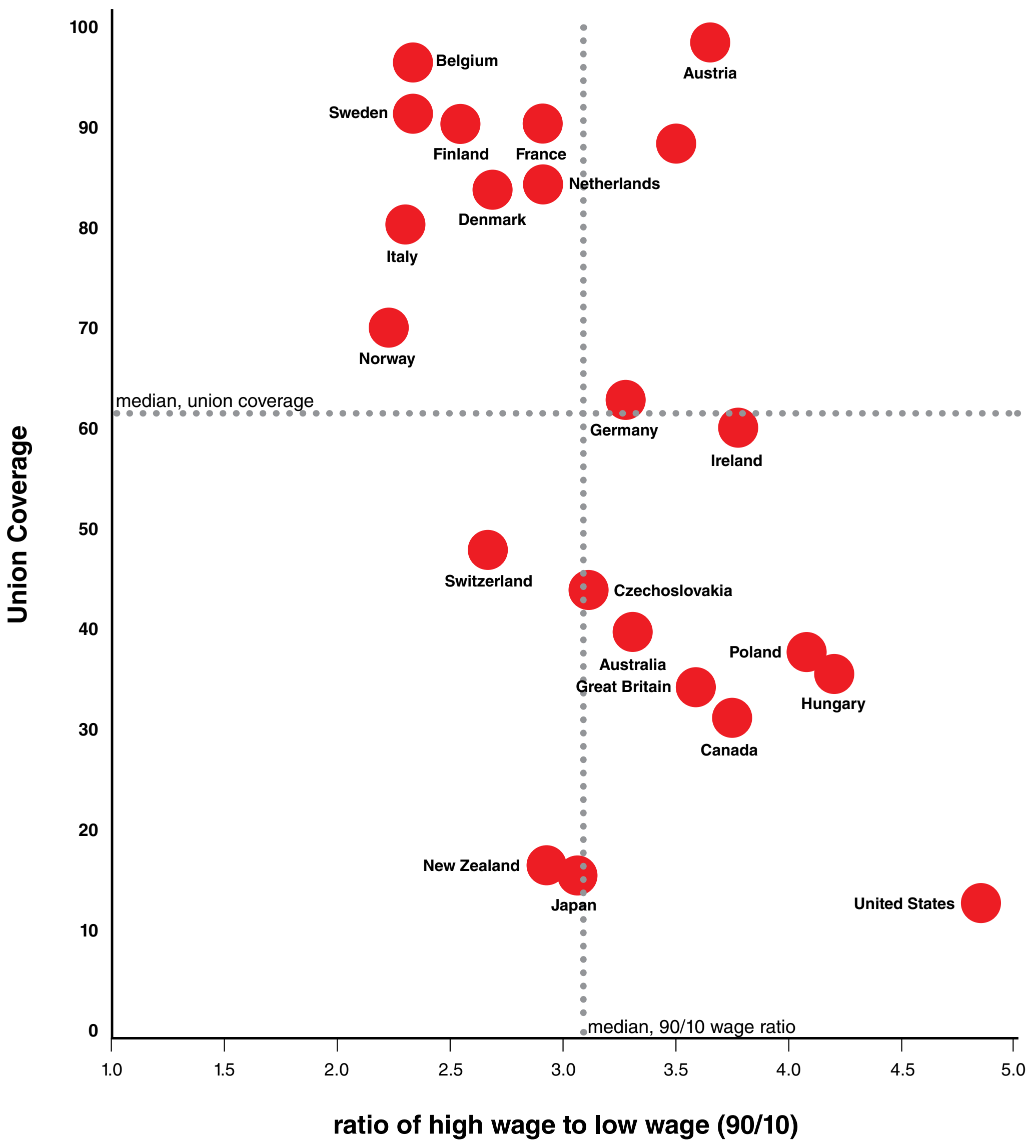
As human beings, we have deep seated psychological responses to inequality and these are reflected in worse population health and wellbeing, less social cohesion, more violence and many other problems.

Figure 1 **Countries with stronger Trade Unions are less unequal (data for 16 OECD countries 1966-1994)**



Source: Gustafsson B, Johansson M. In search for a smoking gun: what makes income inequality vary over time in different countries? LIS Working Paper 172; 1997.

Figure 2 Union Coverage and Wage Inequality in the OECD
most recent (circa 2007-10 for most countries)



Source: Colin Gordon, June 2012

confirmed by a World Bank Report on the eight countries (Japan, Republic of Korea, Taiwan, Singapore, Hong Kong, Thailand, Malaysia, Indonesia) which used to be known as the 'tiger economies'.[6] It describes how, with well-publicised programs of "shared growth" they all deliberately reduced their income differentials during the period 1960-1980. Policies variously included land reform, subsidies to lower fertilizer prices to boost rural incomes, wealth sharing programs, large scale public housing programs, and assistance to worker cooperatives. The World Bank report says that in each case governments reduced inequality primarily because they faced challenges to their legitimacy, often from communist rivals, and needed to win wider popular support. For example, South Korea faced North Korea, Taiwan and Hong Kong faced the claims of China, and communist guerrilla forces operated widely. So here, as in the rich developed countries, it is a mistake to think that the main changes in inequality have resulted simply from impersonal market forces rather than from political and ideological processes.

We need to increase employee representation on company boards and expand the share of the economy made up of mutuals, cooperative, employee owned companies and social enterprises. More democratic companies tend to have much smaller pay ratios among their staff. In the Mondragon group of cooperatives in Spain (which has 84,000 employees and annual sales of £13billion) pay ratios average around 1:5. In large public sector organisations ratios are usually between 1:10 and 1:20. Around half the countries belonging to the European Union have some kind of legal provision for employee representation on company boards. The various different provisions in Europe are on the Eurofound web site at: http://www.eurofound.europa.eu/eiro/1998/09/study/tn9809201s.htm. Some of the provisions are very weak: they need to be substantially strengthened and adopted by all countries.

It is clear that the stakeholder owned business sector is growing and resilient.[7] Co-operatives in the UK outperformed the economy in the four years leading up to 2012, the social enterprise sector is growing and out-performing the small and medium sized private business sector and employee owned companies have been creating new jobs faster than more traditional companies – they also pay higher wages and are just as profitable. The general public likes more democratic companies, research by Co-Ops UK in 2010 found they were viewed as honest, trustworthy and a good way to run a business, whereas private companies were viewed as cut throat and greedy.[8]

As well as smaller income differences and good economic performance, cooperatives, employee owned companies and others in the stakeholder business sector have other advantages. Community life has weakened substantially in rich countries over the last generation but, as Oakeshott remarks; an employee buyout can turn a company from being a piece of property into a community.[9] Perhaps a stronger sense of community at work could replace the sense of community that has declined in residential areas? It is also likely that less hierarchical structures at work could begin to change the experience of work making it possible for more people to gain a sense of self-worth and of being valued from their employment. Certainly, people's sense of lack

[6] World Bank. *The East Asian miracle*. Oxford: Oxford University Press, 1993.
[7] Kerry B. From UK plc to Co-op UK: transforming the private sector. In: Hattersley R, Hickson K, editors. *The socialist way: social democracy in contemporary Britain*. London: IB Tauris, 2013.
[8] Simon G, Mayo E. Good business? Public perceptions of co-operatives. London: Co-operatives UK, 2010.
[9] Oakeshott R. *Jobs and fairness: the logic and experience of employee ownership*. Norwich: Michael Russell, 2000.

Although in developed countries we live in historically unprecedented comfort and luxury, we are nevertheless immersed in social and economic problems with huge human costs. We are all touched by the impact of inequality: it increases the prevalence of mental illness, depression and anxiety, weakens community life, and intensifies our worries about how we are seen and judged.

of control at work, their sense of unfairness, and effort-reward imbalance have each been linked to worse health and wellbeing.[10]

The scales of top pay and of tax avoidance are two indications of how problematic the mismatch between profit seeking and the public interest can be. Others include corporate funded opposition to scientific evidence of harm associated with company products such as the role of fossil fuel companies opposing climate science, the manipulation of regulatory bodies set up to safeguard the public interest, and the purchase of political influence on a scale which threatens the effective functioning of democratic institutions. Freudenberg, in his *Lethal but Legal: Corporations, Consumption, and Protecting Public Health*, suggests that the conflict between the public interest and profit seeking in big corporations is now a major threat to public health.[11, 12]

Considerations such as these are likely to have contributed to the resurgence of interest in more democratic economic institutional structures. But at the same time, traditional systems of share ownership have become increasingly inappropriate systems for controlling modern companies. A report called *Workers on Board*, from the British Trade Union Congress, points out how in the 1960s most shares were owned by individuals with a long term interest in a small number of companies.[13] But in many countries the vast majority of shares are now owned by financial institutions which spread their investments across hundreds or even thousands of companies, make money through short-term share trading, and have little or no knowledge or long term interest in the companies in whose shares they deal. The TUC report says that this has reached a point where a large listed company may have thousands or tens of thousands of shareholders and find it difficult even to get full information on who they are.

At the same time modern production increasingly involves the integration of the expertise and knowledge of many highly educated people – so much so that the value of a company is now less a matter of its buildings and capital equipment than the value of the integrated group of employees with their skills and know-how. This means that buying and selling a company amounts to buying and selling a group of people – an appallingly anachronistic process, especially when that group of people could be running their own company democratically.

It may seem utopian to some readers to imagine how the stakeholder owned business sector can ever compete at scale with large, multinational corporations and the increasing concentration of capital in fewer and fewer hands (see de Vogli in this issue). But it is surely not beyond the wit of government to create fiscal incentives and legislative frameworks to expand economic democracy

Inequality, consumerism, sustainability and quality of life

Although in developed countries we live in historically unprecedented comfort and luxury, we are nevertheless immersed in social and economic problems with huge human costs. We are all touched by the impact of inequality: it increases the prevalence of mental illness, depression and anxiety, weakens community life, and intensifies our worries about how we are seen and judged. As a result it damages social relationships and makes it harder for

[10] Bosma H, Marmot MG, Hemingway H, Nicholson AC, Brunner E, Stansfeld SA. Low job control and risk of coronary heart disease in Whitehall II (prospective cohort) study. British Medical Journal 1997;314(7080):558-65.

[11] Freudenberg N. *Lethal but Legal: Corporations, Consumption, and Protecting Public Health:* Oxford University Press, 2014.

[12] Oreskes N, Conway EM. *Merchants of Doubt: how a handful of scientists obscured the truth on issues from tobacco smoke to global warming*. New York: Bloomsbury, 2010.

[13] J. W. Workers on Board: The case for workers' voice in corporate governance. In: Congress TU, editor. TUC. U.K., 2013.

Progressive politics lost sight of any view of the direction in which we should be trying to move. Rather than the economy serving people, there has been a sense that in practice it was our function was to serve the economy, and that the direction of social and economic change was no longer subject to human control.

us to relax and enjoy each other's company – not to mention the closely related problems of violence, drug abuse, and people being devalued and made to feel inferior.

Reducing inequality is not only key to improving these aspects of social life and wellbeing, but also key to reducing consumerism. Consumerism is not a reflection of a basic acquisitive human nature. Instead it is a marker of the dysfunctional power of status competition in social relations. Consumerism is actually a very alienated form of social signalling, through which we try to maintain and communicate some sense of self-worth to each other.

Reductions in inequality and concomitant reductions in the pressure to consume might mean that people in richer societies would be more willing to use the benefits of increased productivity to give themselves additional leisure rather than seek higher levels of material wealth and consumption. The New Economics Foundation has suggested that a 21 hour week should become the norm in a sustainable economy.[14] Surveys of wellbeing suggest that consumerism involves sacrificing time which would be better spent with friends, family and community.[15]

The reductions in health and social problems made by more equal societies are so large because they extend to the vast majority of society. With reductions in inequality we might not only reduce consumerism but also improve the real quality of life for the vast majority. If the main effort to reduce inequality were a focus on the expansion of economic democracy in all its forms – union and employee representation on company boards, mutuals, employee owned companies and cooperatives – then we would also have started to transform people's experience of work. Community life would be stronger and status insecurities reduced.

The weakening of the labour movement during the last quarter of the 20th century also saw a decline of any shared progressive vision of how to improve our societies. Progressive politics lost sight of any view of the direction in which we should be trying to move. Rather than the economy serving people, there has been an sense that in practice it was our function was to serve the economy, and that the direction of social and economic change was no longer subject to human control. As a result, politics lost idealism and any ability to inspire. Attempts at reform became piecemeal and lacked a sense of coherence and direction: they could no longer be regarded as steps towards a vision of a desirable future.

We now need a new vision capable of inspiring us to make the transition not only to sustainability but to a society capable of improving the quality of life for everyone. In the last period of progressive politics, in the 1960s and '70s, there was a failure to conceptualise and to produce the structural changes needed to ensure further progress. As a result, progress stalled and in some aspects went into reverse. It is now urgent that we undertake the bold conceptual work needed to create an inspiring view of a sustainable future, discuss, develop and set out our visions to ensure that in future we make genuine progress in maximising sustainable human wellbeing.

Moving towards sustainability and maximising wellbeing both involve changing some of the counterproductive aspects of our social and economic systems. Humanity cannot develop sustainable ways of life on the basis of huge international inequalities and unbridled consumerism, with our economic life dominated by enormously powerful corporations which avoid any effective democratic accountability. ■

[14] Coote A, Franklin J, Simms A, Murphy M. *21 Hours: Why a Shorter Working Week Can Help Us All to Flourish in the 21st Century:* New Economics Foundation, 2010.
[15] The Harwood Group. Yearning for balance: Views of Americans on consumption, materialism, and the environment. Takoma Park, Maryland: Merck Family Fund, 1995.


MENSCHEN

How Family Change and Income Inequality affect Children's Life Chances

Gøsta Esping-Andersen,
Professor of Sociology, Universitat Pompeu Fabra, Barcelona

This article by one of our Scientific Board members warns of the huge impact that inequality will have on the next generation if action is not taken. Currently one in five children lives in poverty in most EU countries; Esping-Andersen draws attention to the widening gap between high and low educated parents and the time invested in children. These worrying trends point to a bleak future and high levels of inequality in the lives of our children.

Most advanced nations have experienced rising income inequality over the past decades; in some, like the U.K. and the U.S., quite dramatically so. There is broad agreement that the trend is primarily driven by widening earnings gaps between the top and bottom. The returns to skills have soared at the very top while the low-skilled face wage erosion and more unemployment.[1] This alone should produce more unequal life chances and opportunity structures for the next generation - today's children. Parents' ability to invest in their children's future will become more unequal and this should, in turn, reduce inter-generational mobility.[2]

What has been far less debated is how concurrent family demographic transformation may exacerbate these inegalitarian trends. There are two sets of changes that are likely to polarize or, as Sarah McLanahan puts it, to produce a world of diverging destinies.

Is family change polarizing?

The first lies in a sudden - and quite unexpected - u-turn in partnering behavior. In the past, the higher educated were less likely to marry and more divorce prone. This pattern is now turning upside down and, as a result, we witness a growing concentration of fragile families within the low educated (and low-income) population. To exemplify from my own research, the divorce rate among low educated Americans is twice as high as for the highly educated. We find pretty much the same pattern across Europe.[3] Likewise, we find an ever greater concentration of lone parent families among low educated and low paid (or inactive) mothers. Be it in Sweden or in the U.S., roughly 80 percent of all lone parent families are located in the bottom income quintile. The figure below presents the most recent (mid- and late-2000s) child poverty rates for representative countries. Poverty is here defined as falling below 50 percent of (adjusted) median income.

In the Anglo-Saxon and Mediterranean countries every fifth child lives in poverty; it is close to being the norm for single parent households. And in some cases the trend is troublesome indeed. The U.K. child poverty rate has risen by ca. 25 percent over the past two decades and it has doubled in Spain. Even worse, where child poverty is widespread it also tends to be more persistent. My own estimations (based on the ECHP and the US PSID panel data) show that almost 60 percent

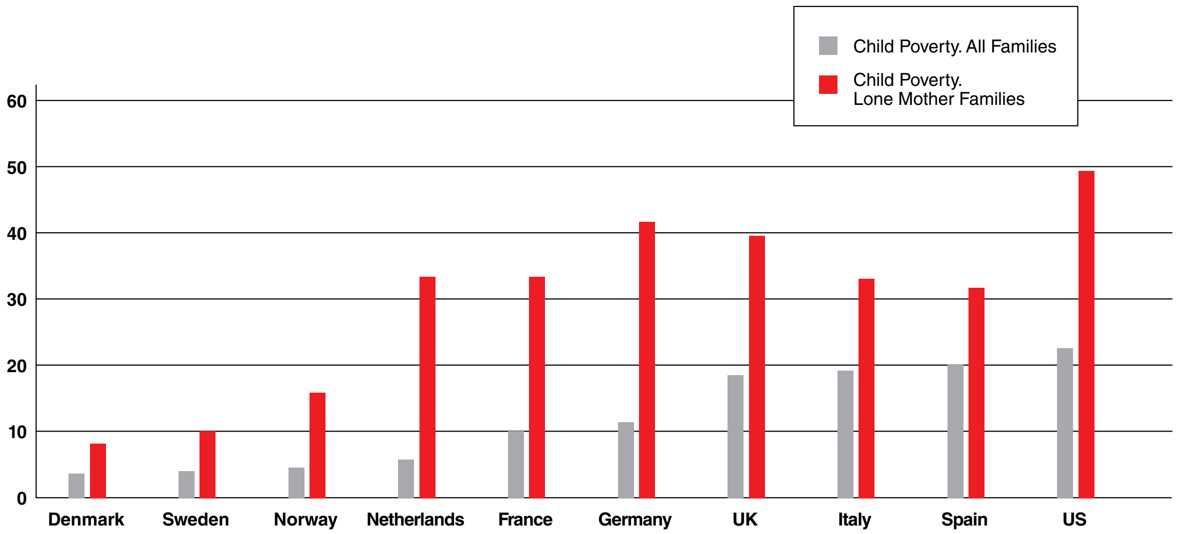
[1] For an overview, see C. Goldin and L. Katz, *The Race between Education and Technology*. Belknap Press (2008)
[2] An excellent synthesis of how inequality harms the opportunity structure can be found in Miles Corak, 'Income inequality, equality of opportunity, and intergenerational mobility'. *IZA Discussion Paper*, no. 7520 (2013).
[3] Reported in G. Esping-Andersen (2009), The Incomplete Revolution. Cambridge: Polity Press

of poor child families remain so for 3+ years in the US. This compares very unfavorably to Denmark's 3 percent or Germany's 9 percent.[4]

But there is a first important lesson to be learned here. When mothers work, child poverty falls precipitously. Within two-parent families it virtually disappears; for solo mothers the rate drops sharply. Data for Sweden illustrate very well the magnitudes: in couple families with only one worker, child poverty is 18.5%, dropping to 1.4 when there are two earners; in workless lone parent families we find a 54.5% poverty rate which falls to 11% when she is employed. The Nordic countries fare comparatively well, child poverty wise, because of their strong welfare states and because maternal employment is practically universal.[5]

This leads me to the second set of family demographic changes, namely the surge of female and, in particular, maternal employment. This is obviously good news as far as child poverty is concerned, but it may arguably also exacerbate overall inequalities. Why?

First of all, it is clear that the rise in women's labor supply has been socially very asymmetric. Higher educated women generally exhibit far higher employment rates than do the less educated. And when the latter do work, they are more likely to interrupt and/or opt for a part-time status. Where the social gradient of female labor supply is upwardly biased one would expect an added inegalitarian effect at the household level.



Source: Luxemburg Income Study Cross-Natural data. Poverty is defined as less than 50% of medium (ajusted) income.

[4] G. Esping-Andersen and J. Myles, 'Economic inequality and the welfare state'. Chapter 25 in W. Saverda, B. Nolan and T. Smeeding, eds. *The Oxford Handbook of Economic Inequality*. Oxford University Press (2009)

[5] These data can be found in OECD's Family Data Base.

[6] For detailed data, see chapter 5 in OECD's *Divided We Stand* (OECD, 2011)

Societies that permit vast inequalities in child welfare will by fiat end up under-investing in their future productive potential.

This is especially so since assortative partnering is on the rise, in particular at the top and bottom of the social pyramid. In most advanced societies, about half of all working couples belong to the same income quintile.[6] Two professionals will double up their high earnings and thus distance themselves from the rest. And if female employment is especially low among the less educated, the bottom of the pyramid will fall even further behind in terms of relative income.

But does female employment actually induce greater income polarization? Logically, it is more likely to do so where the educational asymmetries of women's labor supply are great, i.e. in the early phases of the female 'revolution'. Comparing across nations we would therefore expect an inequality-producing effect in countries like Italy or Spain, but not in Scandinavia where virtually all women work. And yet, additional family demographic factors may very well play a major role here - in particular the propensity to partner in the first place. For example, in a number of countries (very) highly educated women are far more likely to remain single and this would of course reduce the income bonus effect associated with being a highly educated double-earner couple. But here again we witness a genuine u-turn (most visibly in the U.S.): rising marriage rates among the higher educated parallel the increase in singlehood among the low educated.

There has been surprisingly little research on this issue and it is therefore difficult to present firm conclusions. In one of the few studies which focus directly on the assortative marriage effect, the American economist Hyslop concluded that women's employment augments inequalities, primarily because top earners marry each other. But the weight of the evidence points in the opposite direction. Most recent studies conclude that the female income effect is equality producing in basically all advanced nations, including the laggards of the female revolution.[7] Or, to be more precise, as female employment becomes increasingly universal its equality producing potential will increase. This explains why we systematically find exceptionally strong equalizing effects in Scandinavia. Why we observe this also in nations with a far more skewed labor supply profile is less evident. One tempting explanation is the poverty reduction effect of mothers' employment. A second is that the trend towards wage polarization is primarily found among males and far less among women. And a third lies in government redistribution: low income households receive more income transfers while two high earners are taxed more heavily.

Children's life chances may indeed be polarizing

The interface of family change and rising economic inequality is arguably worsening the opportunity structure for the coming generations. When differentials in families' living standard widen so too will parents' ability to invest in their offspring. In fact, recent U.S. research reveals a deepening abyss: over the past decades, parents in the top income quintile have tripled their spending on children while the trend is stagnant in the bottom quintile. The net effect is that high income families now spend seven times as much per child as do those with low income. This is bound to influence children's health

[7] Perhaps the best single overview of this issue can be found in Susan Harkness, 'Women's employment and household economic inequality'. Chapter 7 in J. Gornick and M. Jantti, eds. *Income Inequality: Economic Disparities and the Middle Class*. Stanford University Press (2013). See also OECD's Divided We Stand (2011)

[8] These effects are very well documented in G. Duncan and R. Murnane, eds, *Whither Opportunity? Rising Inequality, Schools, and Children's Life Chances*. Russell Sage (2011)

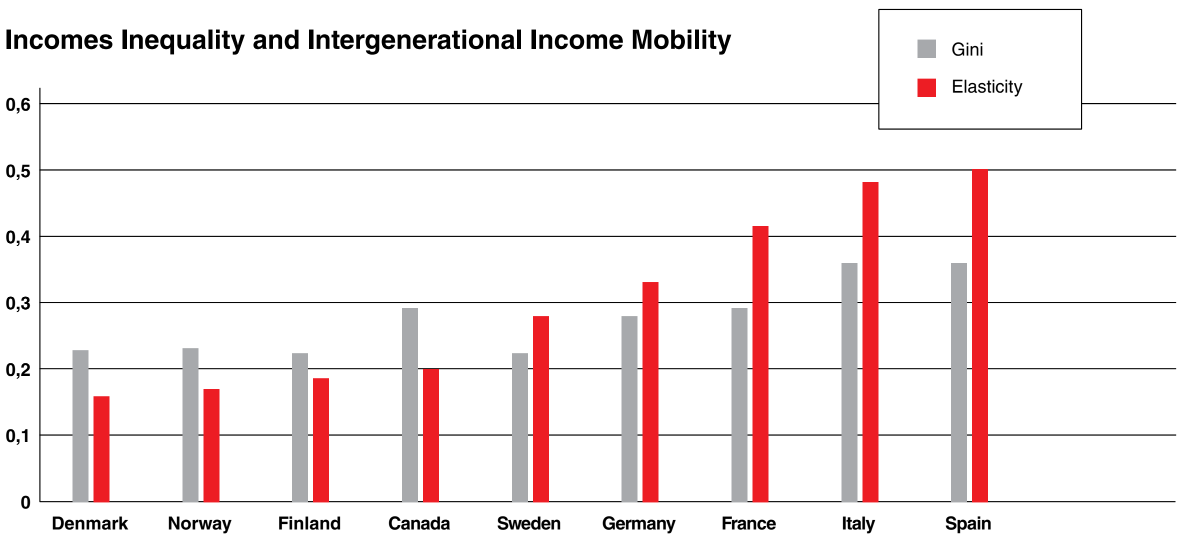
[9] A synthesis of the child effects presented here can be found in G. Esping-Andersen (2009: Chapter 4)

and the quality of their child care and school experience.[8] The income effect is particularly strong for poor families, rather more so in the U.S. than in Europe. But this is solely a matter of degree. A poor child is likely to experience far worse health and will, on average, end up with two less years of schooling than a non-poor child. This subsequently translates into post-secondary and higher educational attainment and, further on, into adulthood. A child from a poor family is more than twice as likely as others to become also a poor parent.[9]

It is, to be sure, difficult to disentangle the precise causal mechanisms that produce such results: is it simply an income effect? Or are the real drivers to be found in the - largely unobservable - parent characteristics that also explain why they are income poor to begin with? As child development experts and, more recently, James Heckman emphasize, all the evidence shows that the seeds of children's life chances are sown very early in life, in particular in the pre-school ages. This is of course also when they are mostly dependent on their parents - not only economically, but perhaps even more importantly in terms of learning and cognitive development.

And here we observe, once again, a diverging destinies scenario. There is first of all a steep and widening gap between high and low educated parents with regard to how

Incomes Inequality and Intergenerational Income Mobility



Source: the graph is reproduced from G. Esping-Andersen, *The Incomplete Revolution* (Chapter 4)

[10] Here again I draw heavily on Corak (2013, op.cit).

Whether mounting dualisms in children's welfare are produced by widening income or parenting differentials - or worse, by the two in tandem, the net outcome is likely to be the same: less mobility across the generations.

much time they invest in children and also to its quality. The higher educated dedicate about twice as much caring time as do the low educated, they are roughly twice as likely to read with the children every day, and they will also impart a much richer vocabulary that, later, will be amply rewarded. This bias is almost certain to strengthen as divorce and lone parenthood is ever more concentrated in the low-SES population. From the OECD's PISA studies we see, for example, that kids of lone mothers will, on average, score 10% lower on cognitive tests than kids from two-parent households (holding all other relevant factors constant).

The Great Gatsby Curve

Whether mounting dualisms in children's welfare are produced by widening income or parenting differentials - or worse, by the two in tandem, the net outcome is likely to be the same: less mobility across the generations.[10]

The 'Great Gatsby Curve' was first coined by Alan Kruger as a way to illustrate how the opportunity structure for coming generations is influenced by the levels of inequality that obtained in their childhood.

The curve connects two variables: firstly, the strength of the association between parent and offspring income (when the child is adult); the higher is the correlation, the less mobility there is; and, secondly, the degree of income inequality (measured with the Gini coefficient) that prevailed when the offspring was a child. What the Great Gatsby Curve depicts is a clear upwardly sloping curve. Countries (such as Italy, the U.K. and the U.S.) with the greatest degree of income inequality are the very same in which we find a strong parent-child income correlation. And vice versa, inter-generational mobility is far greater - indeed, almost three times as great - in countries (like the Nordic) where income inequality is modest. The figure below depicts the logic.

Conclusion

There are two weighty reasons why we should worry about mounting inequalities in the lives of our children today. Firstly, we are demographically speaking ageing; in low-fertility countries the future population scenario is dramatic. Our well-being as the elderly depends not simply on the number of young producers, but also on the quality of their human capital. Societies that permit vast inequalities in child welfare will by fiat end up under-investing in their future productive potential. The OECD's PISA results demonstrate this with great clarity. In countries like the US and Spain, a fifth of all 15-year olds score below the PISA minimum; in the more egalitarian societies (like the Nordic or Germany) the share of cognitively dysfunctional youth is below 10%.

The second reason is simply that the kind of world that the Great Gatsby epitomizes represents a direct violation of those basic conceptions of fairness and social justice that underpin our civilization, full-stop. ■

Recent Trends in Income Inequality in the Developed Countries

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This article[1] conducts a review of income inequality in OECD countries. The UK and Greece are top of the list, with the most unequal societies, in addition they also point to a worrying trend of the top end pulling away from the middle.

Introduction

The debate about income inequality and its effects on opportunity, social mobility and other outcomes has gained considerable momentum in part because of the Great Recession and in part because of the availability of long run income data for the top 1 per cent of tax units in most rich nations. This paper reviews the recent trends in income inequality for the relatively rich (OECD) countries, providing the main facts on these trends and suggesting major issues that need to be taken into account when discussing patterns of inequality in rich nations.

There are several reasons for the mounting interest in the distributional issue. First, many countries have reached inequality levels only seen in the pre-Second World War period, posing pressing concerns about the inclusiveness and fairness of economic growth as well as the effectiveness and future of social policies. Secondly, an increasing concentration of income and wealth in the hands of the few poses serious challenges to the foundations of well-functioning democracies as economic power begets political power and influence. Last but not least, despite the magnitude of the recent crisis, distributional concerns are far from being at the centre of the political debate. In fact, the most common policy responses in the wake of the crisis, austerity policies to limit government intervention and redistribution, may exacerbate rather than reduce the extent of income concentration.

The good news is that inequality can now be examined with a new wealth of data that has become available over the past 15 years. Although this expands the possibility of analysis, one should be aware of the limitations and shortcomings plaguing the data as well as the attempt to compare trends and levels across countries.

Examining the Income Distribution

When exploring inequality there are at least two main issues to clarify: the nature of the welfare dimension under investigation; and the inequality indicator we use (including the source of the data).

First of all, we focus on household income derived from the market (MI)[2] and not on wealth, consumption or other dimensions of well-being.[3] [4]In addition we focus on disposable household income (DHI – market income net of direct taxes and social insurance contributions, and including public sector cash and near cash income transfers) .

[1] The authors wish to thank their organizations for support of this work; but they alone are responsible for all opinions and conclusions expressed in this chapter.

[2] To acknowledge the size and the composition of the households, any household income would also be equivalized (divided by an equivalence scale) so that both the extra costs of numerous families and its economies of scale are taken into account. The equivalence scale used here is the "modified OECD scale", which gives a weight of 0.3 to every child, a weight of 1 to the first adult and of 0.5 to each additional one. As an example, the income of a family composed of two adults and one child would have to be divided by a factor of 1.8.

[3] There is much more agreement on the "ideal" definition of income and the topic has been widely investigated (see the two recommendations of the reports of the Expert Group on Household Income Statistics – Canberra Reports 2001 and 2011) allowing many researchers and statistical agencies to produce comparable data according to precise guidelines. "Consumption data are not yet comparable enough to use in cross-national analysis; wealth data comparability has begun, but has not yet flowered. There are only scattered cross national studies of wealth or asset poverty" to use the words used in our recent paper for the Handbook of Income Distribution volume 2 (Morelli, Smeeding and Thompson, forthcoming).

[4] The comparison between gross and disposable household income highlights the role of fiscal redistribution over time and across countries.

Secondly, the Gini coefficient is used to describe the extent of concentration or *inequality*[5]. The indicator takes values from 0 to 100 and indicates the presence of greater inequality as the observed Gini increases[6]. The Gini coefficients analysed here are taken uniquely from the OECD dataset[7]. This is considered to be an appropriate choice for two main reasons. First of all, the data allows cross-country comparability of inequality levels and trends up to a most recent time period. Secondly, one can find both disposable and market income Ginis for many OECD countries.

The Inequality Situation in Rich nations

These data reveal trends in inequality for the OECD countries since the mid-1970/mid-1980s as depicted in Figure 1; and in Figure 2, the longer term trend in inequality[8].

Levels

The countries in Table 1 are arranged according to the level of their DHI (after tax and transfer income) inequality, and show also MI inequality and the difference between the two owing to redistributive tax and transfer policy. We begin with the top end of the bars. The United Kingdom and Greece appear to be the most unequal OECD countries based on the most recent (around 2010) Gini coefficient for MI Of 52 (market income before direct taxes and transfers). They are closely followed by France, Italy, Israel and the United States. On the other end of the spectrum the lowest MI Ginis are found in the Netherlands, Norway, Denmark and Sweden.

The disparity of income is reduced by taking taxation and transfers into account as the lower dark bars indicate. However, the redistributive effect of taxation and income transfers varies substantially across countries. Indeed, direct taxes and transfers reduce the expected country-specific difference between the incomes of any random pair of households (as a share of the mean income) by approximately 24 percentage points (2*12 percent) in United States and Canada or by 44 percentage points (2*22) for Belgium and Finland. These differences are not correlated with the MI Gini as smaller effects, 12-14 point differences between MI and DHI Ginis are found in highly unequal DHI countries (Israel, USA) and in more equal DHI countries (Netherlands). Countries with large redistributive effects (20 or more percentage points) include France, Germany, Belgium and Finland. Those with 15 points or less difference in Ginis include Japan and Australia.

Large differences in redistribution across nations suggest that the ranking of inequality across nations is not always preserved moving from MI to DHI Ginis. In particular, although US, UK and Israel still stand out for their most unequal distribution[9], Italy and France display much more equality now than in earlier years (See Appendix Table 1). In Figure 1, there is a much higher correlation for MI Ginis than DHI Ginis, suggesting that differences in tax and benefit policies are important drivers of DHI inequality.

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[5] It is worth noting that the Gini coefficient is neither the only available indicator of inequality nor necessarily the best one. We direct the most interested readers to Atkinson and Morelli(2012) and Morelli, Smeeding and Thompson (forthcoming) for further discussion on different inequality indicators.

[6] The Gini coefficient has a more intuitive, although less used, interpretation: "*A Gini coefficient of G per cent means that, if we take any 2 households from the population at random, the expected difference in their incomes is 2G times the mean*." *(Atkinson and Morelli, 2012)* This is, for instance, particularly helpful to interpret the redistribution effect of taxes and transfers (reductions in the Gini coefficient) as a specific reduction in the expected difference in income amongst all the households within the economy.

[7] See OECD income distribution database, available at http://www.oecd.org/els/soc/income-distribution-database.htm .Another iimportant sources of inequality data for a much larger set of countries and for a longer period come from the Luxembourg Income Study(LIS) database at http://www.lisdatacenter.org/

[8] The actual values are in Appendix Table 1.

[9] This pattern remains remarkably unchanged from mid-1970s to around 2010.

Trends

We observe in Figure 1 (and Appendix Table 1) that all countries have experienced a substantial widening in market income inequality since the mid-1980s (the US experienced an increase in the Gini of approximately 6 percentage points from 44 to 50 whereas Canada and the UK had an increase of 5 points). The only exception is the Netherlands, where the gross Gini decreased during the 2000s after an increase in the mid-1990s.

Most importantly, almost all countries have experienced rising inequality in disposable income since the early 1980s, and only in a few cases has the distribution of disposable income reached a plateau (the most notable cases are Japan, Italy and the UK). The United States witnessed large increases in inequality in the late 1970s and 1980s and only modest increases in the second half of the 1990s. Nonetheless, the level of inequality in the late 2000s was not far from that experienced in the early 1990s. The inequality in other countries experienced a fall in the 1970s or the 1980s before increasing in the 1990s (Finland, Sweden and Canada).

The evolution of inequality of disposable (equivalized) household income is therefore clearly the result of the evolution of the tax and transfer systems in a specific country. Additional analyses of these data would find that most of the rise in inequality is because the top end of the income distribution is pulling away from the median. This is most surely the case in nations like Sweden and the Anglo-Saxon nations (Canada, United Kingdom, Australia, United States) . But to better examine changes at the top of the distribution, we can draw on tax data which more clearly and consistently record these changes.

Top Income Shares

This section focuses on a new set of data (the World Top Income Database, WTID) calculated from tax statistics, describing the share of national pre-tax pre-transfers income accruing to the richest percentage of a country's population, or the so-called 'top income shares'.

These data are constructed from tax and administrative records or grouped tabulations, and are particularly suitable to estimate the market incomes of the top of the income distribution. The income of the very rich is indeed very difficult to capture with household surveys. On the one hand, the use of top-coding methods limits the observation of high incomes by construction.

Tax-based data have their own limitations too. Most notably, tax evasion and tax avoidance may substantially bias the true share of national income accruing to rich tax units. Similarly, changes in tax legislation may bring about an expansion or a reduction of the tax base, allowing the inclusion or the exclusion of particular market or other income sources and affect the level and potentially the trend in top income shares. Furthermore, these data are recorded for tax units, not households, and cannot tell us much if anything about redistribution.

The new data makes clear that for most of the countries under investigation the bulk of the action in the income distribution has

An increasing concentration of income and wealth in the hands of the few poses serious challenges to the foundations of well-functioning democracies as economic power begets political power and influence.

taken place at the very top, especially since the 1980s. It is possible that the trends in income inequality as shown in Figure 1 are understated to the extent that they are not fully capturing what is happening at the very top.

Trends in Top Shares

Figure 2 portrays the dynamics of the top 1% share of national income for all the available OECD countries with shares standardized to 100 in 1980. We group the countries in different clusters: Nordic European (Denmark, Finland, Norway and Sweden), Southern European (Italy, Portugal, and Spain), Western English speaking (Australia, Canada, Ireland, New Zealand, United Kingdom and United States), and Continental European countries (France, Germany, Netherlands and Switzerland) together with Japan.

The findings clearly suggest that the top 1% share has been rising in most of the countries under investigation. The common pattern takes the form of a U shape but the extent of the "U turn" and the timing of the turning point vary across country groups. Generally speaking, top shares decreased since the post-war period before inverting the trend in the early 1980s-1990s. Whereas Southern European and the Anglo-Saxon countries experienced a rebound of top shares growth in the early 1980s, the Nordic and the Continental European countries (and Japan) experienced a relatively small growth of top shares during the 1980s before showing clearer signs of increase in income concentration during the 1990s.

The increase in inequality also varied across countries. For instance, the top 1% increased by 40 percent and 15 percent respectively between 1980 and 2010 in Italy and in Spain. However, the top 1% more than doubled in Portugal over the same period. In France and Japan, for which full period coverage of the data exists, the top share rose approximately and respectively 15 percent and 30 percent between the mid-1990s and the mid-2000s - with the exception of Norway, where the top 1% doubled[10] between 1990 and 2000. Post-1990 increases were smaller in the other Nordic countries. Denmark's top share increased by 15 percent between the late 1980s and the late 1990s, before decreasing again in the late 1990s and early 2000s. The post-1990 growth of top shares appears to have halted in Finland and Norway in the 2000s. And yet, Sweden shows a more constant and gradual rise for the top 1%: a 70% cumulative percentage change since 1980s.

The surge in top incomes is especially strong in the English speaking countries (except New Zealand). Australia, Canada, UK and the US saw their top 1% shares increasing by 60-70 percent between 1990 and the onset of 2007 financial crisis; Ireland witnessed growth of around 90 percent in the same period.

The cyclicality of the top-income shares is also clear in the trends calculated with the WTID. Recessions have depressed the incomes of the rich especially, but their incomes have bounced back even stronger.

Conclusions

Cross-national DHI inequality rankings in the most recent 2010 data look largely similar to how they appeared fifteen or even thirty years ago. The English-speaking countries

[10] In 2005, Norway experienced an unusually large spike in the top 1% share. This is attributed to the anticipation of dividends payment to take advantage of tax policy changes announced for 2006.

(led by the US and the UK) are the most unequal, and the Nordic countries are the least unequal. Major differences in the effects of redistribution produce very different patterns in the distribution. Redistribution therefore clearly matters for the final level of DHI inequality.

DHI inequality rose (almost) everywhere over the 1970 to 2010 period, with some flattening in the Great Recession (GR). Small changes year to year produce strong trends over a 20-30 year period. Long-term increases are evident in the Gini coefficients (as well as other measures)[10], in disposable household income, and also in top-income shares. DHI distribution measures increased most in the 1970s-1990s (depending on the country) but rose less, and were sometimes stable, in the 2000s. Examining top-income shares, however, we see that inequality is still rising, with no signs of having "peaked."

The 1950–1980 period has always stood out as the "golden age" for labour, with widespread earnings and wage gains and falling- or stable inequality in the rich western nations. But the pattern is now very different: the majority of nations now show a U shaped pattern of inequality, with rising inequality.[11] The WTID show an even stronger U shape in inequality trends. It is also clear that one has to examine capital income as well as earned income in assessing inequality tends. Rising income from capital is more concentrated at the top of the distribution.

The relentless rise in top income shares poses new challenges to the informative content of income inequality. Conventional measures such as the Gini coefficient may be increasingly understating the actual extent of change in income inequality. Moreover, there is evidence that the relationship between the Gini and top shares has become weaker over the past decade. ■

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[10] See Morelli, Smeeding and Thompson(forthcoming)
[11] See Gottschalk and Smeeding (1997; 2000)

Appendix

Table 1: Household Income inequality and redistribution of government intervention over time for a selection of OECD countries.

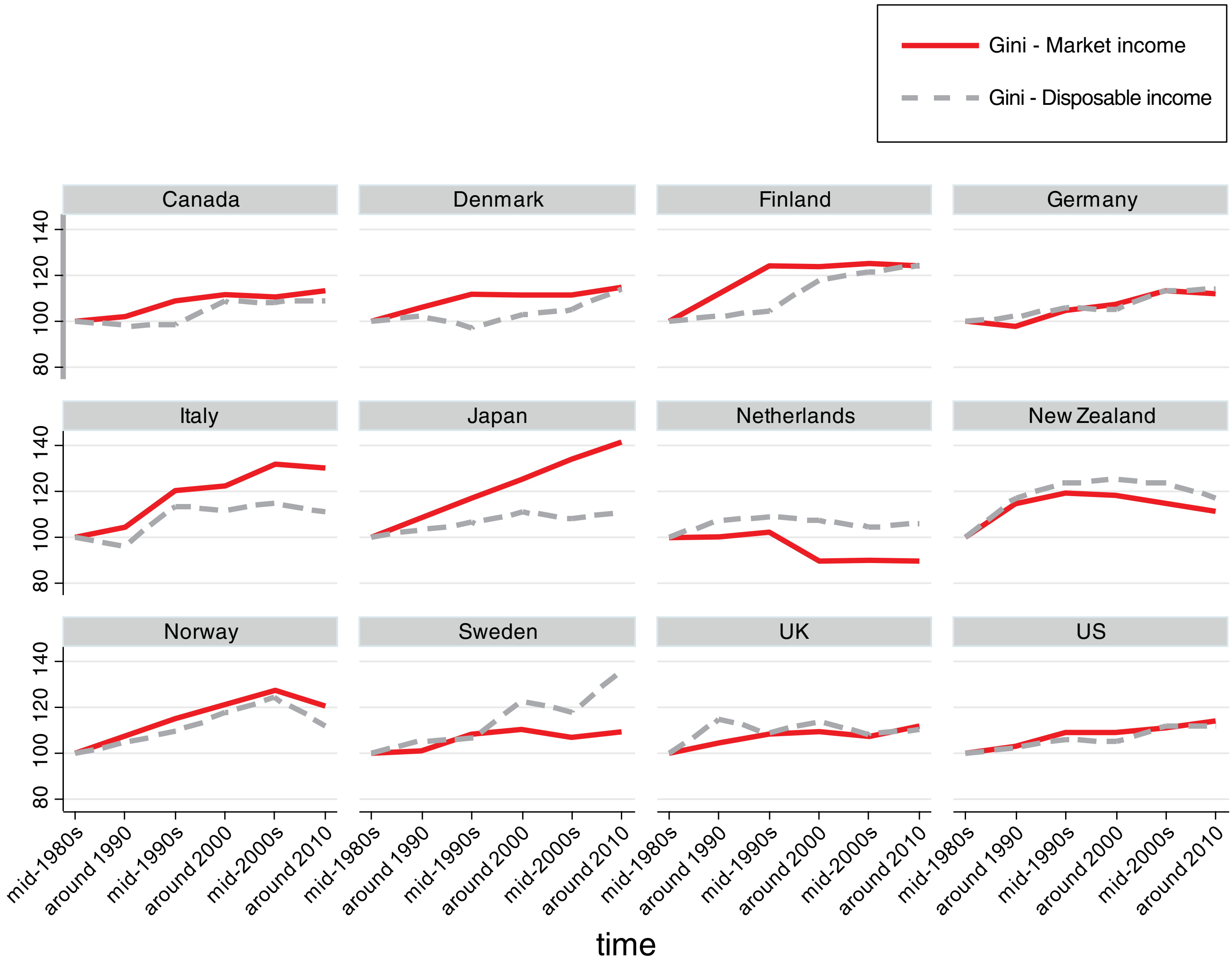
	Inequality / Redistribution	mid-1970s	mid-1980s	around 1990	mid-1990s	around 2000	mid-2000s	around 2010
Australia	A. market income Gini				0.467	0.476	0.465	0.469
	B. DHI - Gini				0.309	0.317	0.315	0.334
	C. Redistribution = A - B				0.158	0.159	0.150	0.135
	A. market income Gini						0.482	0.478
	B. DHI - Gini						0.269	0.262
	C. Redistribution = A - B						0.213	0.216
	A. market income Gini	0.385	0.395	0.403	0.430	0.440	0.436	0.447
	B. DHI - Gini	0.304	0.293	0.287	0.289	0.318	0.317	0.320
	C. Redistribution = A - B	0.081	0.102	0.116	0.141	0.122	0.119	0.127
Czech Republic	A. market income Gini				0.442	0.472	0.461	0.449
	B. DHI - Gini			0.232	0.257	0.260	0.259	0.256
	C. Redistribution = A - B				0.185	0.212	0.202	0.193
Denmark	A. market income Gini		0.373	0.396	0.417	0.416	0.416	0.429
	B. DHI - Gini		0.221	0.226	0.215	0.227	0.232	0.252
	C. Redistribution = A - B		0.152	0.170	0.202	0.189	0.184	0.177
Finland	A. market income Gini		0.387		0.479	0.478	0.483	0.479
	B. DHI - Gini		0.209		0.218	0.247	0.254	0.260
	C. Redistribution = A - B		0.178	0.000	0.261	0.231	0.229	0.219
France	A. market income Gini				0.473	0.490	0.485	0.505
	B. DHI - Gini				0.277	0.287	0.288	0.303
	C. Redistribution = A - B				0.196	0.203	0.197	0.202
Germany	A. market income Gini		0.439	0.429	0.459	0.471	0.499	0.492
	B. DHI - Gini		0.251	0.256	0.266	0.264	0.285	0.286
	C. Redistribution = A - B		0.188	0.173	0.193	0.207	0.214	0.206

	Inequality / Redistribution	mid-1970s	mid-1980s	around 1990	mid-1990s	around 2000	mid-2000s	around 2010
Greece	A. market income Gini						0.471	0.522
	B. DHI - Gini	0.424	0.345		0.345	0.354	0.340	0.337
	C. Redistribution = A - B						0.131	0.185
Israel	A. market income Gini		0.472	0.476	0.494	0.504	0.513	0.501
	B. DHI - Gini		0.326	0.329	0.338	0.347	0.378	0.376
	C. Redistribution = A - B		0.146	0.147	0.156	0.157	0.135	0.125
Italy	A. market income Gini		0.386	0.402	0.465	0.472	0.510	0.503
	B. DHI - Gini		0.287	0.275	0.326	0.321	0.330	0.319
	C. Redistribution = A - B		0.099	0.127	0.139	0.151	0.180	0.184
Japan	A. market income Gini		0.345		0.403	0.432	0.462	0.488
	B. DHI - Gini		0.304		0.323	0.337	0.329	0.336
	C. Redistribution = A - B		0.041		0.080	0.095	0.133	0.152
Luxembourg	A. market income Gini						0.467	0.464
	B. DHI - Gini		0.247		0.259	0.261	0.277	0.270
	C. Redistribution = A - B						0.190	0.194
Netherlands	A. market income Gini	0.426	0.473	0.474	0.484	0.424	0.426	0.424
	B. DHI - Gini	0.263	0.272	0.292	0.297	0.292	0.284	0.288
	C. Redistribution = A - B	0.163	0.201	0.182	0.187	0.132	0.142	0.136
New Zealand	A. market income Gini		0.408	0.468	0.488	0.484		0.454
	B. DHI - Gini		0.271	0.318	0.335	0.339	0.335	0.317
	C. Redistribution = A - B		0.137	0.150	0.153	0.145		0.137
Norway	A. market income Gini		0.351		0.404	0.426	0.447	0.423
	B. DHI - Gini		0.222		0.243	0.261	0.276	0.249
	C. Redistribution = A - B		0.129	0.000	0.161	0.165	0.171	0.174
Sweden	A. market income Gini	0.389	0.404	0.408	0.438	0.446	0.432	0.441
	B. DHI - Gini	0.212	0.198	0.209	0.211	0.243	0.234	0.269
	C. Redistribution = A - B	0.177	0.206	0.199	0.227	0.203	0.198	0.172
United Kingdom	A. market income Gini	0.378	0.469	0.490	0.507	0.512	0.503	0.523
	B. DHI - Gini	0.269	0.309	0.355	0.337	0.352	0.335	0.341
	C. Redistribution = A - B	0.109	0.160	0.135	0.170	0.160	0.168	0.182
United States	A. market income Gini	0.406	0.436	0.450	0.477	0.476	0.486	0.499
	B. DHI - Gini	0.316	0.340	0.349	0.361	0.357	0.380	0.380
	C. Redistribution = A - B	0.090	0.096	0.101	0.116	0.119	0.106	0.119

Sources: Data are obtained from the OECD.Stat (extracted on 30 Oct 2013). Data elaborated by the authors.

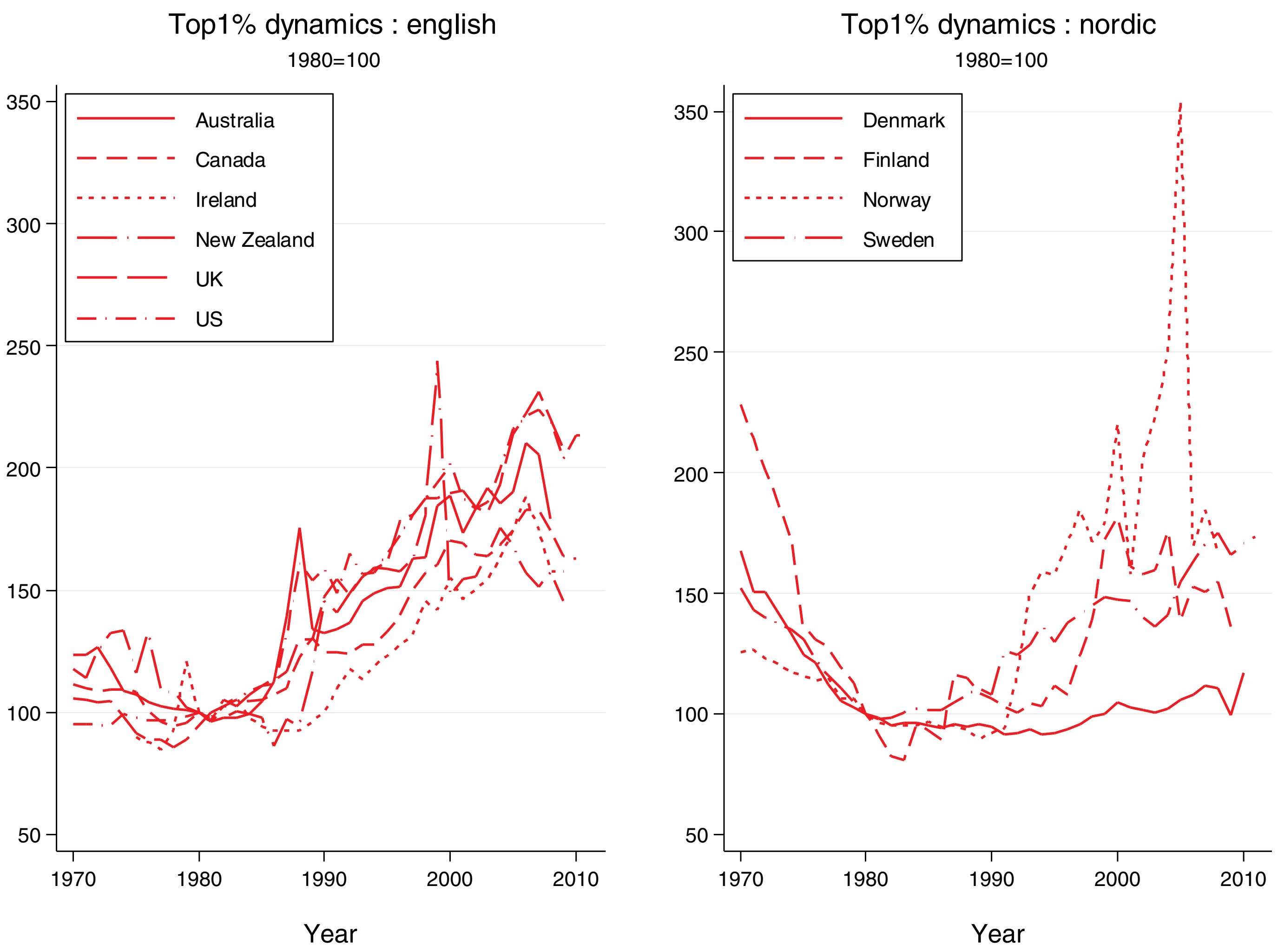
Notes: The table shows the extent of inequality for a selection of OECD countries. Inequality is measured with Gini coefficient for the whole population using household equivalized (OECD scale) market income (A. Market income Gini) or household equivalized disposable income (B. DHI-Gini) obtained by subtracting direct taxes and transfers to market income. The extent of redistribution is obtained by subtracting the two Gini indexes (C. Redistribution = A-B). A different measure of the redistribution power of government fiscal intervention (D. Redistribution (only working age) is obtained by subtracting Gross and Net Gini based on the working age population only (15-65 years).

Figure 1 Trend in Gini coefficients across a selected number of OECD countries (1980=100)



Source: Data are obtained from the OECD.Stat (extracted on 30 Oct 2013). Data elaborated by the authors.
Notes: Inequality is measured with Gini coefficient for the whole population using household equivalized (OECD scale) market income (Gini- Market income) or household equivalized disposable income (Gini-Disposable income) obtained by subtracting direct taxes and transfers to market income.

Figure 2 **The trend of top 1 % across OECD countries** (continued on page 33)
(1980=100)



Source: Data are obtained from the WTID dataset (extracted on Sep 2013). Data elaborated by the authors.
Note: Data were originally elaborated for the analysis in Morelli, Smeeding and Thompson (forthcoming).

Figure 2 The trend of top 1 % across OECD countries
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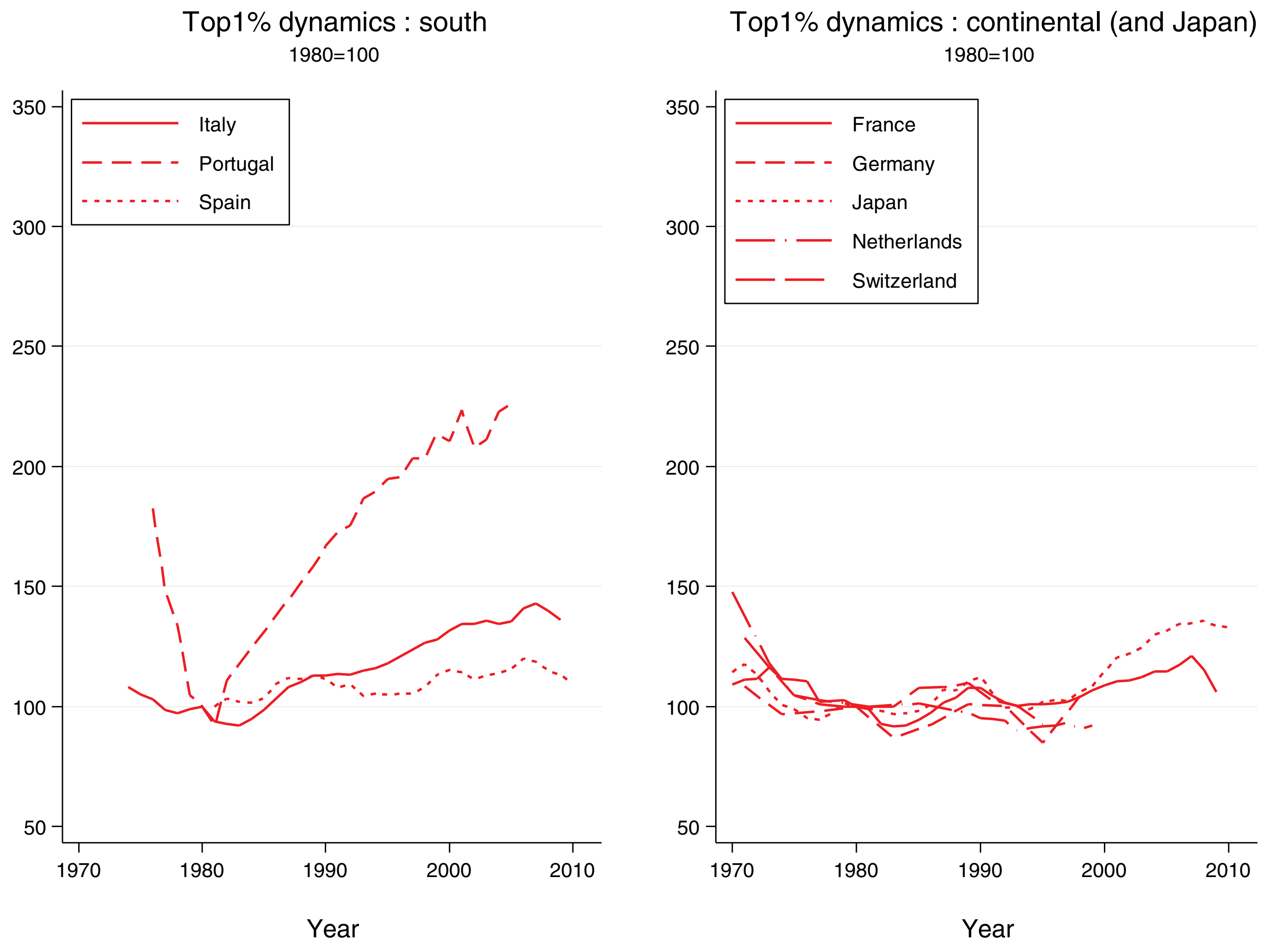

Source: Data are obtained from the WTID dataset (extracted on Sep 2013).
Note: Data were originally elaborated for the analysis in Morelli, Smeeding and Thompson (forthcoming)

Drivers of Inequality: Past and Present Challenges for Europe

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This article provides an outline of why inequality continues to increase and the implications it will have on policies. The authors argue that the current policies promote a lack of contribution from the very rich and target low and middle income families which has resulted in a more fragile economy and harsher and unequal conditions in society.

The crisis has brought income distribution, and the issue of increasing inequality, to the front of the policy debate. As is widely documented, (IMF, 2007; OECD, 2008; Piketty and Saez, 2013; Piketty, 2013; Piketty et al., 2011), inequality increased substantially, both in developed and in emerging economies, starting from the late 1970s. There are reasons to believe that the increase in inequality was one of the determinants of increasing imbalances in the world economy which enhanced the fragility of the economy at the outset of the global financial crisis (Fitoussi and Saraceno, 2010, 2011). The crisis in turn deepened inequality and has created a vicious cycle that is imposing large social costs especially in European countries (iAGS, 2013; OECD, 2011; Pickett, 2013; Stiglitz, 2013). But why did inequality increase in the first place? And what generated the vicious cycle between economic performance and income distributions? What does this imply for the policies to be followed in the current situation and in the years to come? This article will outline an answer to all these questions.

The Traditional View on Increasing Inequality

The relationship between income distribution and economic performance did not play an important role in the economic debate of the past four decades due to the revival of the neoclassical tradition after the Keynesian crisis of the 1970s. Neoclassical theory postulates that incomes are "objectively" determined by the fundamentals of the economy, namely the marginal productivity of factors of production. This postulate leads to the traditional textbook dichotomy between efficiency and fairness, that underlies the concept of Pareto optimality, and has long fed the idea that the economist's job is to study the conditions for optimal allocation of resources among participants to the economic process (in order to maximize social welfare). Once overall welfare is maximized, economists left the task of choosing the distribution of income to sociologists, political scientists, anthropologists, provided this distribution did not distort the incentives of agents.

With this in mind, the increase of inequality would be explained by the joint operation of two phenomena. The first is the swift technological progress that characterized the end of the twentieth century; these advances are mostly linked to the IT revolution and to the diffusion of computers that mostly benefited high-skill workers, to the detriment of those with no or little education (Katz and Autor, 1999; Rajan, 2010). According to the traditional view, the second phenomenon impacting wage inequality is globalisation. The entrance of low-skilled workers, from emerging and developing economies, into the global labour market lowered the average marginal productivity of labour. Furthermore, increased competition increased pressure on unions and wage setters to eliminate wage rigidities (see e.g. Card et al., 2004). The consequence of this has been a reduction of labour's share of national income with respect to capital. Skill-based technical progress and increased competition in the globalised labour market would explain increasing (wage) inequality as an ineluctable process that policy was not supposed to address unless at the price of reduced efficiency and growth. The idea that the "tide lifts all boats" would serve as a justification for the extraordinary growth of high and very high incomes (the "superstar economy", see Dew-Becker & Gordon 2005) that accompanied the two prosperous decades 1990s and 2000s.

Merit or Predation?

The financial crisis challenged the traditional view. First, because in spite of the heavy hit taken by the financial sector, it disproportionately hit people on middle and low incomes (OECD, 2011; Stiglitz, 2013). Second, because it called for a deeper understanding of the impact of income distribution on economic performance beyond its effects on incentives. The crisis marked in effect the arrival point of a process during which inequality either depressed growth, or triggered increasing debt by households at the bottom of the distribution (Cynamon and Fazzari, 2008; Fitoussi and Saraceno, 2010, 2011).

In particular, Galbraith (2012) and Stiglitz (2013) highlight that much more than fundamentals, like globalisation and technological progress, what accounts for most of the increase of inequality in the past decades is the rise of predatory behavior. Precisely because the elites have been appropriating more than a fair share of national wealth, increasing inequality has been hampering well-being and distorting the economy. The rise of the rent-seeking and predatory behaviour has coincided with the paramount role played by an increasingly deregulated financial system, where the disconnect between wages and marginal productivity quickly became evident. Galbraith and Stiglitz argue convincingly that most of the top earners gradually specialised in maximising the part of the pie they appropriated instead of contributing to making the pie larger. Predatory lending and abusive credit card practices, that lie at the core of the subprime bubble, are the most typical examples of rent-seeking behaviour that transferred vast amounts of resources from the lower and the middle classes to the rich and the very rich.

Emphasising rent-seeking helps explain why the increase of income inequality in the past decades benefited the very top incomes (Piketty et al., 2011); more importantly, it also highlights the importance of policy choices. The economic power of the elites and the conservative revolution in politics mutually reinforced each other, leading to increasingly less progressive tax systems, and to a downsising of the welfare state. (Creel and Saraceno, 2010; Hacker and Pierson, 2010).

High returns in finance, and its increasing weight in GDP, triggered a vicious loop by which no real sector investment could compete with the yields offered by the financial sector. The result, Galbraith and Stiglitz argue, has been an enormous siphoning of resources from productive uses of savings into financial assets whose value was mostly inflated. The tendency of advanced economies to jump from bubble to bubble can therefore be explained, among other things, by the increase in inequality (see also Fitoussi and Saraceno, 2011).

Europe, more than the rest of the world, has entered a vicious cycle, in which inequality makes the crisis harder, and the crisis in turn has unequal effects on different social and income groups, therefore further deepening inequality and increasing the fragility of the economy.

Rent-seeking and the rise of finance seem more convincing than the traditional view in explaining the rise of the superstar economy. After all, it is hard to relate the top executive incomes to their marginal contribution to the revenues of their firm, not to mention social welfare.

Inequality and the European Crisis

Since 2010 the global crisis evolved into a European sovereign debt crisis, unveiled by serious public financial problems in Greece. Instead of being interpreted as the sign of major problems with the governance of the Eurozone (Fitoussi and Saraceno, 2013; Saraceno, 2013), it was tackled by European leaders as a problem of fiscal profligacy. Why a private debt problem, say in Spain and Ireland, became a public debt problem was not a question really investigated by the European authorities (Fitoussi, 2013). The consequence has been generalised austerity, in the periphery as well as in the core of the Eurozone, which stifled growth and delayed recovery. More importantly, austerity policies and liberal structural reforms disrupted the social fabric, especially in peripheral countries, and further deepened inequality. While profits and top earnings are today at the pre-crisis levels, an increasing part of the population lives at the threshold of poverty, and high unemployment is present in particular sections of society (women and youth; see iAGS, 2013). The course taken by policies in Europe remains a puzzle, confronted with a balance sheet recession which constrains the private sector to deleverage, there is no reason to deleverage the public sector as well, especially when the banking sector is rationing credit to the private agents. Confronted with a rate of unemployment historically high and in some countries higher than in the thirties, it is not such a good idea to foster supply policies (Saraceno, 2014). The result is an increasing fear of deflation in the euro area whose consequences on debts, whether private or public, would be awkward.

In other words Europe, more than the rest of the world, has entered a vicious cycle, in which inequality makes the crisis harder, and the crisis in turn has unequal effects on different social and income groups, therefore further deepening inequality and increasing the fragility of the economy.

This is not the place to discuss the roots of the European crisis, or to assess future perspectives (cf. Fitoussi, 2013). The policies followed by European countries, austerity and supply side reforms at a time when the root of the problem is aggregate demand, were not inevitable. These policies contributed a great deal to deepening the recession, and to imposing large costs to low and middle income families (and to small and medium enterprises), thus making inequality, and the ensuing economic fragility, harsher. These policies leave no way to discover the real potential rate of growth of the economy; instead they are favouring a chaotic path: growth through bubbles followed by financial and economic crises. ■

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Can Income Redistribution Help Changing Rising Inequality?

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In this article compares the rise in inequality concerning net household incomes in a number of European countries and Canada, the USA and Australia. Two important factors are used to explain this worrying trend: a growing of unequal market incomes and/or a declining redistribution of income through taxes and transfers.

Rising income inequality: Market incomes and redistribution

Inequality has risen in most countries over the last three decades. A broad set of countries, ranging from Denmark, Finland, Sweden and the Netherlands, to the Baltics states and other CEE countries, and including also the UK and, outside Europe, Australia, Canada and the USA, have seen a rise in inequality by 28% since the early 1980s. A surprisingly large part of the rise (19%) is concentrated in the 1990s (Appendix Table 1). This take on inequality concerns net household incomes, which result after social transfers have been added and income taxes subtracted from market incomes. Therefore a combination of these two different factors is responsible for the increase: a growing inequality of market incomes and/or a declining redistribution of income through taxes and transfers. We first take a look at the former.

The dispersion of market incomes is not well known in a comparable format as net-income inequality. This is due partly to problems of statistical observation (especially of incomes from capital) and definition (e.g., are capital-funded pensions included? or rents on owner-occupied housing?), partly to problems of inequality measurement as the Gini coefficient has difficulty dealing with negative incomes (which also relate to capital), and partly to the use of equivalisation for household composition (see Appendix Box 1). However, from other data it transpires that market incomes have grown significantly more unequal. First, top incomes have gained notoriety in recent years.[1] Again for a broad range of countries we find a 21% growth in Top-10% shares since 1980, with more than half of this concentrated in the 1990s (Appendix Table 1). Top-1% incomes trump this growth with a 37% increase and an even stronger concentration in the 1990s. Second, labour earnings are the most important type of market income but, contrary to top incomes, they do not concern the full population but only the part with paid work. For a proper comparison to household income inequality we concentrate on annual earnings received by households. Interesting comparative research (RED, 2010) shows strong growth between the early 1980s and the mid-2000s for the variance (a measure that pays more attention to the bottom end than the Gini coefficient) in the USA, the UK, Sweden, and Germany (+57%, 49%, 71%, and 105% respectively). Again the rise concentrates significantly in the 1990s. However, not all countries follow necessarily the same pattern: the earnings inequality of Danish households has hardly changed (+6%).[2]

[1] These concern gross incomes after transfers but before taxation, and their share in total income is a different measure from the Gini coefficient. As high-income households plausibly receive relatively less of the transfers, their share in gross income will plausibly underestimate that in market incomes.
[2] Bjørnskov et al. (2012, 23).

Though in principle it seems sufficient to know that both market-income inequality and net-income inequality have increased, to warrant the conclusion that the redistribution of incomes has diminished, direct research can support this claim and also enables distinguishing the roles of taxation and of transfers. The RED (2010) contributions show also that for households with earnings their disposable-income inequality has trended up. Sharpe and Capeluck (2012) find for Canada that less than half of the increased market-income inequality since 1980 has been taken away by transfers and taxes. Blomgren et al. (2012, 15) point to a strong decline in redistributive effects in Finland since the mid-1990s, in spite of the fact that role of transfers actually grew. Bjørnskov et al. (2012, 14) show an increased redistribution and only a small increase in net-income inequality for Denmark, but they also found little change in household market-income inequality. Brewer and Wren-Lewis (2012, Table 5) indicate an increase in British market-income inequality by 74% (variance – I have left out pensions) and a larger increase in net-income inequality (90%). In a nutshell, even if redistribution is increasing it is usually insufficient to compensate for the growing dispersion of market incomes.

Fundamental change in labour-market income distribution

It has been a long and still unfinished adieu to the world of the single breadwinner (if it ever existed). Currently, dual- and triple-earner households are a majority (57%) of all households receiving an income from paid labour (gross annual earnings) in Europe, and they comprise a 75% share of all employees. Importantly, and unsurprisingly, multiple-earner households concentrate towards the top of the household earnings distribution. Single-earner households make up 88% of the bottom decile of EU labour-earning households and only 11% of the top decile, and inversely for multiple-earner households (Salverda and Haas, 2014). The few single-earner households who make it to the top, enjoy being also at the top of the individual earnings distribution; however, the many multiple-earner households get there by combining earnings from lower levels in the same distribution.

This has given rise to a complex situation that institutions and policies of income redistribution are still grappling with. Panousi et al. (2013) point out the permanent nature of the change. The multiple-earner growth has gone hand in hand with shifts towards female employment and part-time employment, albeit in some countries more than others, which both have sharpened during the crisis, making the increase in open unemployment more muted than expected. Shorter working hours and a lower level of (hourly) pay now hang together more strongly than before: part-time jobs concentrate at lower levels of pay and occupations, especially in the private sector. At the same time the 'new normal' of multiple earning has pulled the additional job growth of the 1990s and 2000s towards households that already had a person in employment, resulting in a limited reduction in household joblessness at best – if not an increase. Thus the personal employment-to-population rate could grow while the household employment rate lagged or even declined. The UK provides the sharpest example of this separation. In

1980 the two employment rates were about equal at 72-74%, but up to 2005 the personal employment-to-population rate increased by 5 percentage points while the household employment rate fell by 7 percentage points, opening up a 12 percentage-points gap (Blundell and Etheridge, 2010, in RED 2010). Note also that for the EU as a whole the household employment rate has suffered further from the current crisis (-2 percentage points).

The new situation has several important implications. First, these developments blunt the use of the traditional unemployment rate as a helpful labour-market indicator. It is important to stress also that multiple earners concern couples and larger households, whilst at the same time the share of single-person households has risen rapidly – roughly doubling in recent decades. So, even if multiple earners in a household may provide some insurance against the consequences of unemployment as the partner can continue in work, this will not help single-person households. Second, the increased individual (annual) earnings inequality has become an important contributor to the rising inequality of household earnings indicated above. It reflects differences in hourly pay levels[3] and their growing conjunction with (part-time) hours. Third, as a result of the combination of two or more earners in a household low-wage workers may now be found in households high up the income distribution. This blunts general individual-focused tools for limiting wage inequality, not only traditional ones such as the minimum wage, but also newer ones such as tax credits for employed individuals or exemptions from employer contributions. It makes the case though for targeted, household-dependent measures such as the Earned Income Tax Credit. Fourth, in spite of their high incomes households at the top may pay less in taxes than expected – at least in countries having independent taxation of individual earnings – and add to net-income inequality. For example, households in the incomes top decile in the Netherlands pay an average effective tax rate of slightly less than 20% of gross income but this rate diverges significantly between second earners (12%), first earners (22%), and single earners (27%-28%). The flip side of this is that it may affect solidarity: why accept paying more tax as an individual because you are a partner to another earner and together obtain a higher household income than another individual who earns the same amount but has a non-earning partner or no partner at all?

Policy contributions and remedies to income inequality

Policies of redistribution encompass social transfers, based on social assistance and social insurance, on the one hand and taxation on the other hand. The weights of the two as well as their effects differ significantly between countries. However, certain changes in recent decades have been widely shared. The levying of income tax has been reduced significantly. Particularly, top marginal rates of personal income tax have declined by a quarter, from 56% in 1981 to 41% in 2005.[4] Most of the decline is concentrated between 1984 and 1991. This has lowered current tax receipts and therewith the funding of redistribution. Equally important, it also increasingly has a long-run behavioural effect – stimulating high pay in

[3] The P90:P10 ratio has surged by around 30% in the USA, Canada, Denmark, Netherlands and Germany between the early 1980s and the mid-2000s.
[4] Continuously available for 15 of the above 30 countries in World Tax Indicators database, see Sabirianova Peter et al. (2010).

firms and the growth of top incomes (Piketty, Saez and Stantcheva, 2011). It may also stimulate savings[5] and the long-run building up of wealth. The introduction of lower taxes on capital income in two-tier systems has further encouraged this. For Finland the growth of top incomes is attributed to rising capital incomes and their reduced taxation introduced in 1993; in spite of a rise, redistribution has been unable to compensate for the concomitant rise in inequality (Blomgren, 2012). This links to the rising importance of inheritance in times of lower economic growth (Piketty, 2014).[6]

However, income tax is only half the story of direct taxation. Many countries levy non-progressive contributions to social security and overall progressivity differs little between countries including high-tax ones (OECD, 2012). Adding indirect taxation to this, value-added tax (VAT) adds yet another important factor with a regressive effect on income inequality (Figari and Paulus, 2012). Low-income households consume a larger part of their incomes, if not more than it, and therewith contribute relatively higher amounts of VAT. Worryingly, EU countries raised VAT rates significantly as one of their responses to the financial crisis.[7]

Next to taxation, transfers are the main artery of redistribution. As said, its importance varies across countries. Sharpe and Capeluck (2013) ascribe 70% of the effect to transfers and only 30% to taxation. Brewer and Wren-Lewis (2012) show how the increasing inequality of market incomes (+74%) went together with increased mitigation by taxation (+77%), which however remained insufficient while the mitigating effect of transfers trailed far behind (+11%). From an in-depth enquiry into the effects of redistribution in the face of rising inequality Marx and Van Rie (2014) conclude that reduced redistribution was often the main reason why inequality rose after the mid-1990s. Next to both taxes and transfers, which define disposable income, the access of households to social services (health care, education, family support and transfers to the elderly) determines the actual significance if their net income, which differs greatly in international comparison. Here Marx and Verbist (2014) conclude that "The best performers among the rich countries in terms of economic, employment, social cohesion, and equality outcomes have one thing in common: a large welfare state that does several things at the same time, investing in people, stimulating and supporting them to be active, and also adequately protecting them and their children when everything else fails."

Discussion

Redistributive policies have continued to reduce inequality, but even when their size has grown the effect has diminished in the face of strongly rising inequality in market incomes, particularly household earnings from labour. It puts on the agenda the need of directly addressing the inequality of market-incomes inequality, e.g. by introducing or augmenting minimum wages and by taking away the undue rent seeking that seems to have overtaken the highest levels of pay. Though the minimum wage certainly helps in improving the living wage of households, its effect on the income distribution has become more muted. Its main roles are, first and as always, preventing excessive downward wage competition that negatively affects productivity growth and human-capital investment, and,

[5] Domeij et al (2010, 193; in RED 2010) find an increased savings rate for high incomes in Sweden after 1990.
[6] See also Economist 4 January 2014, and Financial Times 7 January 2014.
[7] Bargain et al. (2013) come to a favourable conclusion about redistributive effects during the financial crisis but do not include indirect taxation.

second, limiting the finances needed for redistribution to low-earnings families. The British government has got that point recently.[8]

Much analytical and policy-making attention is paid to low incomes and poverty but very little is available about high incomes and pay. Recently, the OECD has introduced a (still very incomplete) high-pay statistic next to the incidence of low pay but even full-grown it will offer no more than the very beginning of systematic comparative study of the top end's contributions to inequality and its underlying factors. The World Top Incomes Database has been extremely successful in helping to focus on such incomes but its maintenance depends fundamentally on voluntary contributions. Extension and deepening of the database and the systematic analytical embedding of its indicators are needed.

In addition, the own effects of taxes and transfers on market-incomes inequality growth shall be scrutinised: the long-run behavioural effects of reduced taxation on high incomes, capital incomes, and inheritance. International coordination seems highly advisable to put an end to the existing leap-frogging of tax-rate setting which, going in a downhill direction, can only end in a disaster of broken legs and bones. The same holds for the effects of individual-based taxation on household outcomes. There is no reason to reorient towards the household and joint taxation; instead general tax credits should be checked for their household effects and replaced by targeted credits where desirable. Beyond the immediate effect on the distribution of earnings and incomes the long-run focus should be on the household distribution of employment, explicitly including the working-hours dimension. Thus the efficacy and efficiency of the redistributive apparatus may be significantly improved at the same time.

Equally, the long-run view of benefits and social transfers implies strong effects of enduring, inter-generational inequality of cuts motivated by the short run.

Can taxation and transfers be changed in a world characterised by quantitative easing as about the only active policy aimed at overcoming the crisis, which has had little effect other than uplifting the financial values held by top-income households? Not easily, and the turnaround will be political as much as economic. We all know that poor neighbourhoods can be successfully turned around, so why not countries? For country inequalities, the Latin American example indicates that it can be done (Bird and Zolt, 2013). Capturing high incomes and top wealth cannot be too difficult with the help of Bloomberg's daily detailed statistics of the very rich. ■

[8] A structural increase of its level, preferably with EU commitment to a fixed relative level at 60% of the median hourly wage, is to be preferred over continuous political involvement in minimum-wage setting.

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Appendix

Table 1: Changes in income inequality: Trends in country averages, 1980-2010

	Gini coefficient of household net equivalised incomes				Top-income shares in gross incomes					
	Total 30 countries	of which with an increasing Gini coefficient			Top-10% Countries with rising shares			Top-1% Countries with rising shares		
	Countries		Rise (points)	Rise (%)	Countries	Rise (pcpt)	Rise (%)	Countries	Rise (pcpt)	Rise (%)
Changes										
1980-1990	18	8	0.028	12%	13	3.0	12%	12	1.6	18%
1990-2000	22	22	0.044	19%	15	3.4	12%	16	2.1	28%
2000-2010	30	19	0.022	8%	10	1.8	5%	9	0.6	8%
1980-2010	18	17	0.065	28%	16	5.8	23%	16	2.6	37%
Consistent rise		6	0.070	30%	7	9.3	37%	6	3.9	62%
Levels (countries)	All 30 (Gini)		Rising 6 (Gini)		All 17 (pcpt)	Rising 7 (pcpt)		All 16 (pcpt)	Rising 6 (pcpt)	
Start level	0.241		0.256		27.8	28.0		6.4	6.6	
End level	0.304		0.327		33.3	37.2		8.9	10.5	

In a few cases when data are lacking for specific years, the closest comparable period is covered.

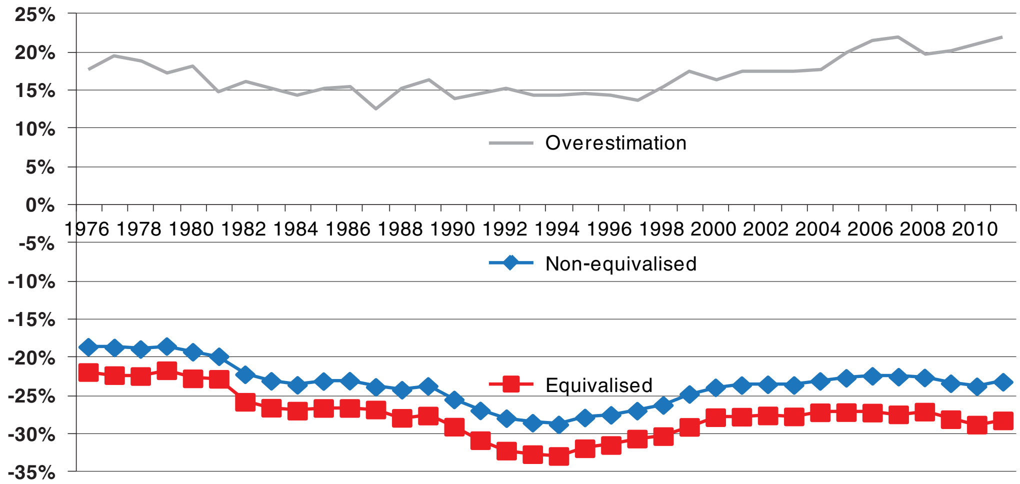
Source: GINI database and WTID: http://gini-research.org/articles/data_2 and http://topincomes.g-mond.parisschoolofeconomics.eu/

Box 1: Why redistribution may be (increasingly) less than we think

Effects of redistribution are now commonly determined by comparing market incomes and disposable incomes both on the basis of equivalisation for household composition. In principle equivalisation is a good thing to do to determine what value an income has to a household, depending on the number of adults and children. However, equivalising market incomes makes their inequality difficult to recognise 'in the field' (e.g., top incomes are not equivalised) and may also lead to a mistaken estimation of the extent of redistribution by taxes and transfers. Equivalisation exerts a strong equalising effect as larger households concentrate at higher market incomes, while one-person households are found at the lower end. The strong rise of singles in recent decades will have reinforced the effect. Equivalisation is responsible for 38% of the complete gap between unequivalised market-incomes inequality and net-equivalised inequality in the Canadian case below.

The silent assumption seems to be that equivalisation has the same effect on both market incomes and disposable incomes. However, a full set of Canadian data can illustrate that this is not the case. The figure below compares the size of the redistributive effects when equivalising or not. The relative difference between the two shows the size of the overestimation of redistribution due to equivalisation. The effect grows from 14% in the mid-1990s to 22% at the end of the 2000s.

Canadian redistribution, from market income to disposable income: the effect of household equivalisation, 1976-2011



Calculated from http://www5.statcan.gc.ca/cansim/a03.

Similarly, Brzozowski et al. (2010, Figure 7; see RED 2010) shows an equivalisation effect for family earnings that grows from 7% in the mid-1990s to 11% in the mid-2000s. Salverda et al. (2013, Figure 2.12) shows how net-income inequality for Dutch labour households after 1990 remained flat after equivalisation while before equivalisation it rose by about one quarter.

As a result an important point is overlooked: the contribution of changing household formation to the evolution of inequality. It is important to actually investigate this effect. People may change this behaviour, or be constrained to change it due to rising inequality – as many have demonstrated by giving up their own house and join others after the US mortgage debacle.

For this reason I do not use here the OECD's income inequality and poverty database for market incomes. ■

Inequality restricts opportunities

Jo Blanden,
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Inequality in outcomes is substantial across many EU member states. This matters for the wellbeing of individuals at a point in time. However, evidence suggests it also matters for the next generation as children are profoundly affected by parental circumstances. Indeed, evidence suggests that more inequality implies a stronger impact of parental disadvantage on the outcomes of children.

> **"Higher income inequality would be less of a concern if low-income earners became high-income earners at some point in their career, or if children of low-income parents had a good chance of climbing up the income scales when they grow up. In other words, if we had a high degree of income mobility we would be less concerned about the degree of inequality in any given year."**
>
> **(Krueger, 2012)**

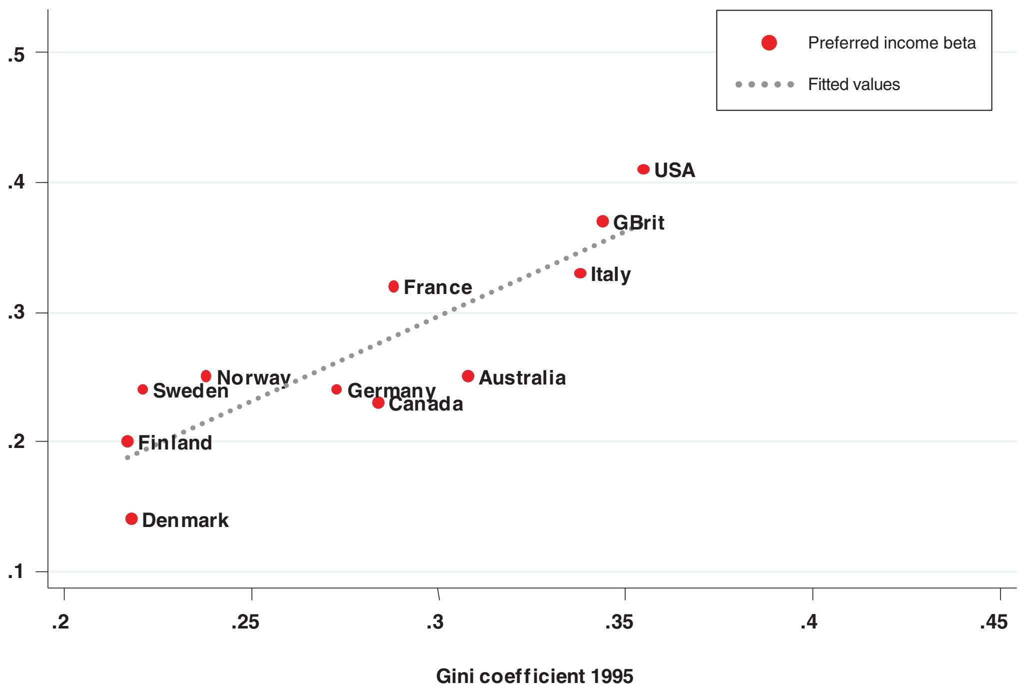
Put simply, a belief in the equality of opportunity implies that peoples' outcomes should not depend on where they started from. However, there are many reasons why people's outcomes in life - education, employment and income - might be related to the material position of their parents. Depending on the cause of these connections there is likely to be a greater or lesser feeling that 'something should be done'. Many would agree that access to job opportunities resulting from the use of parental connections should be addressed, whereas differences which come from genetic transmissions would require drastic action, and reversing them could lead to inefficiency if those with good potential are prevented from accessing the best jobs.

Economists commonly estimate a single number – the intergenerational elasticity - to summarise the extent of intergenerational mobility. This provides information on the average amount of any income difference between parents that is passed on to children. For example, take two neighbouring families with sons of the same age; one with an income twice as high as the other. If they have average mobility and the intergenerational elasticity is 0.40 then the son of the richer family will earn about 40% more than the son of the poorer family later in life. For the reasons stated above we would not expect there to be no association in incomes across generations; the intergenerational elasticity will not be zero. Our understanding of what number is desirable for this association can be helped by making comparisons of the levels of intergenerational mobility across countries. With such comparisons in hand, it is possible to assess mobility as 'relatively weak' and 'relatively strong', and then to begin to consider potential explanations for differences in intergenerational mobility.

Data which measures incomes in two generations is not common, and often differs between countries in subtle ways which can impact on our conclusions about whether nations have high or low mobility [1].

However, study after study demonstrates that the association of incomes between parents and children is weak in the Nordic nations. In addition, the notion of the 'American Dream' of particularly high mobility is contradicted by an impressive body of evidence showing that, in fact, the life chances of poor and rich children are particularly unequal in the US. [2] [3] [4] It is immediately obvious that the defining

Figure 1 Income Inequality and the Association of Incomes across Generations



Source: Figures from Blanden (2013), graph slightly revised.

feature of the Nordic countries compared to the US is the compressed income distribution. For example in the mid-1980s the Gini coefficient in the Nordic nations was around 0.2, compared to 0.35 in the US.[5]

There is now an increasing body of evidence[6, 4] which fills in the picture and reveals that nations with a high degree of income inequality within a generation also have more persistent inequalities between generations. Figure 1 shows my own version of what has been referred to as the Great Gatsby Curve,[7] based on a fairly small sample of rich Anglophone and European countries. This clearly shows a fairly strong relationship between the Gini coefficient for income and the estimated extent of mobility.

Part of the explanation for this association can be found in homes and at school, while part of the connection is driven by the labour market. Better off parents are able to make extra investments in their children's development. Some of these are not directly related to financial wealth, for example, helping children with their school work is easier for richer parents because they have more education themselves. However, others will have a material cost and are therefore likely to be more important in countries where the rich are richer. If the rich in society are twice as well off as those in the middle (US) rather than one and a half times (Scandinavia)[5] they may spend that greater relative wealth on private schools, out-of-school tuition and support at University: adding up to a greater set of advantages for the next generation.

Some of the relationship between opportunities and inequality comes about because both are driven by the extent to which skill is rewarded. Differences in investments are likely to lead to differences in educational attainments and skills for children from different backgrounds. The extent to which these skills and attainments contribute to intergenerational inequality will depend on the extent to which they are rewarded in the labour market. These rewards are also a major driver of the extent of inequality. An alternative view is that the relationship goes from mobility to inequality, as a lack of equality of opportunity leads to a restricted number of people with valuable skills in the labour market; this inflates returns to these skills and leads to greater inequality.

It is hard to completely untangle the weight that should be given to these explanations.[8] it seems likely that both education and the labour market play a role. Gaps emerge early in the education system and seem to build upon each other.[9] But there is also evidence of a strong relationship across countries and over time between the returns to higher education and intergenerational income elasticities.[8] [10] If nations have a serious wish to improve equality of opportunity then a focus on closing gaps in education will need to be supported by efforts to constrain inequalities of outcome.

As well as looking at the average amount of mobility in society economists also consider the amount of mobility among different income groups. For example, are the poor more likely to improve their position than the rich are to fall? Comparing the Nordic nations with the US and UK indicates that in all these nations the very rich are good at transferring their privilege to the

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next generation, what is different is that in the more unequal countries being somewhat above or below the average matters more.[11] This might suggest that the welfare state and schooling system is better at closing gaps in these societies, perhaps because the gaps are smaller in the first place.

Miles Corak believes that comparing the smaller, more homogenous Nordic nations with the US may not be the best guide for policy. Instead he looks at what can be learned by asking why Canada has greater mobility than its southern neighbour.[8] His suggestions are more entitlement to parental leave, wider access to health care and an equalising focus for educational resources. Evidence from other work which shows less downward mobility in Canada than the US might also indicate that higher relative income among the rich in the US is used to provide a cushion for children who might not otherwise do so well.[12]

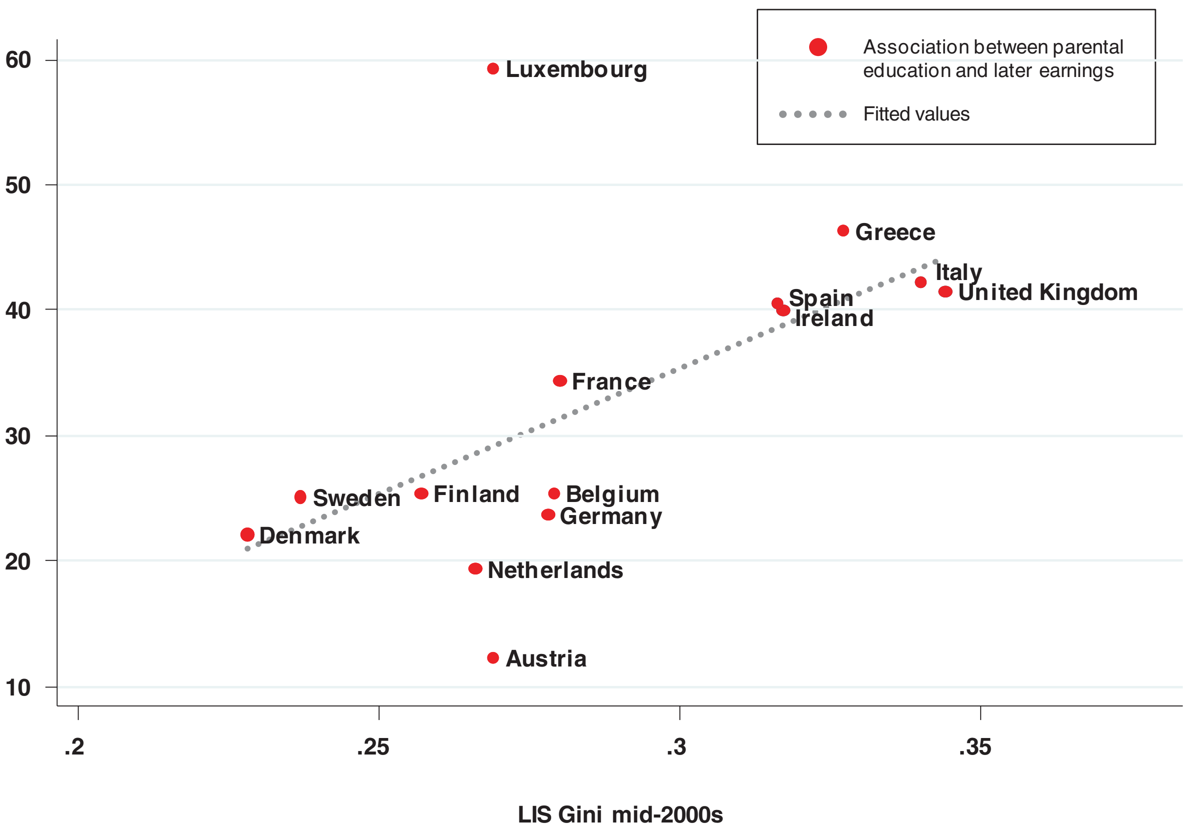
So what are the implications of this work for Europe? A new analysis based on comparable data[13] indicates that there does appear to be relationship between equality of opportunity and inequality within Europe[1], suggesting that inequality also constraints opportunity even among otherwise reasonably homogenous countries.

Interestingly, research on attitudes to inequality[14] in the 1980s and 1990s shows a marked difference in the perception of inequality between the US and Europe especially among poorer groups, with US citizens less concerned by inequality. One explanation put forward for this is that in the US, in the face of the evidence, poor people have a strong belief in the American Dream and therefore in their own prospects for mobility. EU citizens appear to be more realistic in their expectations.

The importance of addressing income inequality as a policy lever for encouraging mobility might therefore be a policy message that Europeans are pre-disposed to hear. ■

[1] An exception to this is the formerly communist Eastern European nations where there appears to be no evidence of such a relationship.

Figure 2 Income Inequality and the Association between Parental Education and Children's Later Incomes



Source: Estimates from Jerrim (2014) combined with Gini coefficients obtained from the LIS by the author.

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NO

Equality, social cohesion and wellbeing

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Summary:
The growing disparity in wealth between the rich and poor threatens health and wellbeing, inhibits social mobility, and is the most powerful social determinant of violence and criminal activity in modern times. The reasons are due in large measure to the socially corrosive effects of inequality on community life. Sustaining prosperity, wellbeing and social order through the 21st century will inevitably require aggressive policies that both strengthen the social fabric and promote greater economic equality.

Rising inequality between the rich and poor and the irrefutable evidence that has accumulated on its negative social consequences together paint a grim picture of the future. Real wages for the bottom half of the workforce have fallen steadily since the 1970s while incomes of the top 1% have quadrupled. Income inequality rose in most countries during the past three decades. Wealth is more concentrated in the hands of the rich than ever before.

Income inequality is a focus of research into the social determinants of health and violence. The consequences of inequality are stark. As other articles in this issue have described, inequality shortens lifespans, worsens health, limits social mobility, and contributes to social problems including drug use, violence and crime.[1, 2, 3, 4, 5] Several independent systematic reviews of this evidence have concluded that inequality contributes to criminal and antisocial behaviour including homicides, crimes involving firearms, assaults, incidents of racism, burglaries, and sexual assaults.[3, 6, 7, 8]

These are not small statistical blips in the data. Income inequality explains about half of the variation in homicide rates between U.S. states and Canadian provinces.[9, 10, 11] International studies have found similar associations with homicide and prison incarceration.[1, 4, 12, 13] In children and adolescents too, inequality negatively impacts mental health and wellbeing,[14, 15] and positively relates to victimisation from school bullying,[16, 17] bullying others in school,[18] underage drinking,[19] teenage pregnancy,[4] and school dropout.[1] Economic disparity – not poverty – characterises the most dangerous places to live.

Finding causal pathways

That inequality threatens health and wellbeing is well established. How inequality does this is a more complicated question. Research in this area is still sorting out the causal mechanisms that underlie these effects, however two complementary paths have been identified. One is a simple material path: inequality inhibits investment (as a percentage of GDP) in public infrastructure and public services such as healthcare and education. The idea is that as inequality increases, the rich has less to gain from redistributing wealth for the common good.[20, 21]

The second, more insidious path involves the socially corrosive effects on community life.[1] Inequality tears the social fabric and divides communities and entire societies along economic lines. Rifts between the rich and poor foster feelings of deprivation, increase class anxiety and conflict, and reduce levels of trust and efficacy in communities.

Feeling poor has little to do with poverty in an absolute sense, like lacking the basic necessities of life. Feeling relatively deprived involves explicit social comparisons between what you have and what you don't. As endocrinologist Robert Sapolsky wrote, "The surest way to feel poor is to be endlessly made aware of the haves when you are a have-not" (p. 98).[22]

Of course, these material and psychosocial paths are intertwined and mutually reinforcing. [23, 24] More unequal societies with low levels of trust and social cohesion tend to be more conservative in their values and favour a limited role for their government in social life.[1] A study in the U.S. found that public expenditures on health and education negatively related to both income inequality and adult mortality.[21] However, as an explanatory, "causal" path, the psychosocial consequences of inequality have stronger empirical support.[3, 7, 24, 25] For example, the relation between income inequality and trust in 33 countries shown in the figure below mediates the links between inequality and homicide rates, adult mortality and life expectancy.[5, 13]

Social cohesion as a policy tool

Once fractured by inequality, communities fail to function as communities. Opportunities to socialize diminish,[24] voluntarism drops,[23] fear of crime goes up,[26] social support weakens,[25] trust declines and[5] schools become more violent.[17] Social controls over violence no longer work.[3,11] Simply put, unequal societies lack the social capacity to support health and wellbeing.

This capacity (or "social capital") is, in essence, the value of social networks to individuals. Social capital can be measured in terms of community participation, social cohesion, voluntarism, group affiliations, or general social trust.[26, 27] It is generated through belonging to groups, whether they are schools, workplaces, peers, faith groups, or recreational groups. Living and working in cohesive, cooperative networks, where reciprocity and trust are more the norm than the exception, has significant benefits for mental and physical health.[28, 29, 30] And, like economic capital, having reserves of social capital on hand is especially beneficial in economically deprived areas,[31] or during times of economic uncertainty.[32]

Building social capital is good public policy. These shared social assets for health and wellbeing underlie the divisive nature of income inequality. The good news is that public agencies, including all levels of government, can increase social capital and social development through providing the means and opportunities for citizens to interact, cooperate, and engage in their communities. And, since social cohesion accounts for some of the harmful consequences of inequality, policies that both increase social cohesion and

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reduce inequality could have greater returns on health and wellbeing than either strategy alone.

In 1835, French historian and political thinker Alexis de Tocqueville wrote that community life in America is the basis of all its democratic freedoms. "Americans of all ages, all stations in life, and all types of disposition are forever forming associations" (p. 24).[33] Almost two centuries on, the research shows what early scholars had intuited – that the essence of a thriving, democratic republic lies not in its legal structures or commerce but in the social connections that gives rise to these institutions in the first place. ■

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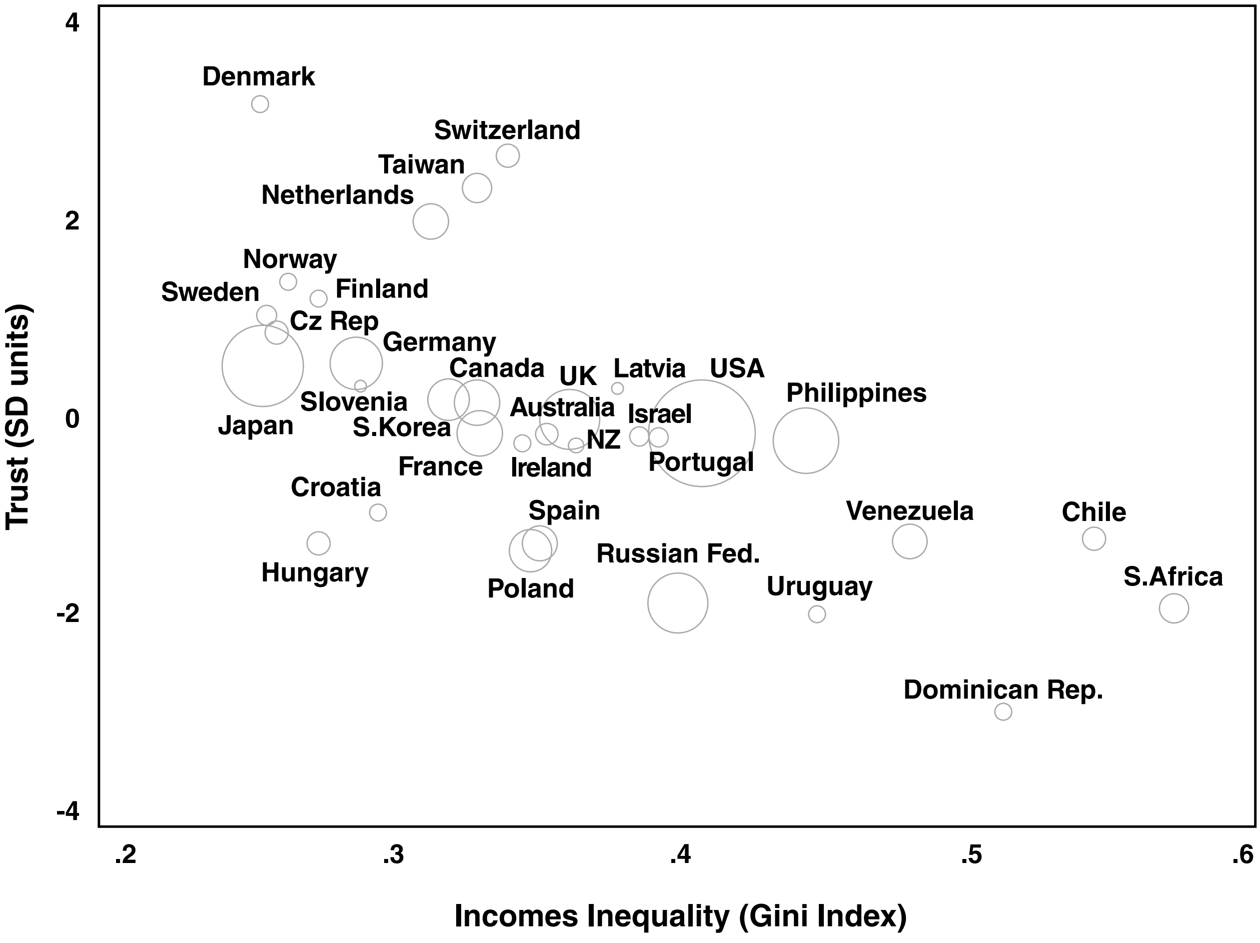
Figure 1 **Correlation between trust and income inequality**



Correlation between income inequality and trust in 33 countries (r = .51, after differences in per capita income are held constant).
SD = standard deviation units. Circles illustrate weighting by country population.

Source: American Journal of Public Health.
The American Public Health Association is not responsible for the translation of this figure.

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Inequality and the environmental crisis: time to dethrone global neoliberalism

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Summary:
The last three decades of neoliberal globalization and deregulation of trade and finance have been characterised by an acceleration of global economic inequality and environmental degradation. A large body of evidence indicates that economic inequality represents a major obstacle to the adoption of international environmental agreements on climate change crisis. Excessive inequality erodes conditions of generalized trust and promotes very different views of "fair" solutions for the climate crisis in rich and poor nations. Wider socioeconomic distances also promote an increase in status competition and materialistic aspirations that, in turn, intensify consumerism and a more rapid depletion of natural resources – one of the most important obstacles to achieving sustainability.

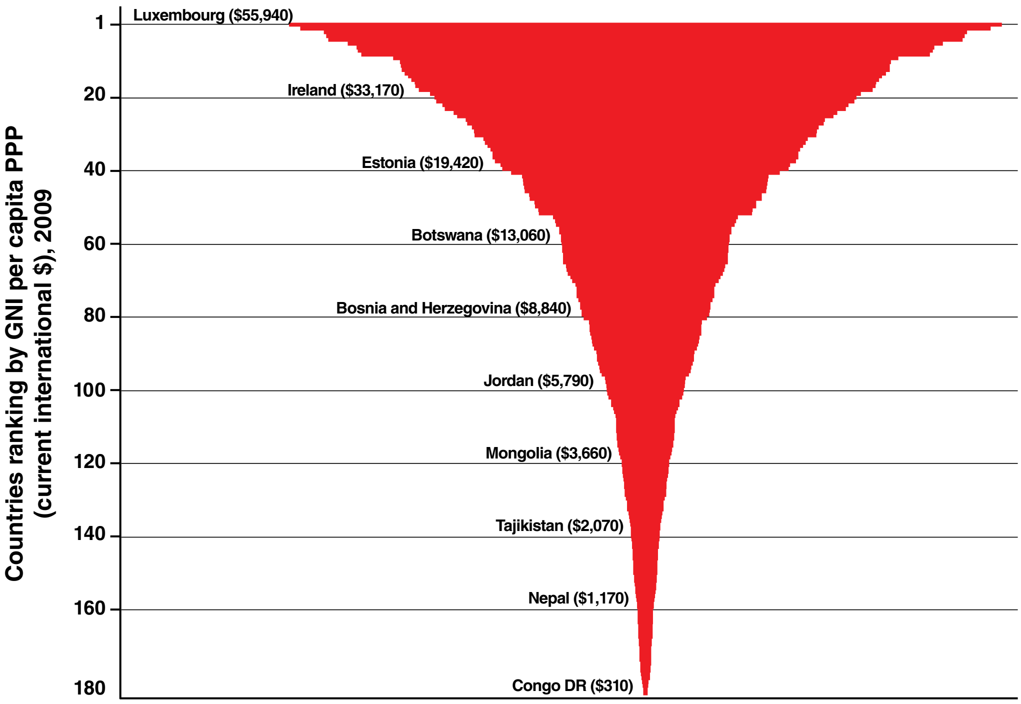
Breaking the vicious cycle of increasing inequality and global ecological deterioration requires urgent policies to reduce greenhouse gas emissions in both developed and developing nations. Policy changes toward a more sustainable and fair world include a global agreement on climate change on the basis of "equal right to pollute," global taxes on carbon emissions and a series of measures of economic redistribution between and within countries. More importantly, it requires a new model of development in lieu of the current model of global neoliberalism.

The staggering extent of inequality

According to *The United Nations University* (UNU) and the *World Institute for Development Economic Research* (WIDER), in 2008 the richest 2% of all adults owned half of global household wealth, while the poorest half of the world owned just 1%. In the same year, the Gini coefficient for global wealth inequalities, an index ranging from 0 (lowest value) to 1 (highest value), was estimated at 0.89. This is the value that would obtain in a population of ten people if one person had $1,000 and the other nine had just $1. Figure 1 presents data for 180 nations ranked by Gross National Income (GNI) per capita (purchasing power parity in current international $) from the World Bank's World Development Indicators, 2012. Although some authors have argued that economic globalization reduced economic inequality between countries and created a "level playing field", the shape representing today's distribution of wealth still resembles a pyramid.

Recent decades of deregulation of trade and finance have been characterized by an acceleration of global economic inequalities. Figure 2 shows a temporal trend in global wealth inequality measured as a mean difference in GNI per capita (Atlas method, in current international $) between 88 Nations from 1960-2010. In line with previous evidence, the figure shows that after a stable period in the 1960s, global wealth inequality rapidly increased between 1970 and 2010 during the era of 'neoliberal' globalization.

Figure 1 The Pyramid of World Wealth Inequalities between 180 Nations ranked by Gross National Income (GNI) per capita PPP (current international $), 2009.

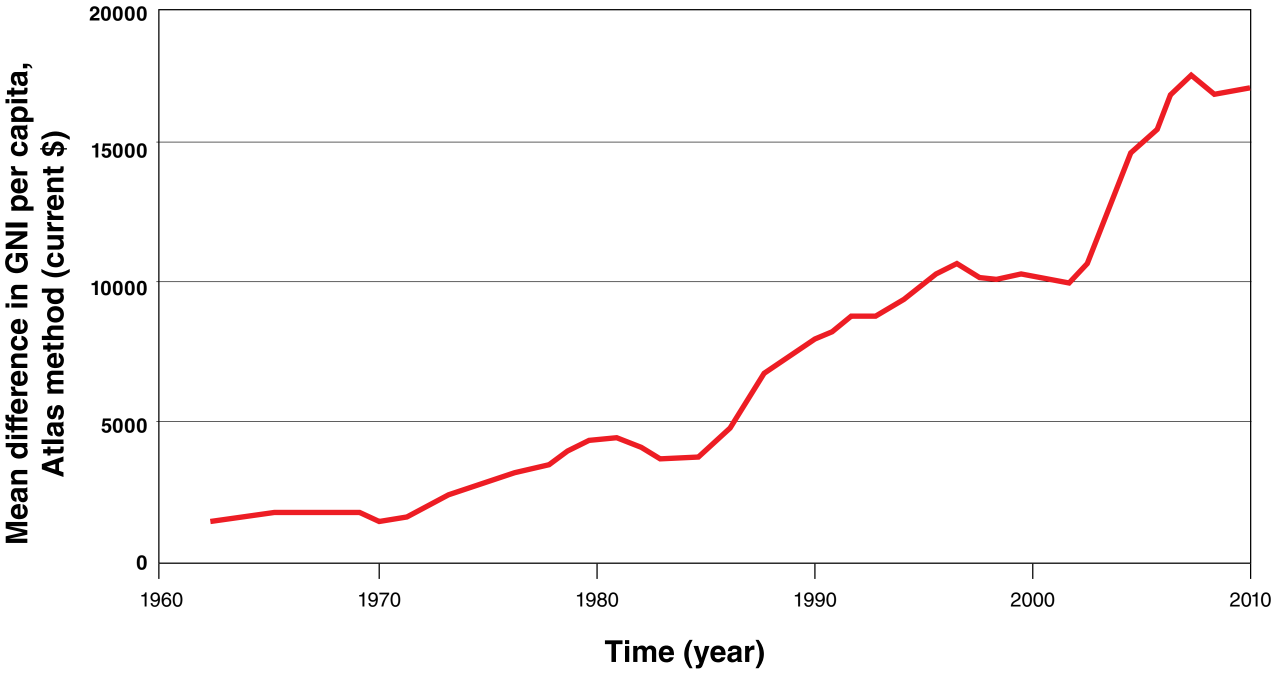


Source: World Bank's World Development Indicators database (2012).
[Reprinted from De Vogli R. Progress or Collapse: the Crises of Market Greed. New York and London: Routledge (Taylor & Francis), 2013.]

Inequalities erode conditions of generalized trust and promote widespread disagreement about what is to be considered "fair" or "equitable" solutions to the climate change crisis.

One of the mechanisms explaining the rapid increase of global economic inequality relates to the rise of transnational corporations (TNCs) (mostly based in developed nations) that have accumulated a spectacular amount of wealth in the last few decades. A recent study revealed that 1,318 global companies collectively own, through their shares, the majority of the world's largest manufacturing firms and blue chip companies, representing about 60% of global revenues. The same study also showed, however, that a "super-entity" of 147 companies, less than 1% of the total, controls about 40% of the entire wealth in the network. When considering global financial actors such as hedge funds, private pension funds, mutual funds, investment banks and insurance companies, concentration of wealth reached even more grotesque proportions. In 2010, 6 banks—Bank of America, JP Morgan Chase, Citigroup, Wells Fargo, Goldman Sachs and Morgan Stanley—controlled about 60% of the US gross domestic product (GDP).

Figure 2 **Trend in Global Wealth Inequality (Mean Difference in GNI per capita, Atlas method – current international $) between 88 Nations, 1960-2010.**



Source: World Bank's World Development Indicators database (2012).
[Reprinted from De Vogli R. Progress or Collapse: the Crises of Market Greed. New York and London: Routledge (Taylor & Francis), 2013.]

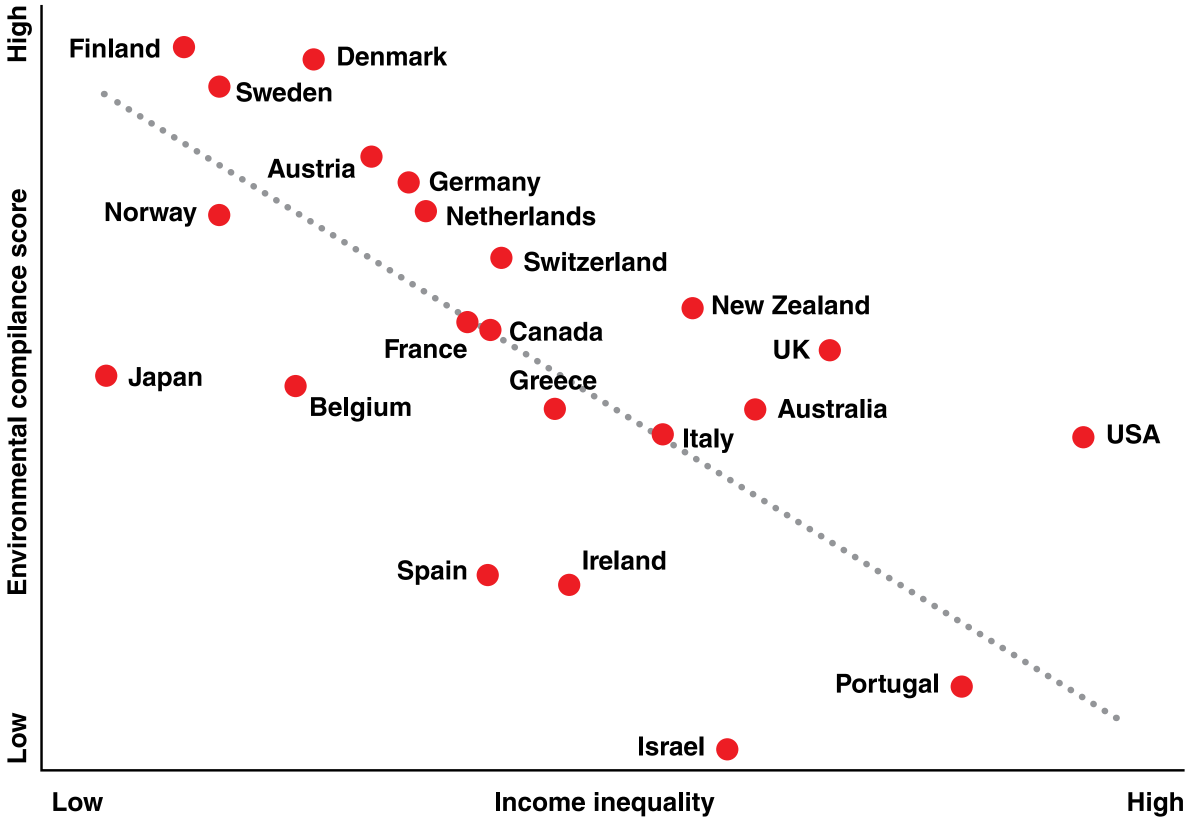
The impact of inequality on the global environment

The last decades of increasing inequality have also been characterised by an acceleration of ecological degradation and material consumption leading to a series of multiple, converging global environmental crises. Rapid climate change and unsustainable depletion of natural resources including oil, water, fish and food indicate that humanity is on a collision course against the limits of the ecosystem. Climate change in particular is increasingly recognized as a major threat to human health and our future security. Evidence of the progressive warming of the climate system due to increased global concentrations of carbon dioxide, methane, and nitrous oxide resulting from human activities is unequivocal. Widespread melting of snow and ice, rising global mean sea level, catastrophic flooding and heat-waves are signs of a progressive ecological deterioration whose consequences may include the collapse of modern civilization. Environmentalists propose that the aim of humanity should be to stop average global temperatures from rising to more than 2 degrees above the pre-industrial level. The roof of two degrees is considered the "point of no return", the critical threshold at which some of the non-linear positive feedbacks of the eco-system are expected to occur and produce irreversible changes in terms of climate stability.

The resolution of the global environmental crisis requires a rapid decarbonisation of the economy together with profound economic, political and behavioural changes achievable through coordinated international action. However, a large body of evidence indicates that excessive global inequality creates major obstacles to the adoption of international environmental agreements and undermines effective international cooperation for the resolution of global ecological crises. These inequalities erode conditions of generalized trust and promote widespread disagreement about what is to be considered "fair" or "equitable" solutions to the climate change crisis: while poor nations fear limits to their efforts to grow economically and meet the needs of their own people, some powerful rich countries refuse to cut their own excesses unless developing countries make similar efforts. It is a classic example of the "tragedy of the commons" in which everybody loses unless the players start to cooperate and move beyond their narrow short-term interests. Indeed, if we do not take effective measures to confront the climate crisis and reduce international inequality, ecological collapse due to climate change and rapid depletion of natural resources will be much harder to avoid.

There is another mechanism by which global and national economic inequities affect the global environment and the resolution of the impending ecological crises. Researchers have found that more unequal societies are more socially divisive, hierarchical, and materialistic than more egalitarian ones. Wider material distances promote an increase in status competition and materialistic aspirations resulting in people working longer hours, spending more of their income on luxury goods and saving less. Because excessive inequalities promote status competition and materialistic aspirations in life, they also intensify consumerism and a more rapid depletion of natural resources – one of the most important obstacles to achieving sustainability. Evidence also shows that more equal societies have smaller ecological footprints, recycle more, their population take fewer flights, consume less water and less meat and produce less waste. Finally, as shown in Figure 3, cross-national data indicate that business leaders in more equal countries are more likely to agree that their governments should consider international environmental agreements as a priority than those in less equal countries.

Figure 3 **Income inequality and rating to the importance of complying with international environmental agreements among business leaders in 17 high-income nations.**



Sources: Data on inequality come from the Human Development Indicators. Data on compliance to environmental agreements among business leaders come from the World Economic Forum (WEF) Survey.
[Reprinted from Wilkinson R, Pickett K, and De Vogli R. Equality, Sustainability and Quality of Life. British Medical Journal 2010 Nov 2;341:c5816.]

If we do not take effective measures to confront the climate crisis and reduce international inequality, ecological collapse due to climate change and rapid depletion of natural resources will be much harder to avoid.

Mechanisms explaining why a higher proportion of citizens in more equal societies are more likely to adopt ecologically friendly behaviours than those of less egalitarian nations are still under scientific investigation. A large body of evidence, however, suggests that a plausible explanation regards the higher levels of social cohesion, interpersonal trust and sense of collective responsibility toward action for the common good that are more prevalent in more equal societies compared to more unequal ones.

Tackling inequality and the climate crisis

A key step toward a safer and healthier world would be a series of international and national reforms aimed at re-engineering the global economic system not only toward a more sustainable path, but also toward a more equitable distribution of economic resources. Here I present two ideas that, if implemented, would probably result in considerable breakthroughs in dealing with the global environmental crisis: a) contraction & converge to tackle climate change and b) a global carbon tax.

The global environmental crisis can be tackled through feasible schemes capable of persuading both developed and developing countries to undertake more sustainable and equitable policies. Developed nations must lead by example not only by rapidly decarbonizing their economies and adopting a more sober pattern of consumption of natural resources, but also by helping poor countries with environmental technologies that might be regarded as reparations for the past injustices of imperialism, colonization and exploitation. Developing nations should also do their "fair share" and commit to stopping climate change by avoiding emulating the same pattern of economic development adopted by wealthy nations while addressing the pressing developmental problems they still face. Both developed and developing nations must commit to the principle that each world citizen has an equal entitlement to the atmosphere.

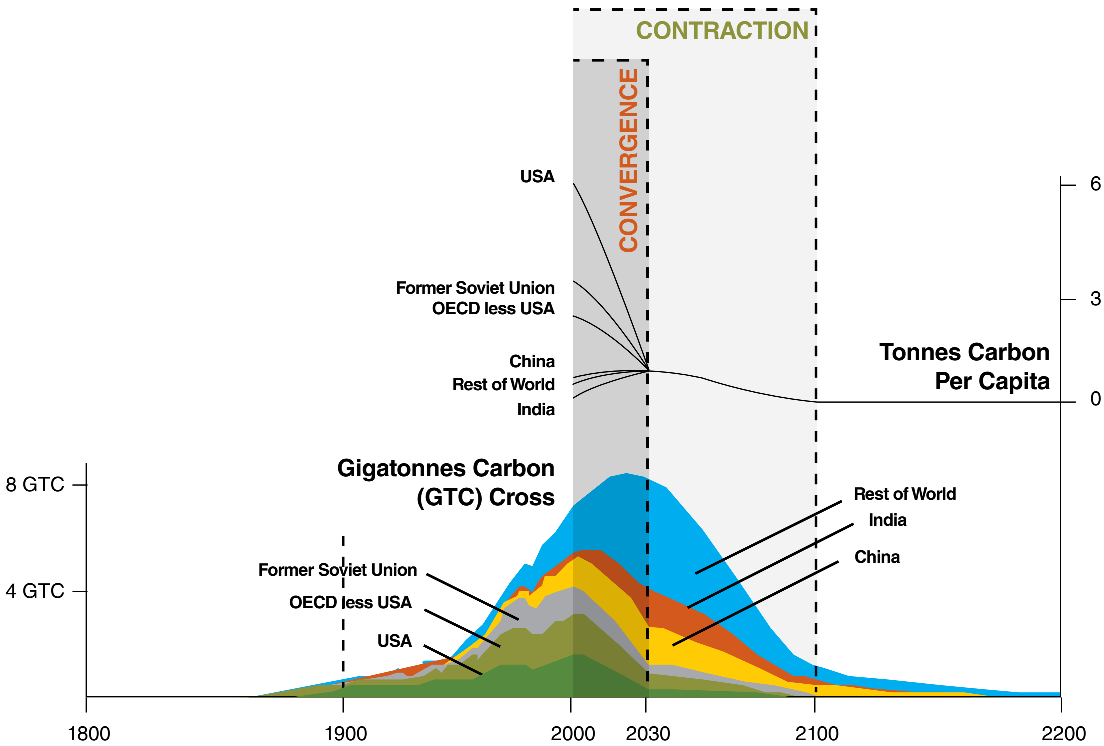
In recent years, there have been various proposals to tackle climate change on the basis of this principle. More than two decades ago, Aubrey Meyer, founder of the *Global Commons Institute*, proposed a model called "contraction & convergence" to reduce greenhouse gas emissions enough to ensure "safe and stable" concentrations in the Earth's atmosphere. The scheme first sets a cap for greenhouse gas concentrations worldwide and a date by which targets should be achieved (e.g. 350 ppm by 2050.) Then, it ensures that the mechanism used to accomplish this target is fair by dividing the sum of greenhouse gas emissions between all the people of the world, and allocating a quota to each nation based on its population (contraction).

The global "carbon cake" would be shared between the different nations of the world in the form of "tradable entitlements", with individual countries negotiating their own quotas proportional to national populations. The model foresees that, over time, the carbon targets of developed and developing countries converge to a common per capita pollution level, with all countries accepting the same emission goal consistent with a safe target of 350 ppm globally (convergence). While converging towards equality of pollution, nations that want to produce more carbon

Because excessive inequalities promote status competition and materialistic aspirations in life, they also intensify consumerism and a more rapid depletion of natural resources – one of the most important obstacles to achieving sustainability.

dioxide than their share would be obliged to buy unused quota from other nations.[16] The mechanism would permit trading so that developing countries unable to use up their entire entitlements could sell them to rich nations in exchange, for example, for projects of development, health and education. This would mean that rich high emission countries would pay poorer, low emission countries, so achieving some redistribution of income.

Figure 4 **Contraction & Convergence: A Global Agreement on Climate Change and Equal Right To Pollute**



Source: Global Commons Institute (GCI)
Website: www.gci.org.uk/contconv/cc.html

Note: This example shows regionally negotiated rates of C&C. It is for a 450ppm Contraction Budget with Convergence by 2030

More recently, Chakravarty and colleagues proposed a new framework for allocating a global carbon reduction target among nations with an emphasis on individuals, rather than nations. Using each country's income distribution to estimate how its average greenhouse gas emissions are distributed across its citizens, they then calculated each country's carbon reduction target from the numbers of its population above an allowable individual level of emissions. The merit of the framework is that national targets for carbon reductions are related to the number of wealthy high emitters regardless of where they live.

Some commentators may find proposals to address climate change while also promoting global redistribution and poverty eradication too "biased" toward the developing world's priorities. It is important to remember, however, that rich countries account for only 15% of the world's population, yet emit about 50% of carbon dioxide emissions worldwide. Moreover, with the world facing an ecological crisis without borders, nothing has become more practical for wealthy nations than helping developing countries to assemble ecological programs and eradicate extreme poverty. From a Western perspective, this would be an act of generosity and enlightened self-interest; not to do so would be to sabotage our own future. As Dipesh Chakravarty once observed, "unlike the crises of capitalism, there are no lifeboats for the rich and the privileged" that will save them from a future climate disaster.

Numerous authors have also proposed a global carbon tax as an alternative – or complementary – solution to address climate change, but doubts have been raised due to its potentially regressive redistributive effects. However, a recent study by Davies and colleagues found that, although a global carbon tax is likely to have regressive distributional effects in itself, if a sufficient amount of the revenues are devoted to global redistribution and poverty reduction, the disequalizing impact of the tax could at least be neutralized. According to the same authors, with an aggressive pro-poor redistribution scheme that redirected large shares of tax revenues to the extreme poor, poverty could be eliminated in a few years at a cost of only 33% of carbon pricing revenues.

Although proposals for carbon taxes have been fiercely attacked for their supposedly negative consequences on the economy, it is important to note that some countries have unilaterally adopted the tax for more than two decades. Finland was the first to implement a national carbon tax in 1990. Sweden, Norway and the Netherlands followed suit. Even some developing countries have adopted a carbon tax: Costa Rica adopted one in 1997. All these countries have prosperous economies and very high standards of health and wellbeing.

Global neoliberalism or sustainable and equitable prosperity?

Although new global schemes and feasible solutions for a more equitable and sustainable future are necessary, it would be naïve to assume that they are also sufficient. Recent decades, dominated by neoliberal globalization, have been characterized by an acceleration of both economic inequalities and environmental destruction that created

Recent decades, dominated by neoliberal globalization, have been characterized by an acceleration of both economic inequalities and environmental destruction that created even more serious challenges for future viability of modern civilisation.

even more serious challenges for future viability of modern civilisation. With its emphasis on infinite economic growth, unrestrained profit maximization and unfettered liberalization of finance and trade, the neoliberal model of development is pushing both developed and developing societies toward unrestrained competition for markets and profit worldwide.

Given the present development model it seems thus very unlikely that any progress in reducing inequality and promoting sustainability can be achieved. Under such a development paradigm, proposals and schemes to reduce inequality and promote environmental protection are offset by the need of countries, companies and individual to maximize their profit and wealth without constraints. Measures to deal with inequality and the threat of climate change must therefore be paired with structural, systemic actions designed at the promotion of a paradigm shift in economic development and the development of a new model of prosperity and cooperation in which economic growth, markets and profits are means to human ends, not vice versa. ■

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Not less but more gender equality for 2014 and beyond!

Zita Gurmai,
MEP, Hungary,
President of
PES Women

In this article, Ms Gurmai highlights the significant impact of the 'austerity-only' policies on gender equality across Europe. She argues that this approach to recovery has resulted in cuts to key public services such as social services and education which have consequently widened the gap in salaries and opportunities for women in comparison to men. This article rallies support from all progressives to prioritise gender equality and women's rights in social and economic policies.

With European elections on our doorstep, electoral programmes and party priorities being finalized for the May 2014 Elections, it is only natural to wonder about the place of women's rights and gender equality among those priorities. My answer is "of course they should be central". They should be because, firstly, women's rights and gender equality are issues of which that the Party of European Socialists and the Socialists and Democrats in the European Parliament have always been frontrunners and we should remain the party for women and women's rights. Secondly, because the current socio-economic and political environment is setting the conditions for a conservative backlash, a serious cause for concern that calls not for less but indeed for more gender equality and promotion of women's rights.

Apart from the backlash on women's rights, today's European socio-economic crisis also paves the way for extremist parties to rise on national and European political scenes and impose their traditional and outdated views on women's roles and women's rights, turning the clock back on women's empowerment. While the crisis has affected women's employment, rights and empowerment negatively, it cannot be used as an excuse to push it off the political agenda and therefore PES Women believes that Europe needs more gender equality as part of the way out!

Ensuring Women's Economic Empowerment

The austerity-only measures that have been adopted translate largely into cuts in public budgets and most services being privatized. These cuts affect mostly sectors where women are over-represented (women constitute on average 69.2% of public sector workers in the EU), public services that primarily benefit women (education, healthcare, social services, etc) and programmes and funding promoting women's rights and gender equality at both national and European level.

The austerity-only policies put in place in Europe by Conservative governments have paved the way for the "silent crisis" to develop, making women invisible victims of the crisis due to the double burden on them, as confirmed by a study by the European Women's Lobby called "the price of austerity – the impact on women's rights and gender equality in Europe". The EU's efforts to increase women's employment rates have been undermined in 22 EU Member States, falling far from the EU's headline target to reach a 75% employment rate for women and men by 2020.

Moreover, the European Commission explains that women are no longer the "buffer" of the labour market, in other words, women used to be called in when demand was high, but are now sent back home when demand for contracts is low. The World Global Survey in 2005 found that almost 40% of those interviewed agreed that in such a situation, men have more of a right to a job than women!

Young women are particularly affected. Generally, the European Commission acknowledges that young women are more likely than young men to be not in employment, education or training (NEETs), mainly because they are more likely to be out of the labour force (or inactive).

In addition to women's employment rate and quality of women's employment, the austerity policies also have an impact on women's wages. The Gender Pay Gap (GPG) is at 16.2% in the EU today. As austerity policies very often result in wage freezes and cuts, especially in the public sector, the European Commission fears a possible widening of the GPG in the coming months/years and a reverse of the current trend.

Considering that the average pension gap is 39% in Europe - more than twice as large as the gender pay gap - this is even more worrying when addressing the situation of older women.

PES Women has therefore engaged itself to campaign to closing the pay gap and investing in women despite the crisis.

To this end, PES Women puts forward three proposals:

1) The introduction of a Gender Pay Gap Audit to check whether all Member States engage on reducing the gender pay gap for all age groups by 2% per year and per Member State until equality in wages has been reached.
2) In parallel, the EU should improve the monitoring of the implementation of anti-discrimination and gender equality legislation, including through the application of clear and dissuasive sanctions, both at national and at European level.
3) PES Women urges the EU to appoint a specific Commissioner for Gender Equality and Women's Rights to engage on this as of 2014.

The above-mentioned cuts also relate to cuts in childcare facilities and services and thus endangering women's economic independence. Due to the austerity measures, most families come back to a traditional model of care, in which the State's role is dismantled to put the burden back on the households and more particularly on women.

The majority of Member States have yet to make any substantial effort to meet the Barcelona targets established by the European Council in 2002. These targets state that "Member States should strive to provide childcare by 2010 to at least 90% of children

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between 3 years old and the mandatory school age and at least 33% of children under 3 years of age."

PES Women therefore urges the European institutions and leaders to improve European minimum standards for childcare and parental leave, including easy access to affordable, equally accessible and good quality childcare, allowing women to advance in their careers and break the glass ceiling as well as give women and men the same options in sharing family responsibilities. As emphasized in our campaign in 2007, PES Women demands that childcare is recognised as a basic public service throughout Europe.

Going beyond Women's Economic Empowerment

The fight against violence against women is also falling victim to the drastic budget cuts decided as part of austerity-only solutions. The weakening of women's organisations means the weakening of the will and possibility to push for strong legislation and action to fight all types of violence against women.

As a result of austerity-only responses to the crisis, we also witness cuts in budgets and programmes allocated for women's rights and gender equality - for instance, the DAPHNE programme of the European Commission, is being drastically reduced. The DAPHNE Programme funds projects combating violence against women.

Violence against women remains a problem of "epidemic proportions" affecting women from all socio-economic groups. Gender–based/male violence is considered to be the major cause of death and invalidity of women aged 16 to 44. Statistics have shown that one in three women will be a victim of violence during their lifetime and 10% will be victims of rape or attempted rape.

Recently, the Council of Europe Istanbul Convention on preventing and combating violence against women and domestic violence in 2011 stated that there can be no real equality between women and men if women experience gender-based violence on a large-scale and state agencies and institutions turn a blind eye. Domestic violence has a traumatic effect on women, men, children and the elderly who are exposed within the family or domestic unit. Harmonising legal standards, ensuring common protection and funds for victims across Europe is therefore essential.

Yet the current crisis is not just a fertile ground for an economic backlash. Basic human rights such as Sexual Health and Reproductive

Rights (SRHR) are now under threat, such as in Spain, fuelled by growing extremist right-wing parties that are imposing traditional conservative visions of women's role and rights. The general trend is a major setback with a spectacular conservative backlash, which translate into a direct attack against women.

Denying a woman the right to make her own decision for her own body means denying her a fundamental right - it is a form of systematic violence. The message of the PES Women campaign 'My Body, My Rights' remains thus a very necessary one; 'My Body, My Rights' calls on protecting women's rights to sexual and reproductive health and providing women and men proper health care services and free choice for all women by promoting sexual education, medical assistance and support, prevention, contraception, the morning-after pill and abortion and that these should be affordable and accessible for all women and men, regardless of geographical location, origin or social status. Guaranteeing sexual and reproductive rights is not only a health issue but it also contributes to women's empowerment and economic independence.

We cannot accept the fact that certain European women, due to their geographical location and/or social status, will, in the Europe of the 21st century, soon be denied the free choice and access to SRHR, including abortion.

Old and current priorities do not seem that different, and therefore the PES will continue campaigning and prioritizing gender equality and women's rights. We will not let Europe use the excuse of the crisis because we do not want our daughters, partners, sisters to turn back the clock 30 years. ■

The fight against violence against women is also falling victim to the drastic budget cuts decided as part of austerity-only solutions. The weakening of women's organisations means the weakening of the will and possibility to push for strong legislation and action to fight all types of violence against women.

Combating inequality: towards an effective mix of national and European policy responses

Nicolas Schmit,
Minister of Labour, Employment and Immigration, Luxembourg, and Coordinating Minister of the Network of Employment and Social Affairs Ministers for the Party of European Socialists

This article acknowledges the positive impact that globalisation has had on creating opportunities for people to escape poverty. However, in the case of Europe and America, inequality has exploded and has enhanced job insecurity, unemployment of younger and older workers, and weakening social cohesion in a number of European countries. The author points to the "Troika" which has blurred the European vision and harmed the original social model and penalised the younger generations.

Inequality between countries is starting to decrease. Globalisation has enabled hundreds of millions of people to escape poverty, to live with dignity, and to become not just producers but also consumers. By contrast, in European countries and in the United States, inequality and poverty have truly exploded. This development was amplified by the crisis, but goes back much further. Inequality and poverty were considered to be inevitable, caused by the new distribution between nations that globalisation brought with it. In "La mondialisation de l'inégalité" (Globalisation and Inequality, Ed. du Seuil, 2012), François Bourguignon analyses how "the rise in national inequality has tended to eclipse the decline in global inequality, which is nonetheless incontestable". Long neglected, the issue of inequality is back in public debate and economic reflection. The International Monetary Fund is no longer ignoring it, and is even proposing a review of the taxation system with the aim of taxing higher revenue, especially inheritance (IMF Taxing Times, Oct. 2013). Its Director General is creating a vicious circle which means that "the more inequality there is, the less apparently solid growth there is, and the less growth there is, the less job creation there is". In its report for the meeting in Davos in 2014, the World Economic Forum ranked inequality as the second major risk to economic, social and, in particular, political stability.

The increase in inequality in the past two or three decades has had a considerable effect. In the European Union, it is primarily affecting those countries mired in the debt crisis, but is not sparing others either. The wage gap is increasing, and at the same time the share of wages in the distribution of added value is declining. According to the OECD cited in the Financial Times on 24 December 2013, the Gini coefficient which measures the greatest increase in income inequality between 2007 and 2011 in Ireland was +6.6%, in Spain +6%, in Greece +2.5%, in France 2.2%, in Italy 1.5%; the average for the OECD was 1.2%.

Job insecurity resulting in an increasing number of the working poor is on the up, even in highly competitive countries such as Germany. Unemployment, which is affecting young people and older workers in particular, is becoming a major source of inequality and poverty. In short, weakening social cohesion in a number of European countries is encouraging popular extremist movements.

It is therefore urgently necessary to look into the fundamental reasons for this increasing inequality which cannot be isolated from the economic policies followed in the past few years. In his "Concluding Notes on the Social Philosophy towards which the General Theory might Lead", John M. Keynes draws two conclusions which apply to a broad extent to the economic reality of today, almost eighty years after the publication of the volume: "The two major flaws in the global economy in which we live are firstly that full employment is not ensured and secondly that the distribution of wealth and incoming is arbitrary and lacks equality." (J. M. Keynes, General Theory, Payot, 2005 p. 366). As in the 1930s, inequality is at the heart of the crisis. It is necessary to put the issue of the distribution of wealth and inheritance back into the heart of economic analysis and public action.

This is what should initially be done at a national level. Wage, social, redistribution and taxation policies are first and foremost the responsibility of the state, but do the margins of action which the state possesses really allow it to take this responsibility? Policies are increasingly conducted within the framework of constraints imposed by the treaties and the disciplines of the economic and monetary Union. In this sense, belonging to the Eurozone restricts a member state's options, even though in theory social and taxation policies mainly remain under national competence.

The reality is completely different from this, which is entirely normal in a monetary union, even though this was initially deliberately ignored. Admittedly, the European treaties do not make the battle against inequality a competence of the Union. But according to the Treaty, "the Union works [...] for a highly competitive social market economy aiming at full employment and social progress". The reduction in inequality does not feature, even if the battle against social exclusion is considered one of the areas where the Union supports and complements the activities of the member states. In this context, the EU 2020 Strategy advocates a reduction in the level of poverty, by aiming for a reduction in the number of people affected or threatened by poverty and exclusion by 20 million by the year 2020. This goal is far from being reached, and is becoming more and more distant. In 2012, 124.5 million people were at risk of poverty, totalling 24.8% of the EU compared to 23.7% in 2008. With a rate of 35%, Greece experienced an increase of 3.6% in just one year. Young people exposed to unemployment and job insecurity are particularly threatened. How can they construct a future when 40% of young employees between the ages of 15 and 24 have not been able to obtain a permanent contract? There is greater flexibility in the employment market which directly increases inequality.

Yet the fate of older employees is no better. According to the Report by the Commission on employment and the social situation in June 2013, 25.7% of people aged between 55 and 64 - those most exposed to long-term unemployment - were classed as living in poverty or suffering from social exclusion. The number of children living in poverty has also increased significantly, notably in countries such as Greece and Spain.

The social situation has therefore worsened in the European Union in the past few years. The policies advocated by the Commission and

European policy needs a new vision which returns to the original social model in order to inspire hope in the people of Europe once again.

notably by the "Troika" have resulted in a rise in unemployment, a reduction in wages and in particular the minimum wage, and a brutal reduction in social services. According to the Report by the European Parliament on the role and activities of the Troika, "inequality in the distribution of wealth has built up beyond the average in the four countries in question and the reduction in social services and increase in unemployment have resulted in a rise in poverty".

Recovery of external competition has been the key objective achieved by the internal devaluation policies which the Union embraced, in particular in the Eurozone during stagnation, and for some countries in a long economic recession. The risks of a period of deflation cannot be minimised. The austerity policies have therefore not been successful in anything except destroying the potential for growth and plunging millions of Europeans into poverty and uncertainty. It is not surprising that inequality has progressed rapidly. In his book "The Price of Inequality", Joseph E. Stiglitz describes this vicious circle created by policies which favour an explosive increase in inequality. "Inequality costs us dearly. The price of inequality is the deterioration of the economy, which becomes less stable and less effective, with less growth and the subversion of democracy". It is not conceivable for the drop in real wage income, a phenomenon which has occurred in the United States for thirty years, to be compensated for in part by increasing private indebtedness. This phenomenon was the origin of the "subprime" crisis and therefore of the financial crisis. At the same time, company liquidity exploded, as did financial returns. The middle class suffered this shock, in particular paying the price of the financial crisis in the United States but also in Europe. In Germany, there was a decrease in the number of people considered to be part of the middle class. From 1999 to 2009, this dropped from 64% to 59%, corresponding to 4.5 million people. Similar tendencies could be found in other countries. The social ladder has been broken, a problem whichcontinues to affect more and more people. The neoliberal idea that the concentration of wealth is in the hands of a small minority, the famous 1% which Stiglitz talks about; who invest, generate growth and create the jobs of tomorrow, is in no way supported by the facts.

We therefore urgently need to change course, to re-direct European policies on growth, employment and innovation towards more solidarity and justice. We need to promote the European social model once again not as a weakness of Europe but as one of its strengths. It has an indisputable appeal for people from other continents.

The Chinese, Brazilians and even Americans are increasingly interested in this model which is able to connect economic effectiveness and social solidarity in the manner Jacques Delors described; forming a "balance between society and the state on the one hand and the individual on the other".

European policies have to support the member states in this reorientation in a number of areas.

1. Social policy can no longer be a simple adjustment variable. It needs to have a place in European policies and governance. A rebalancing within the Council is necessary. The financial

logic defended by ECOFIN and often repeated by the European Council is too controlling. An evaluation of the impact on social policies is essential. It is the role of the EPSCO Council in particular which needs to be re-evaluated. As set out in Article 9 of the Treaty, it is necessary to ask whether the policies are in the interests of employment and the social rights of the very large majority of citizens. It is therefore necessary to take into account the issue of inequality which has an impact on the economy. Increasingly, we are sliding into this "Darwin Economy", as described by the American economist Robert Frank, who comes to the conclusion that widespread competition goes against the common good, thereby destroying any potential for creation. (Frank R. The Darwin Economy. Liberty, Competition and the Common Good Princeton University Press 2011).

However, in the past few years the European Union has progressed little in terms of reinforcing the social dimension of the EMU. The only tangible result of the reflection is the scoreboard composed of five indicators including the unemployment rate, the gross disposable income of households, the rate of risk of poverty among the population of working age and inequality. There is undoubtedly little progress insofar as these social indicators form part of the European Semester process. But the indicators must not take precedence over the policies. Which operational conclusions can be drawn at the level of other policies if it turns out that, for example, the austerity policies are generating unemployment and increasing inequality? The document on the scoreboard of indicators of social affairs and employment developed by the Committee for employment and social protection clearly identifies the fact that inequality is created within states as a result of the increase in unemployment, the reduction in the level of redistribution and, in certain cases, the budget allocation. This is an inconsequential observation on the policies promoted by the "Troika". What place should the indicators have in the social dialogue at the European level which needs to be resurrected? At the moment, the measurement of inequality is a statistical indicator, nothing more. This is not sufficient. There needs to be a top-level policy to define what U.S. President Obama has called the "definition of our times".

2. Social competition and the reduction in public and social spending should no longer be the preferred instruments for competition research policies. The

As in the 1930s, inequality is at the heart of the crisis. It is necessary to put the issue of the distribution of wealth and inheritance back into the heart of economic analysis and public action.

budgetary austerity policies which reduce spending on education, research, qualification, innovation etc. do not favour the reinforcement of competitiveness. These are short-sighted policies which reduce the potential for growth and penalise the younger generations especially. There needs to be intelligent budget consolidation policies which do not stifle growth by brutally reducing internal demand and limiting the necessary investments. This has resulted in the disappearance of tens of thousands of SMEs, and with them a number of jobs. According to a study carried out by an economist at the Commission, Jan In't Veld, the losses in growth and therefore of employment caused by these austerity policies are considerable. Furthermore, social protection is also an automatic stabiliser, without which the consequences of the crisis would have been much more detrimental. The European Union in general, and the Eurozone in particular, needs a minimum level of social provision. Social dumping creates tensions which are dangerous to the cohesion of Europe. All work deserves a wage which enables the employee to live with dignity, and where necessary the generalised minimum wage needs to be adapted and re-evaluated on a regular basis. Widening wage inequality which benefited a tiny minority should be reduced. A simple reduction in wage not only aggravates inequality, it also results in a depression in internal demand and therefore a rise in unemployment. The financial economy driven by unbridled speculation has created real annuities which favour vertiginous growth in wage inequality. There is a major discrepancy between the real economy and the financial economy, so it is necessary to regulate the latter. We need to relaunch Social Europe in close combination with an adaptation of the macroeconomic policies aiming for greater convergence towards the top. In this context, employment needs to become a real equivalent objective, including in monetary policy, as it is in the United States and in Great Britain.

3. Tax competition favours the development of inequality and weighs on the financing of the social protection system. The European Union should therefore play a role in removing this costly tax competition, both at a European level and at a global level. "Best-offer taxation", used to attract capital and its holders, cannot be an economic model. It is therefore better to co-operate within the Union, including on an international level. In this regard, taxation cannot be considered an area where the principle of subsidiarity should prevail. This is especially true as budget constraints are increasingly tight, in the Eurozone in particular. On this logic, European countries should develop a common base of the principles of taxation which does not merely limit itself to VAT and the taxation of revenue from capital. The contradiction between the capital markets, employment markets and goods markets which are unifying to an increasing extent and the taxation

systems which remain essentially national impoverishes the states and increasingly favours inequality. Those who have the greatest wealth and whose mobility is high are the biggest winners. Reducing inequality also includes working towards greater fiscal justice.

For many years, the European project has correctly been linked with peace. It benefited from a significant amount of support from people "convinced that a reunited Europe intends to continue on the path of civilisation, progress and prosperity, for the good of all of its inhabitants, including the weakest and poorest". If this social model has been eroded by increasing inequality between member states, this adhesion to the European project is particularly essential for the future of our states. In order to protect against this risk, European policy needs a new vision which returns to the original social model in order to inspire hope in the people of Europe once again. ■

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