

## Are the Fiscal Responses to the Crisis Increasing Income Inequality and Wealth Disparity?



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# Are the Fiscal Responses to the Crisis Increasing Income Inequality and Wealth Disparity?

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# Motivation

- ▶ Financial and economic crisis had severe impact on labor markets, income distributions and public finances in Europe.
- ▶ Fiscal policy responses on the national level have varied widely across EU Member States.
- ▶ What are the distributional consequences?
- ▶ Key issue: time lag in availability of micro data.

Introduction

Policy responses

Income inequality

Effects of policy reforms on inequality

Wealth inequality

Conclusions

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Income inequality

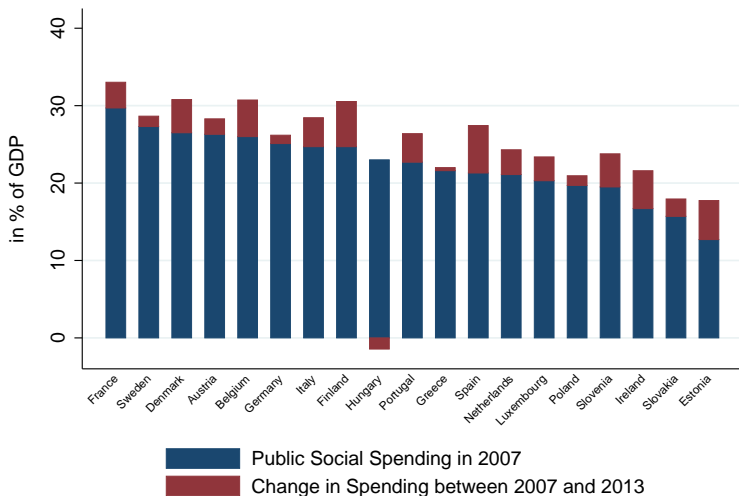
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# Public social spending/GDP

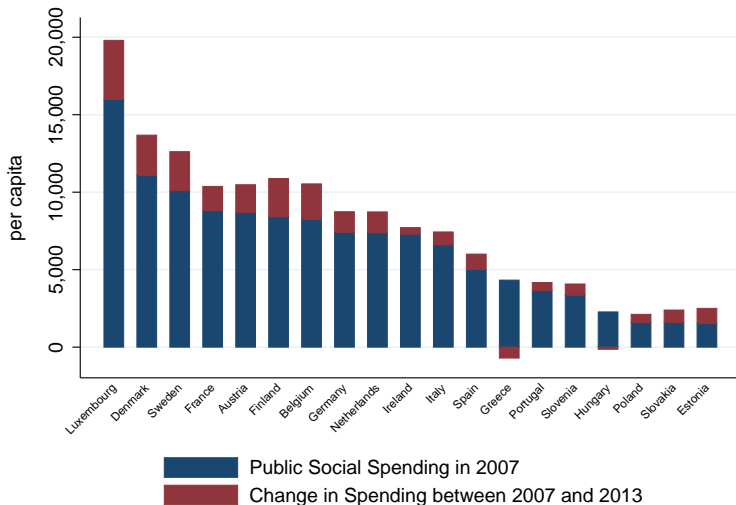
Change between 2007 and 2013



Source: OECD

# Public social spending per capita

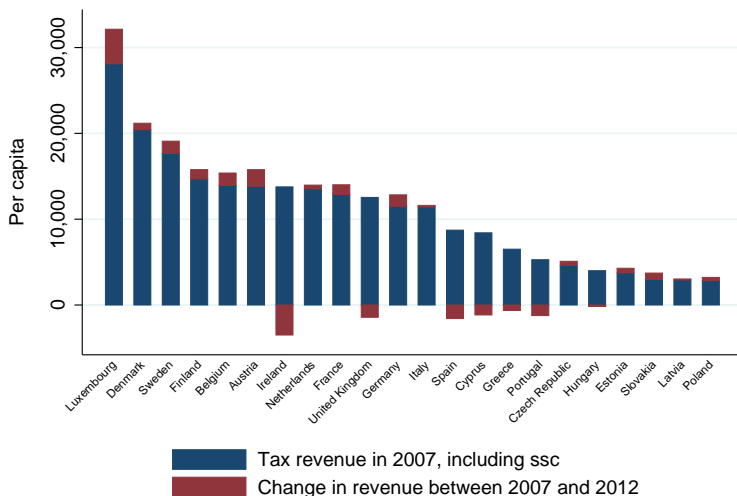
Change between 2007 and 2013



Source: OECD, Eurostat

# Taxation: Tax per capita

Change between 2007 and 2013, including social security contribution



Source: Eurostat



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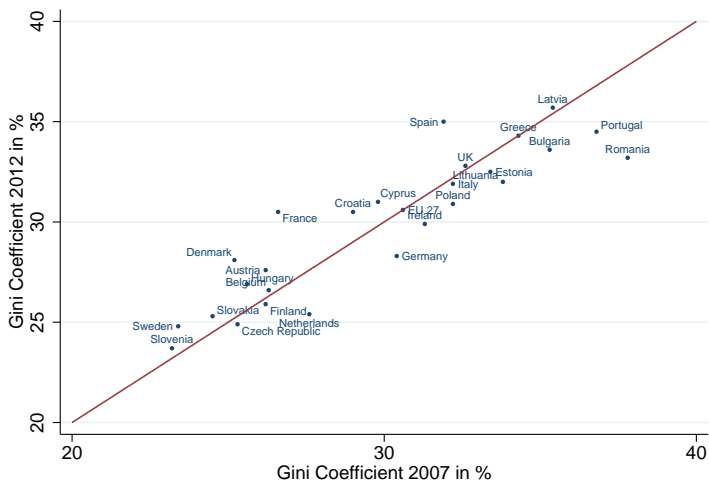
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# Gini coefficient disposable income, 2007 and 2012

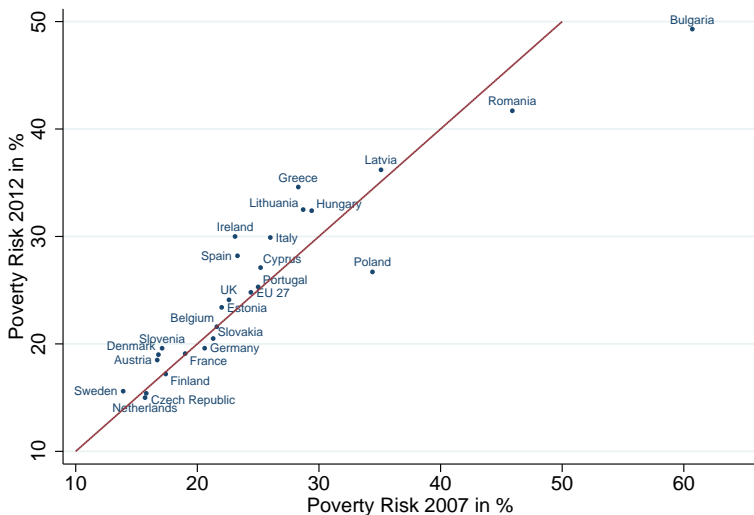
Selected EU countries



Source: Eurostat

# Poverty risk, 2007 and 2012

Selected EU countries



Source: Eurostat

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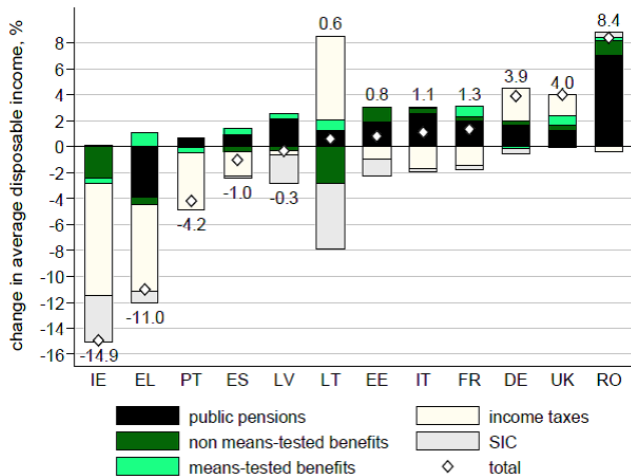
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# Average policy effect on dpi 2008 – 2013

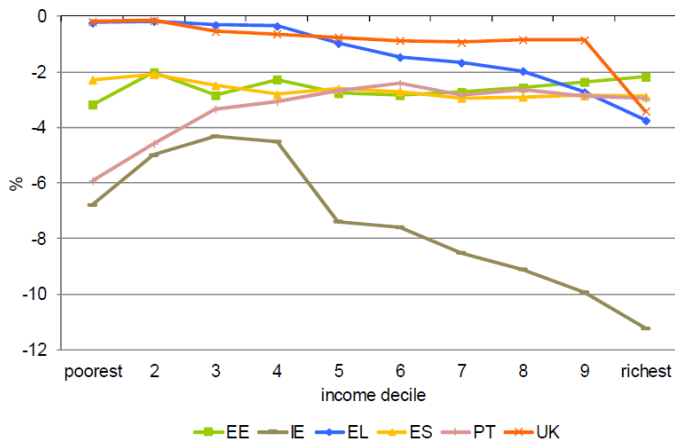
Selected EU countries



Source: EUROMOD, Sutherland (2014)

# Change in household dpi due to austerity measures

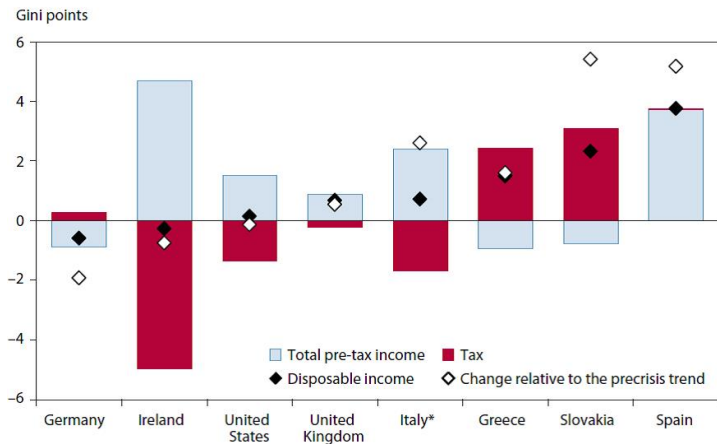
Selected EU countries, 2007 - 2011



Source: EUROMOD, Callan et al. (2011)

# Contributions of total pre-tax income and taxes to change in inequality in disposable income, 2007–10

Selected EU countries

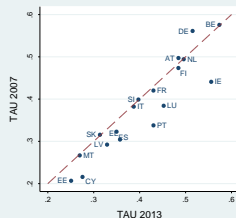
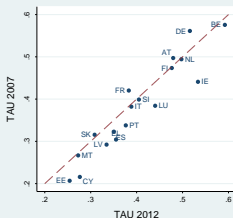
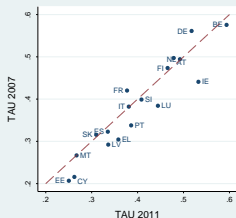
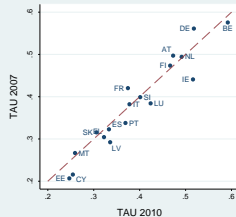
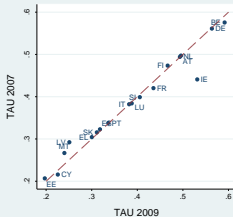
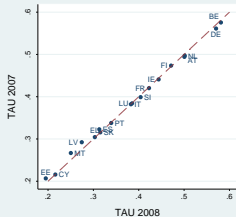


Source: LIS, Paulus et al. (2012)

# Automatic fiscal stabilizers

## Selected EU countries

Automatic Stabilizers after -5% income & +5% unemployment shock 2007 vs. 2008-2013

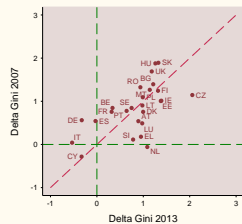
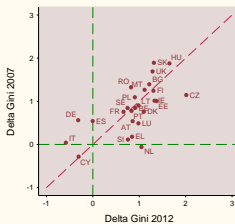
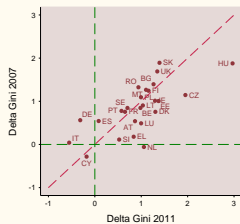
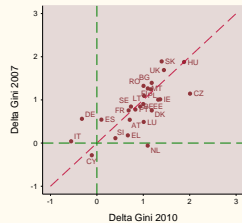
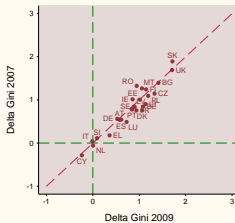
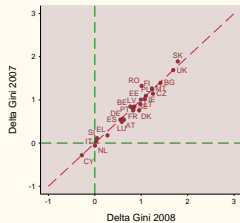




# Automatic fiscal stabilizers

## Selected EU countries

Relative differences in Gini coefficients before and after -5% income & +5% unemployment shock '07 vs. '08-'13 (in %)



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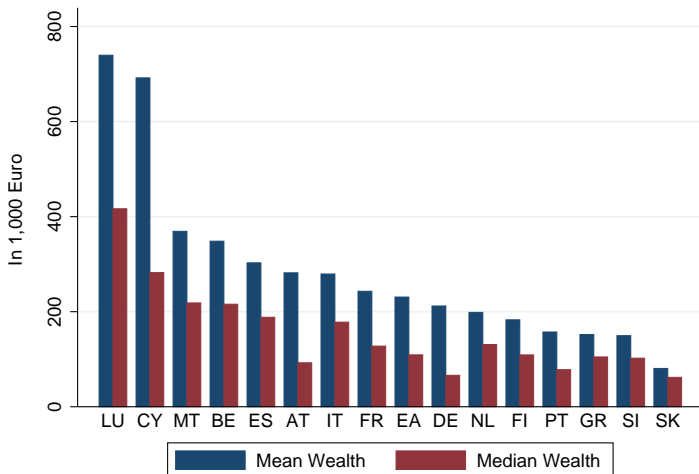
Income inequality

Effects of policy reforms on inequality

**Wealth inequality**

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# Mean and median wealth



Source: HFCS 2014

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## Concluding remarks

- ▶ Welfare states absorbed a substantial share of reduction in market incomes at the consequence of rising debt
- ▶ No clear cut picture that reforms were clearly regressive or progressive because of country specific heterogeneity

### Policy recommendations

- ▶ Short-term: create jobs, fight youth unemployment, structural labor market reforms.
- ▶ Medium to long run: reform education system (e.g. German vocational training system) in order to improve equality of opportunity.
- ▶ Adjustments in progressivity: country specific, no “one size fits all” policy

Thank you for your attention!

Comments? Questions?

[peichl@zew.de](mailto:peichl@zew.de)

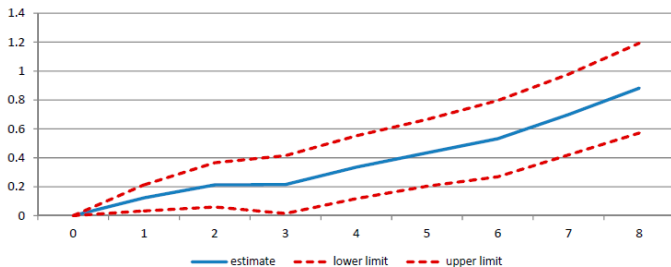
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# Effect of fiscal consolidation on inequality

Figure 3. The Effects of Fiscal Consolidation on Inequality



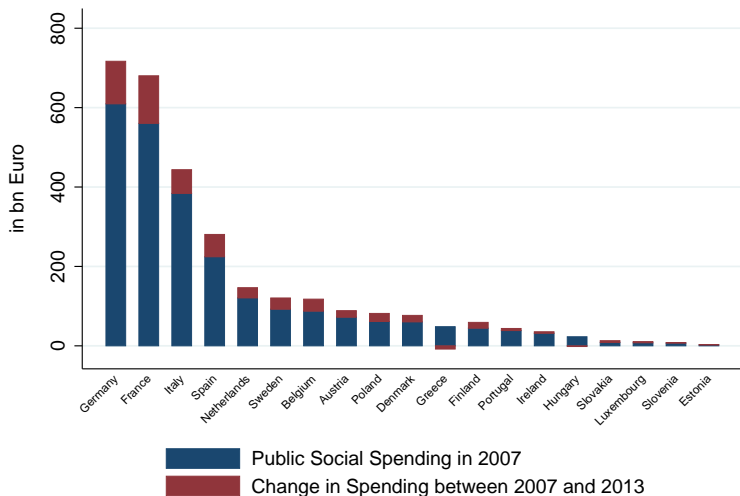
Note: dotted lines equal one standard error bands.

Source: IMF 2013



# Public social spending

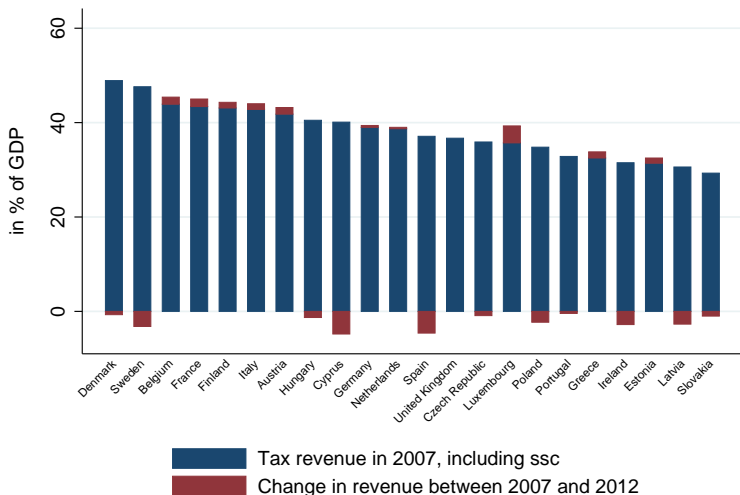
Change between 2007 and 2013



Source: OECD, Eurostat

# Taxation: Tax/GDP

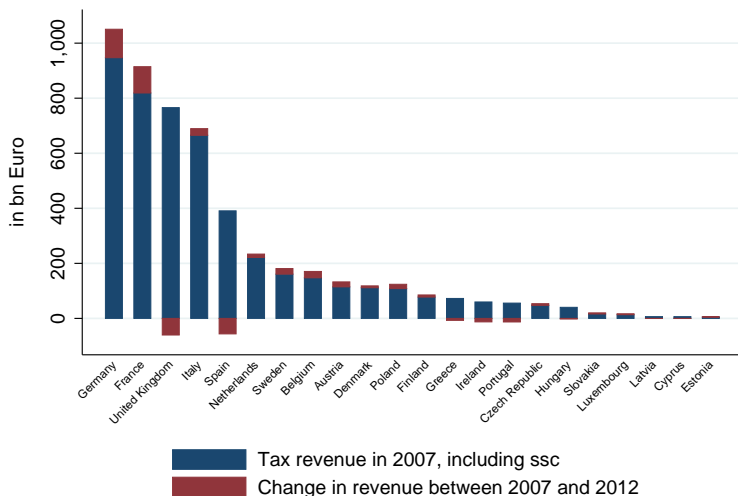
Change between 2007 and 2013, including social security contribution



Source: Eurostat

# Taxation: Tax

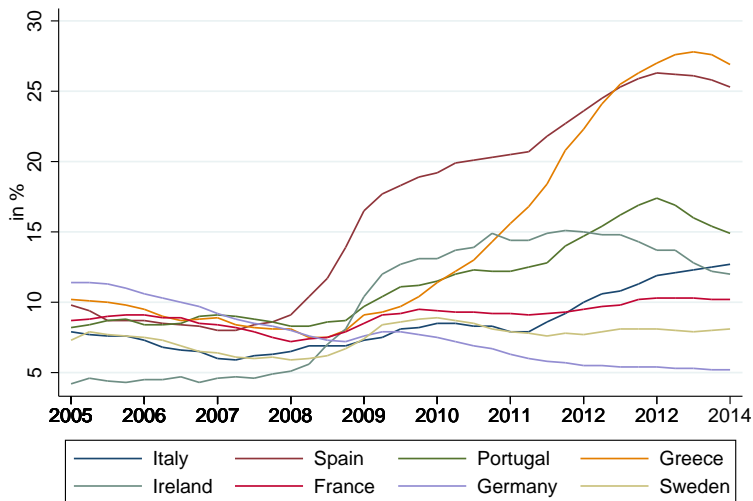
Change between 2007 and 2013, including social security contribution



Source: Eurostat

# Unemployment, 2005-2014

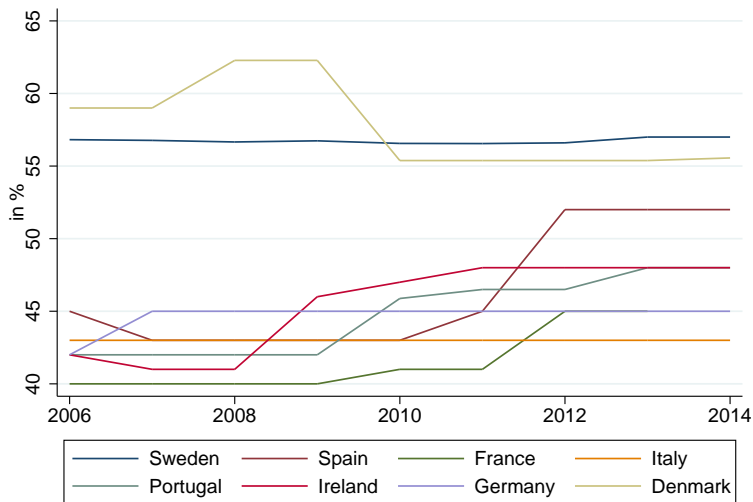
Selected EU countries



Source: Eurostat

# Top Income Tax Rates, 2006-2014

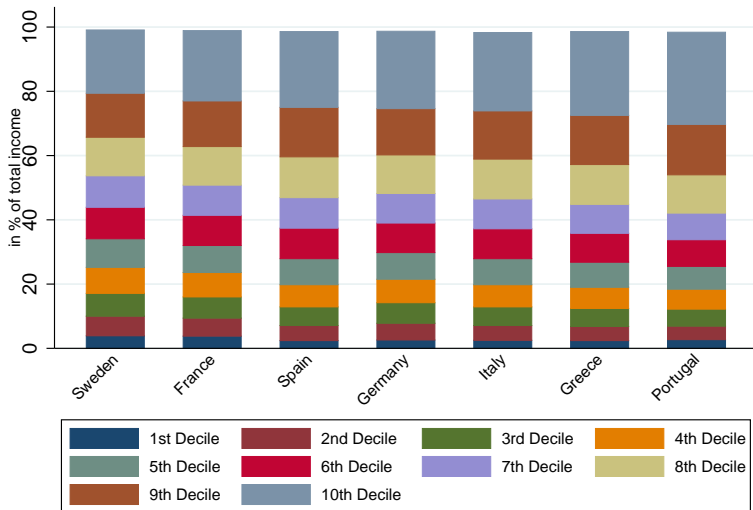
Selected EU countries



Source: KPMG

# Income Distribution according to Quantiles, 2007

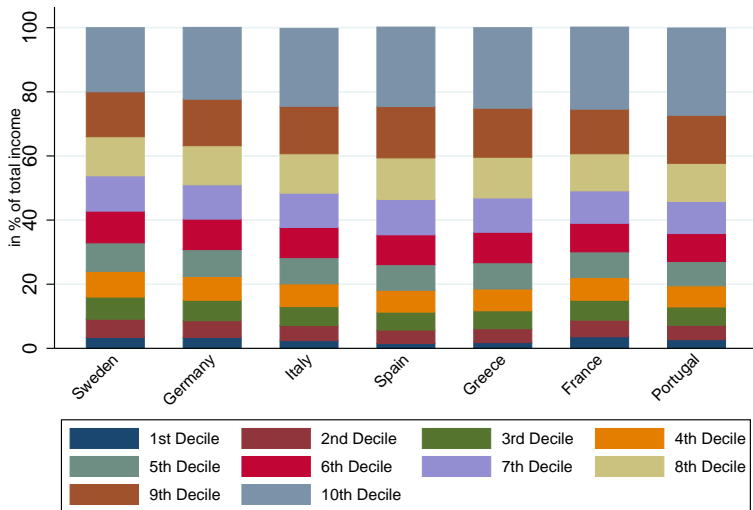
## Post Transfers



Source: Eurostat

# Income Distribution according to Quantiles, 2012

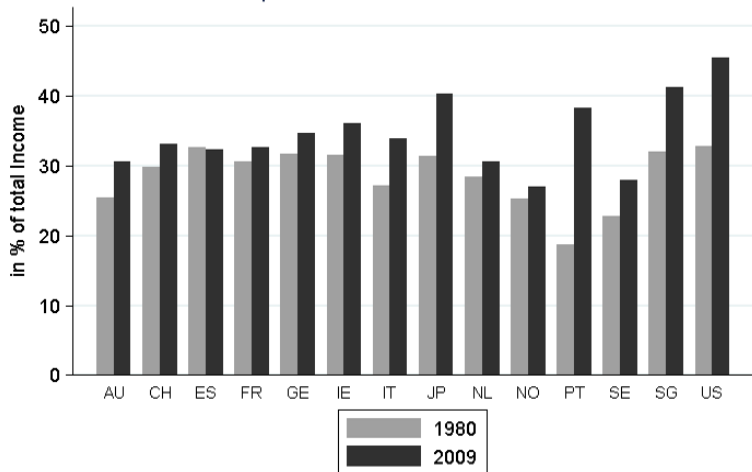
## Post Transfers



Source: Eurostat

# Top Incomes

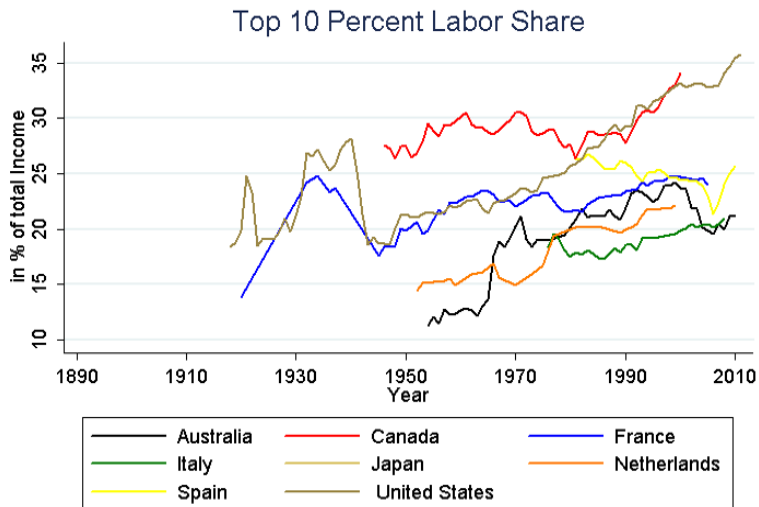
## Top 10 Percent Income Share



Source: The Worlds Top Income Database



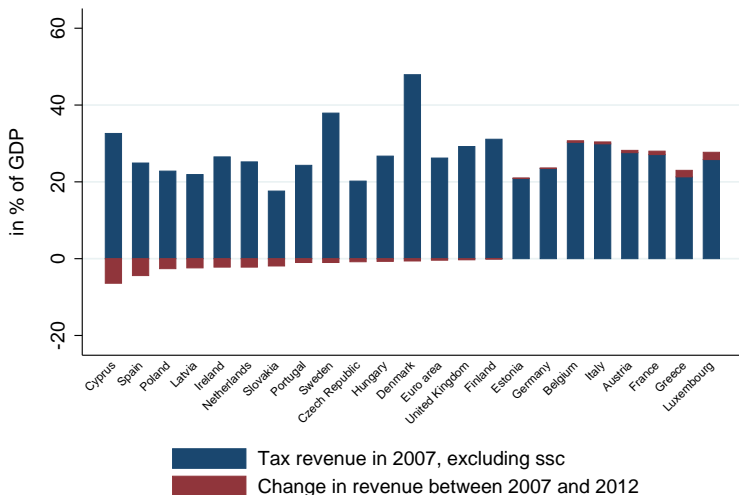
# Top Incomes



Source: The Worlds Top Income Database

# Taxation: Tax/GDP

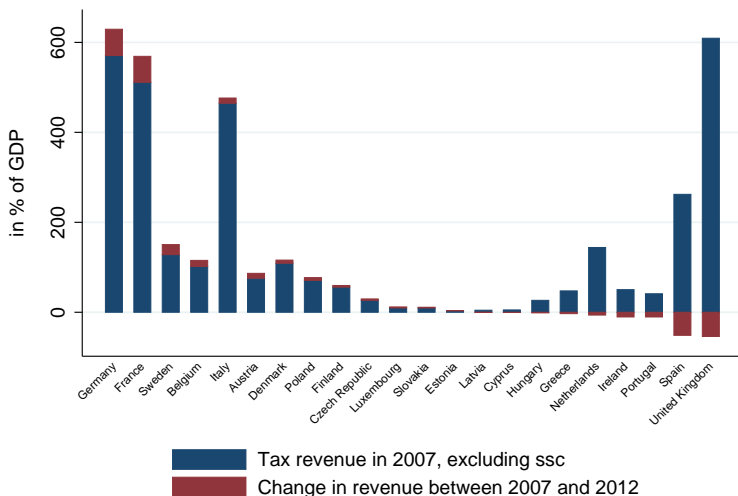
Change between 2007 and 2013, excluding social security contribution



Source: Eurostat

# Taxation: Tax

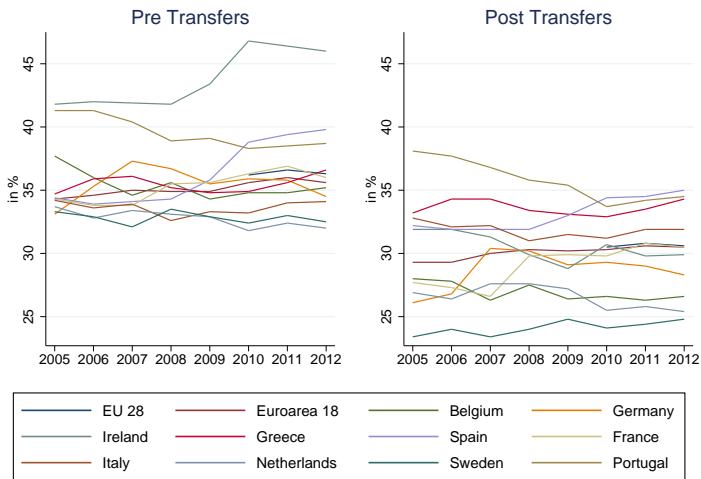
Change between 2007 and 2013, excluding social security contribution



Source: Eurostat

# Gini coefficient income, 2005-2012

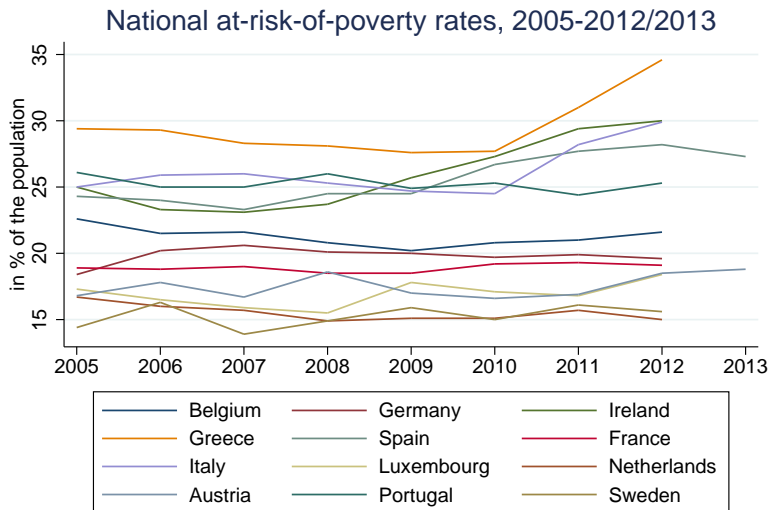
## Selected EU countries



Source: Eurostat

# Poverty Risk, 2005-2013

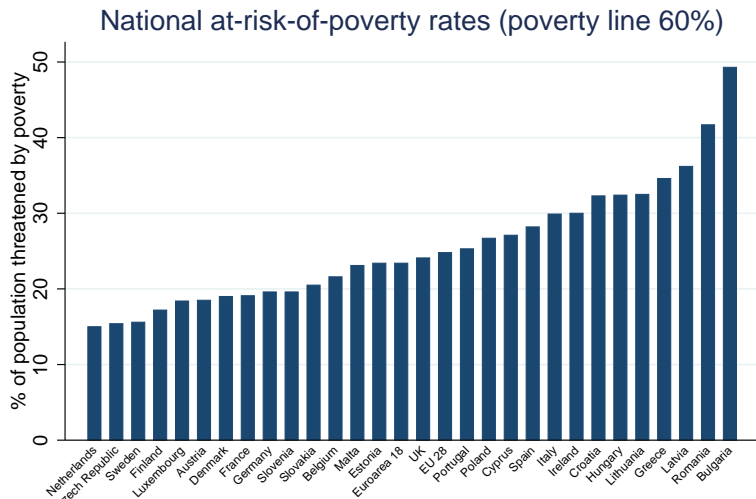
Selected EU countries



Source: Eurostat

# Poverty Risk, 2012

Selected EU countries

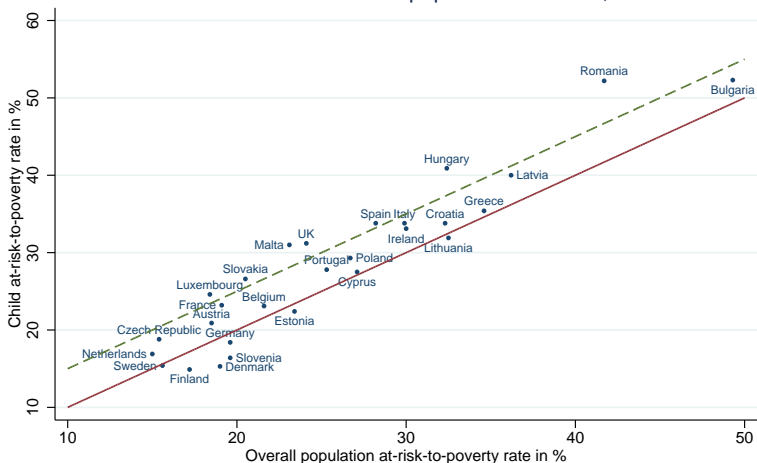


Source: Eurostat

# Poverty risk, 2012

EU 27

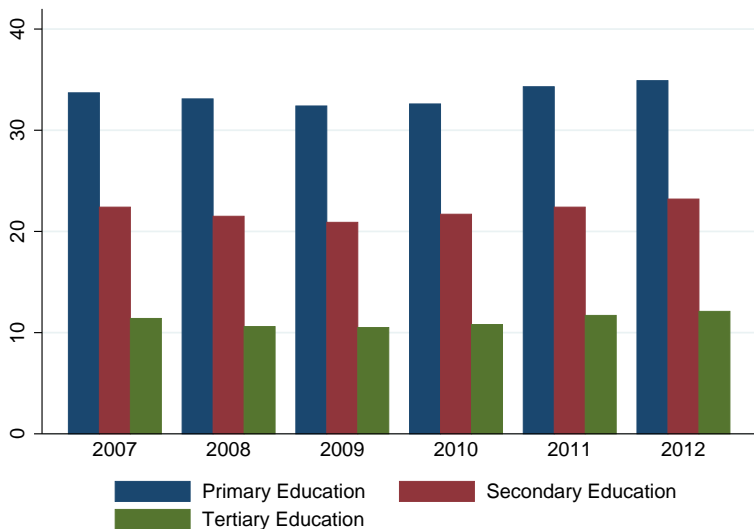
## National at-risk-of-poverty rates for children and for overall population in EU-27, 2012



Source: Eurostat

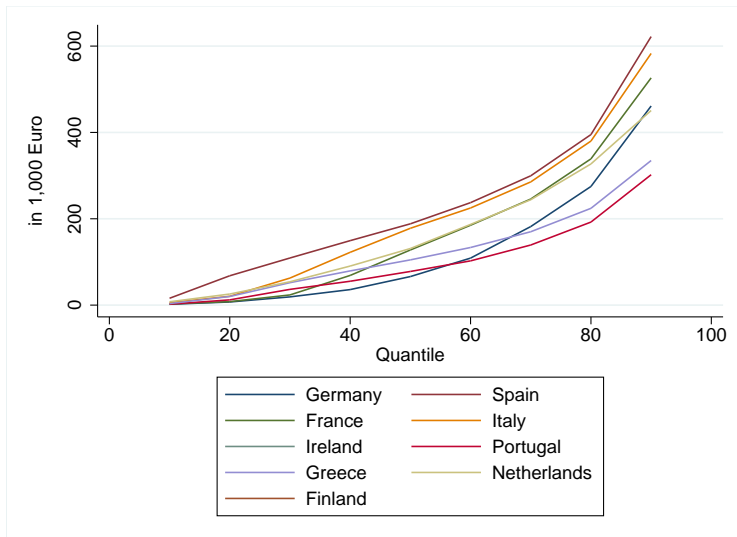
# Poverty risk for different Levels of education, 2007-2012

EU 27





# Wealth quantiles



# Wealth distribution

