

# Can employment be increased only at the cost of more inequality?

Engines for More and Better Jobs in Europe

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# Policy questions

How to:

- Maintain/increase employment rates
- Ensure equitable income distribution

Is education the answer?

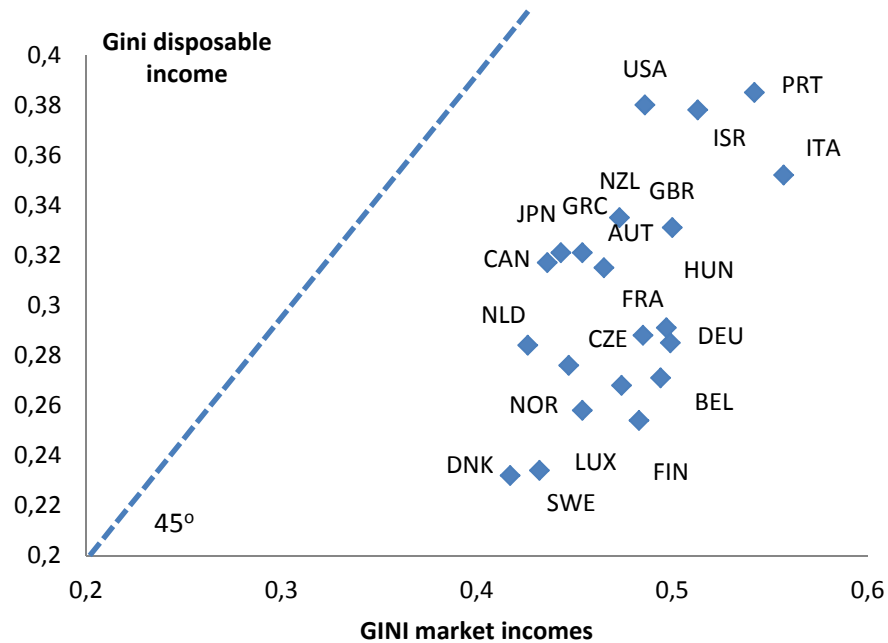
- Many structural problems have their root in weak qualifications

# Labour market trends

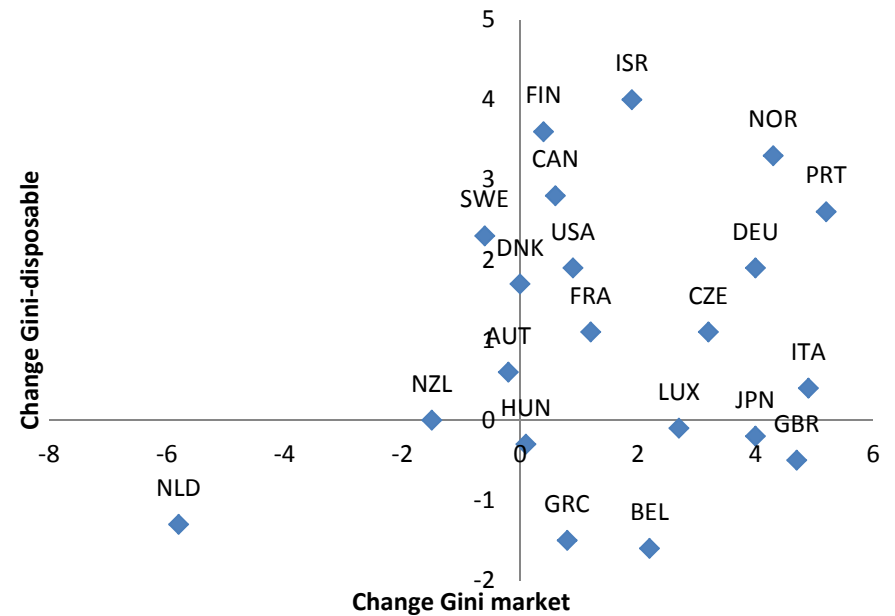
- Structural: Technology + globalization
  - = skill-bias
  - = task-bias
- Consequences:
  - Widening wage inequality
  - Declining employment rates

# Increasing inequality

## Inequality and redistribution



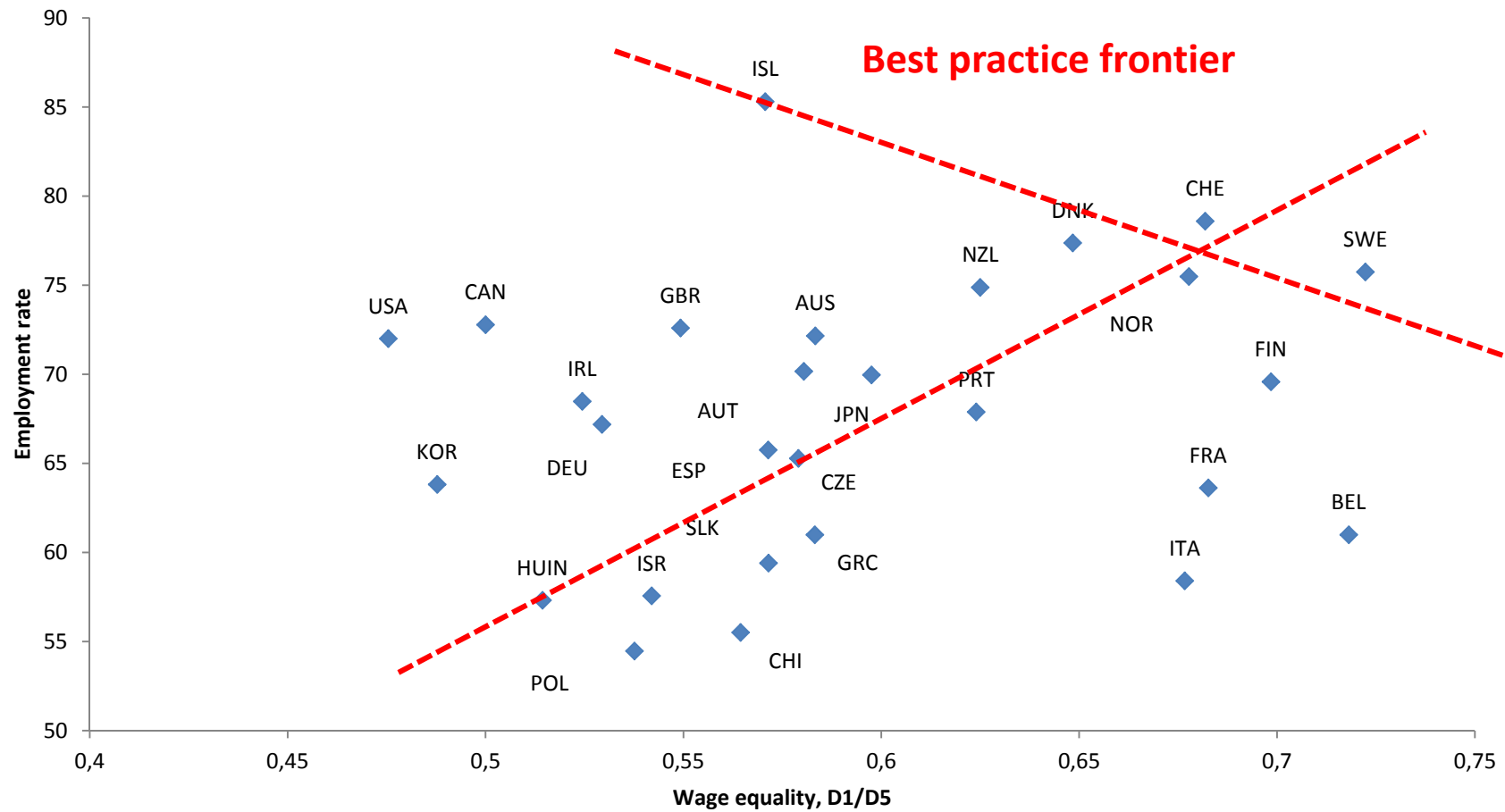
## Change in income inequality: mid 90s and 2000s



# Policy dilemma

- Increasing inequality
- Scope for redistribution is constrained
  - Public finances are under pressure
  - Trade-off between efficiency and equity - more steep trade-off due to globalization, structural changes etc.

# Trade-off – efficiency and equity in the labour market



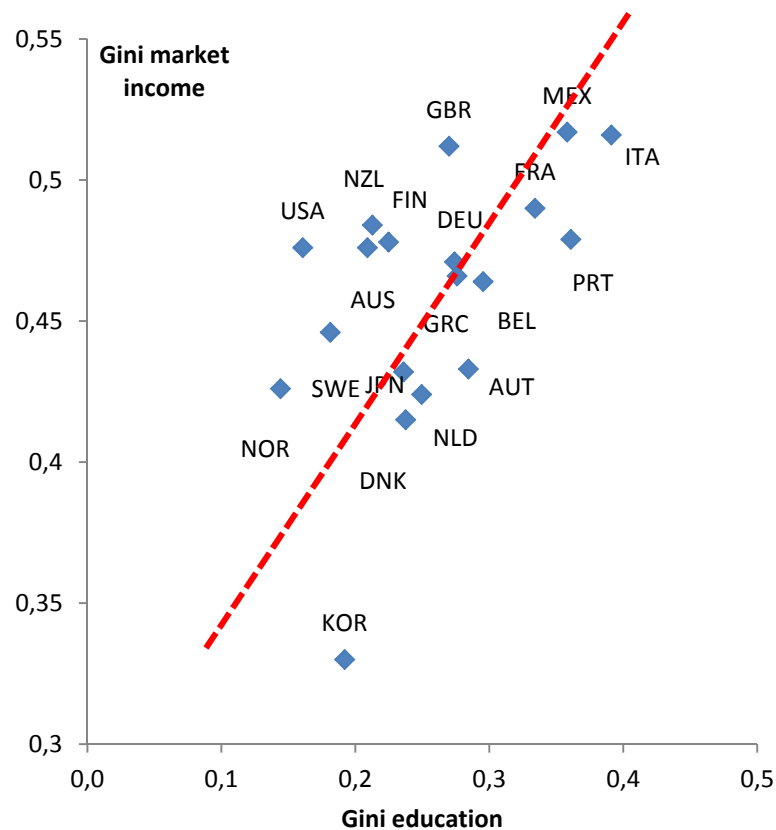
# Active vs passive redistribution policies

- Redistribution: taxes and social safety net
- Passive: Attempts to repair market outcomes (financing requirement, insurance, distortions).

Alternative:

- Active: Forming market outcomes via education/qualifications – structural change

# Education and the labour market



Micro evidence:

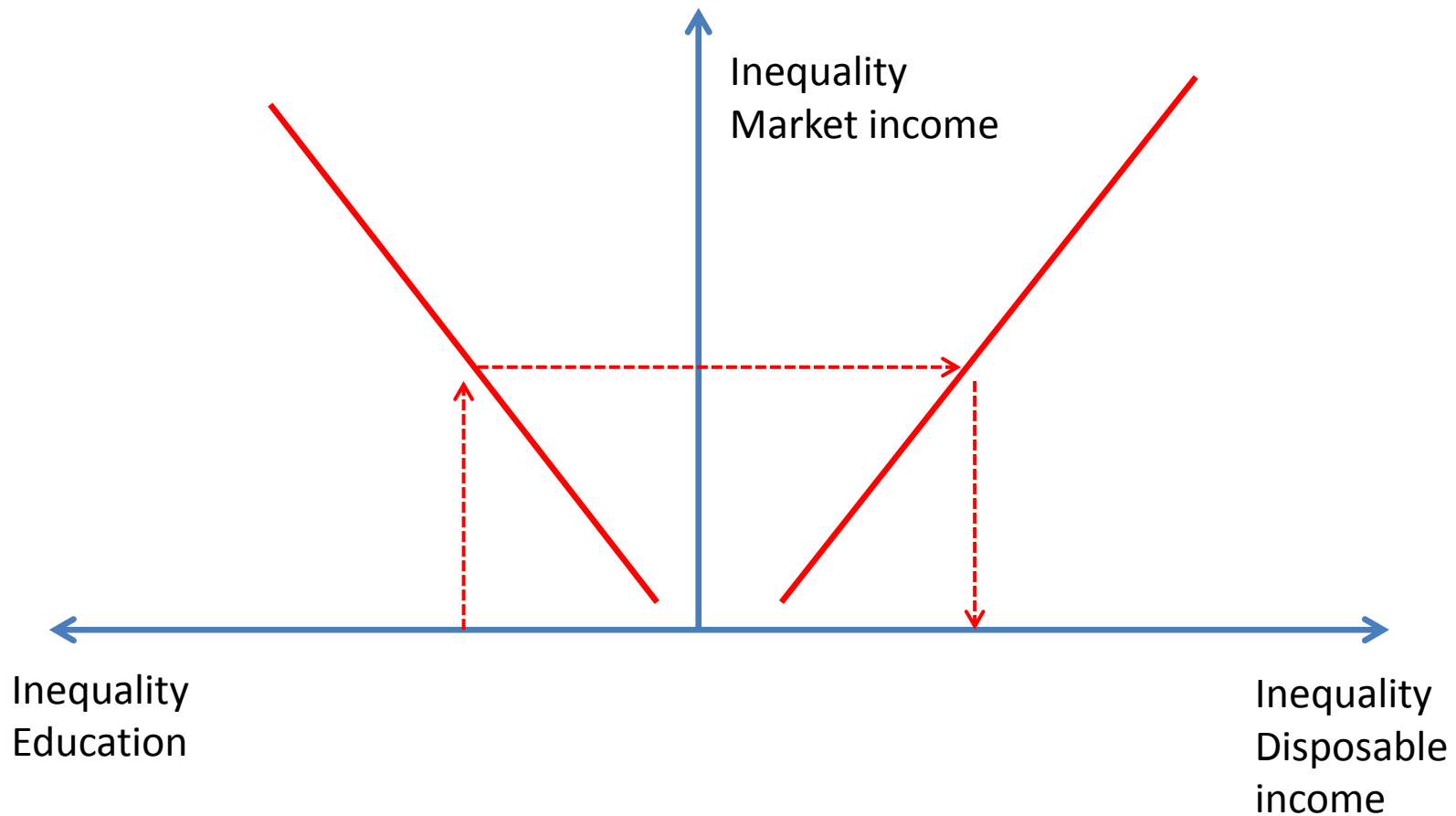
- Strong educational gradient

- Employment
- Wage
- Job security
- Retirement
- Health
- Social participation
- 
-



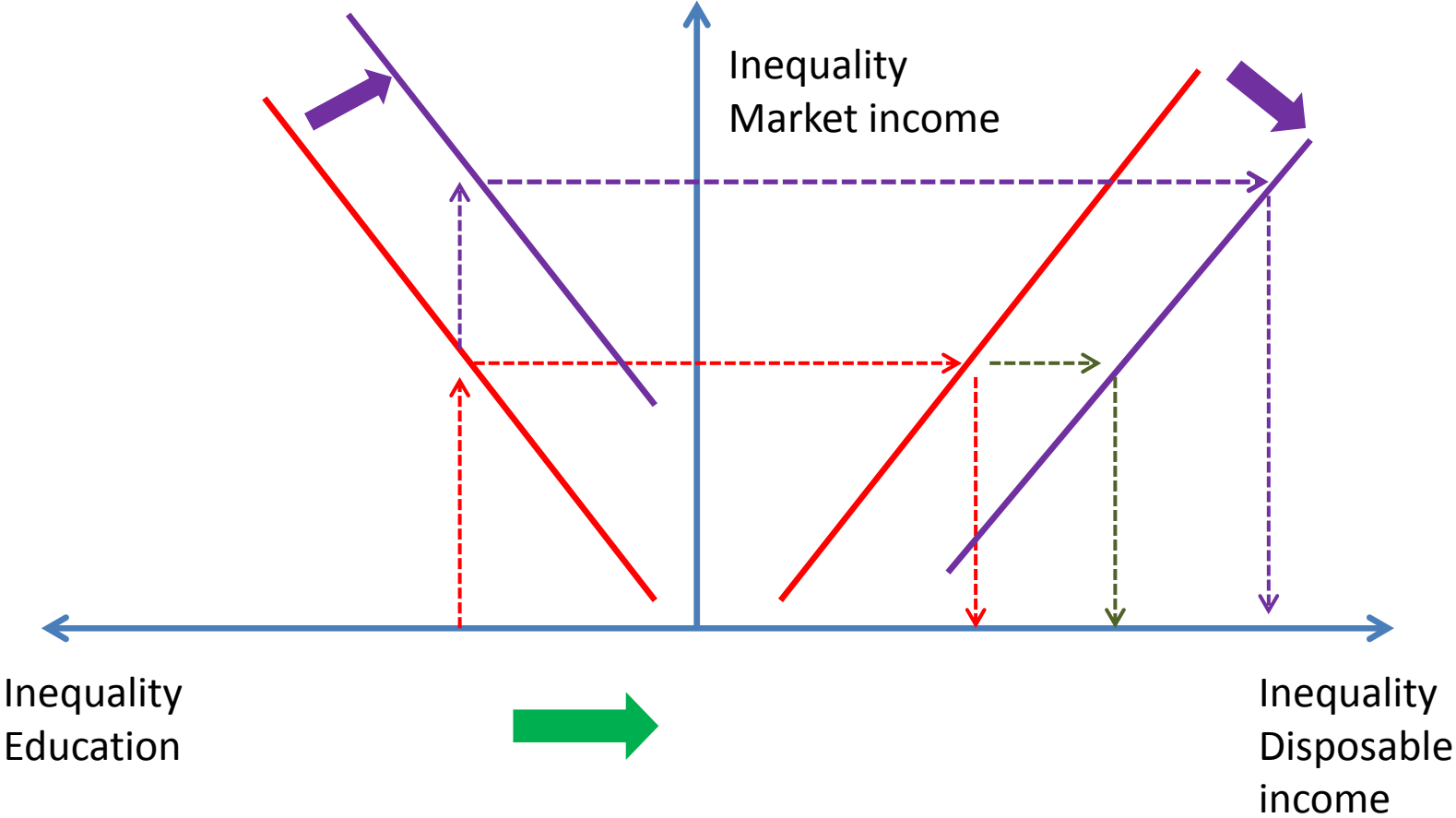
# The redistributive trinity

Qualifications  $\longleftrightarrow$  Market income      Market income  $\longleftrightarrow$  Disposable income



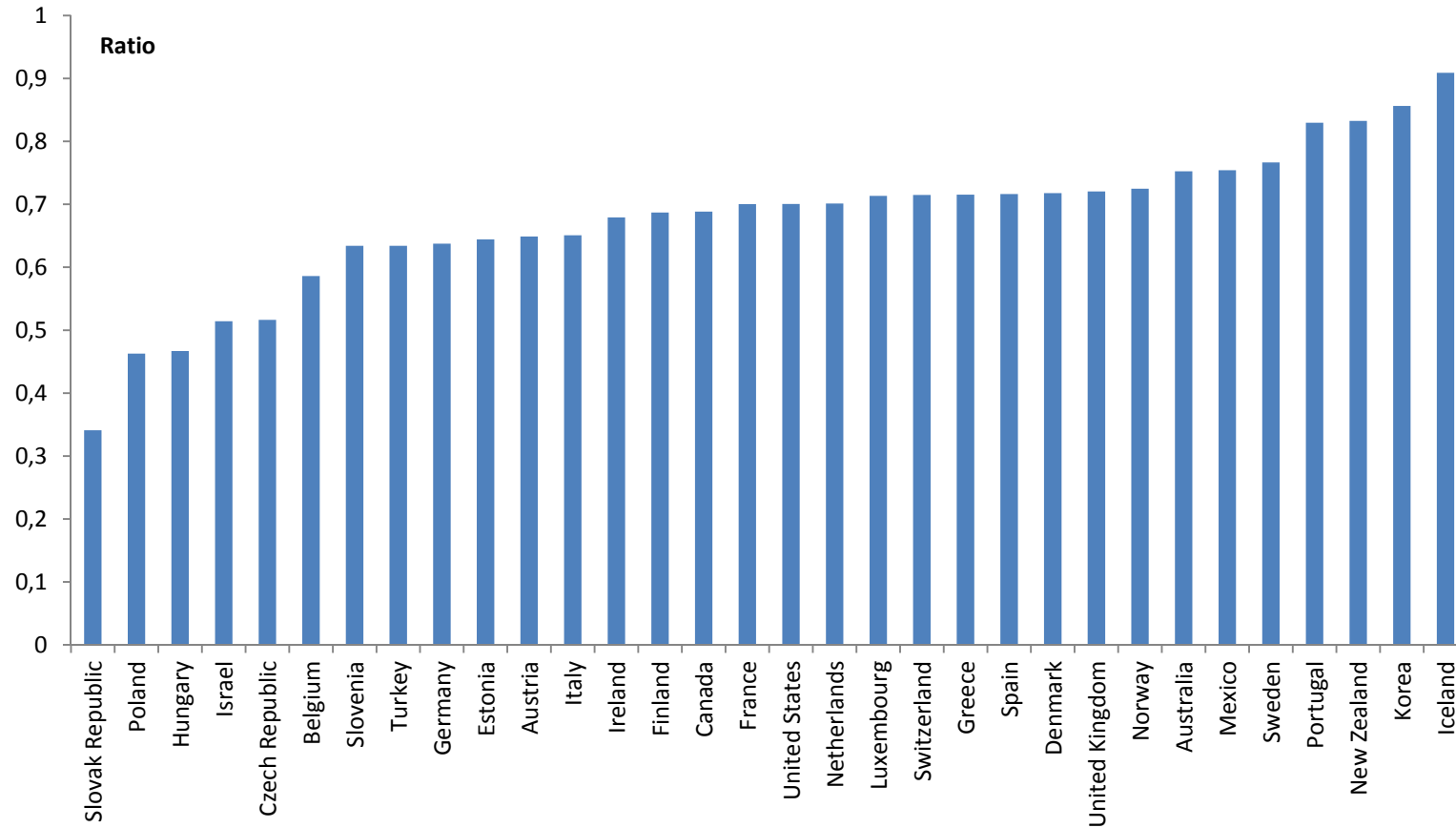
# Equality under pressure

Qualifications  $\longleftrightarrow$  Market income      Market income  $\longleftrightarrow$  Disposable income



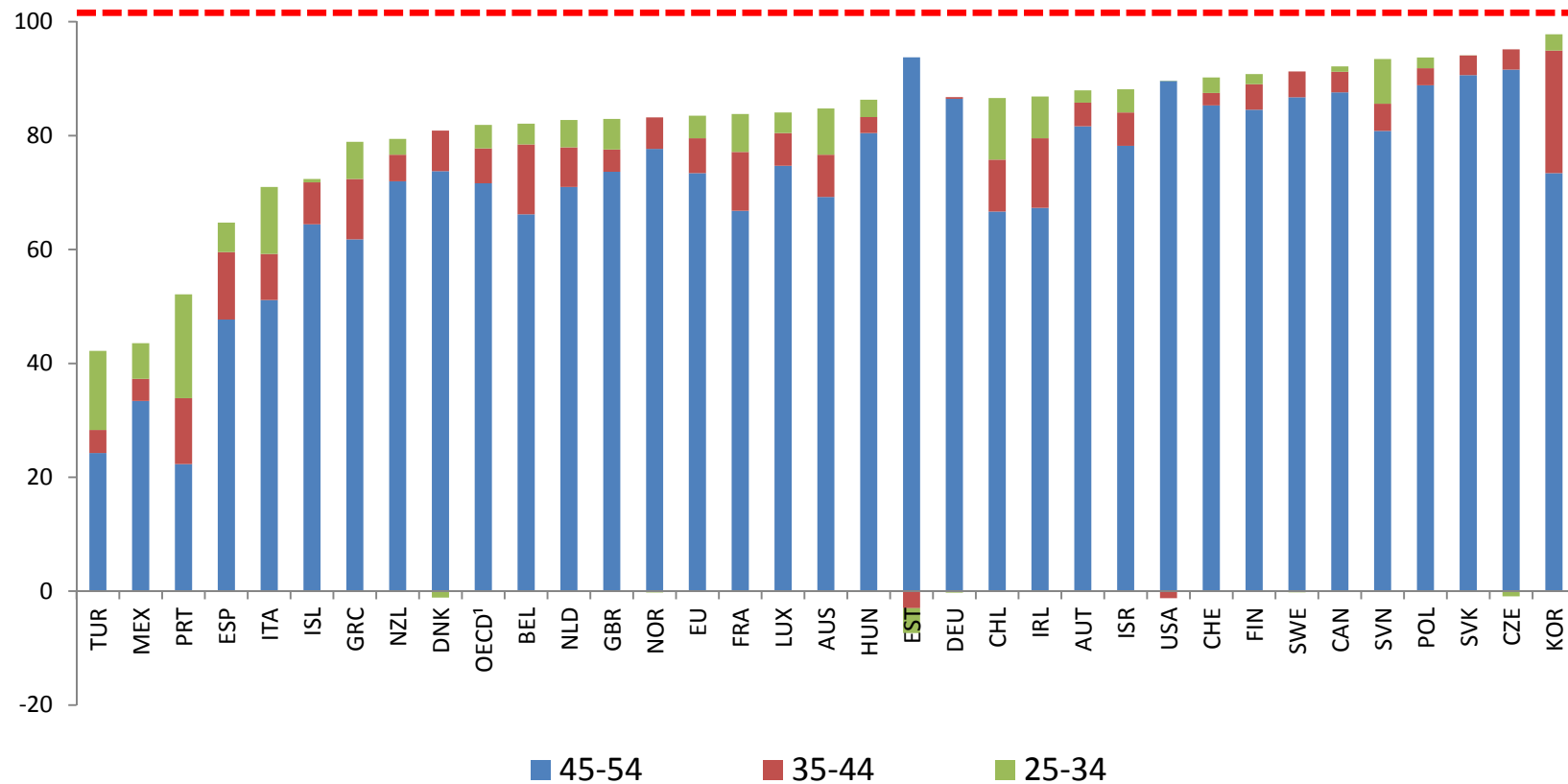
# Employment gaps

Low education relative to medium education



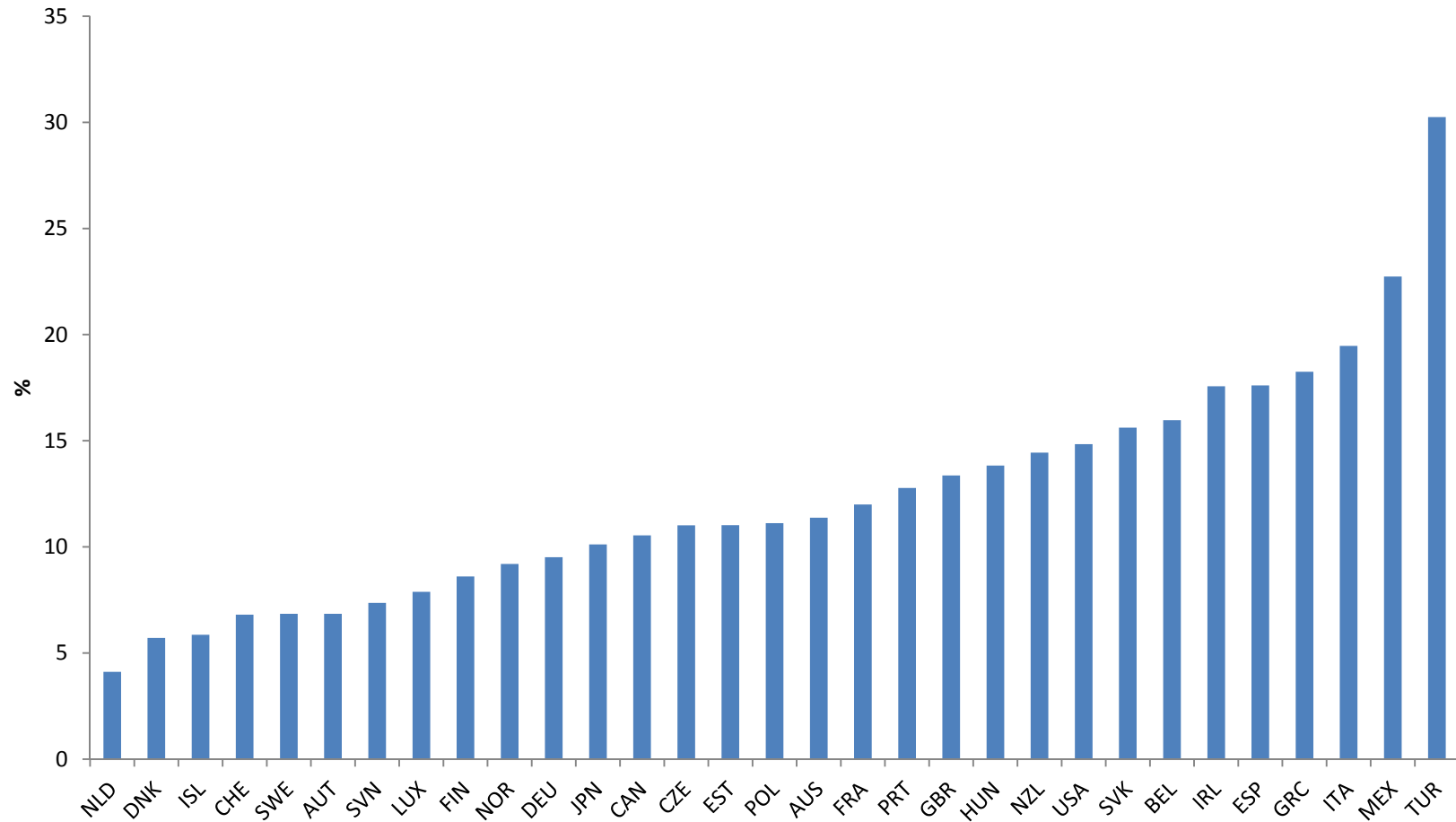
# Large group with no education

Population share - at least upper-secondary school education



2010

# NEET: Not in employment, education or training, 15-24 age



2011

# Demographics

- Educational explosion in +/- 1960s
- Young generations significantly better educated than older
- Strong driver for changed skill-composition of labour force
- Forward – demographic tail wind ceases

# Empirical literature

- Skill-bias in labour demand
- Race between technology + globalization and education
- Country-studies: Improving the skill-composition of the workforce has been instrumental in countering the consequences of skill-bias in labour demand

# Why public education and labour market training?

- Capital market imperfections
- Myopia
- Externalities
- Imperfections in private markets
- Social barriers
- Redistribution



# Active vs passive redistribution: Theoretical arguments

- Existing literature
  - Education on the intensive margin
  - Interaction: Abilities and education
- Regressive bias: Educational activities should be directed towards the more able!
- Income distribution "repaired" via passive instruments

# Robust finding?

Human capital:

- Intensive margin
- Extensive margin - increasing the share of "skilled"

Binding constraints:

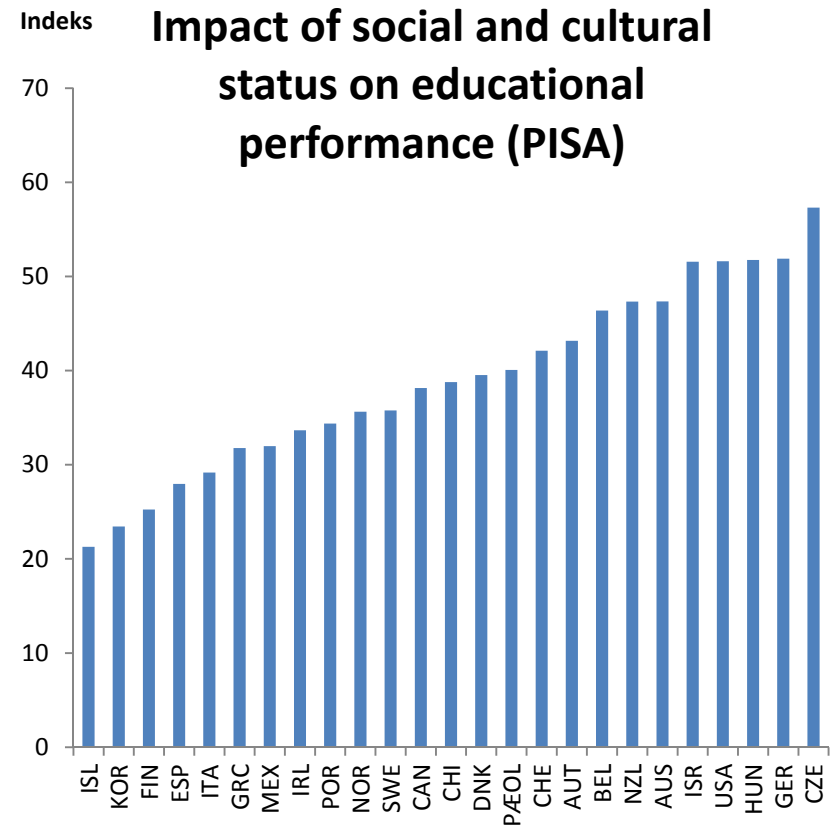
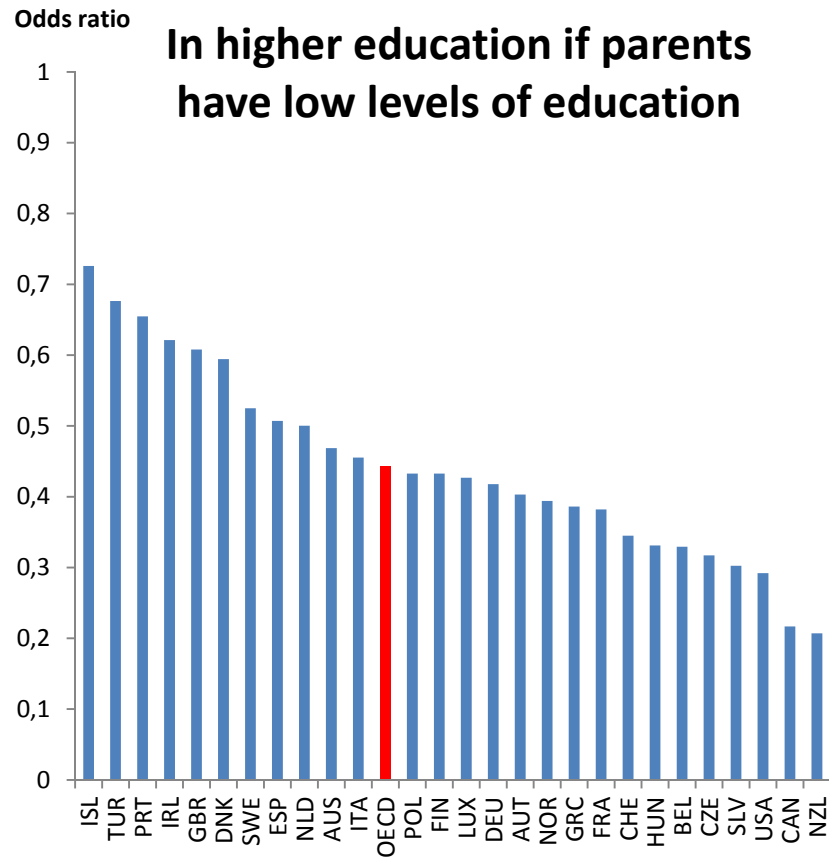
- Capital markets?
- Social barriers

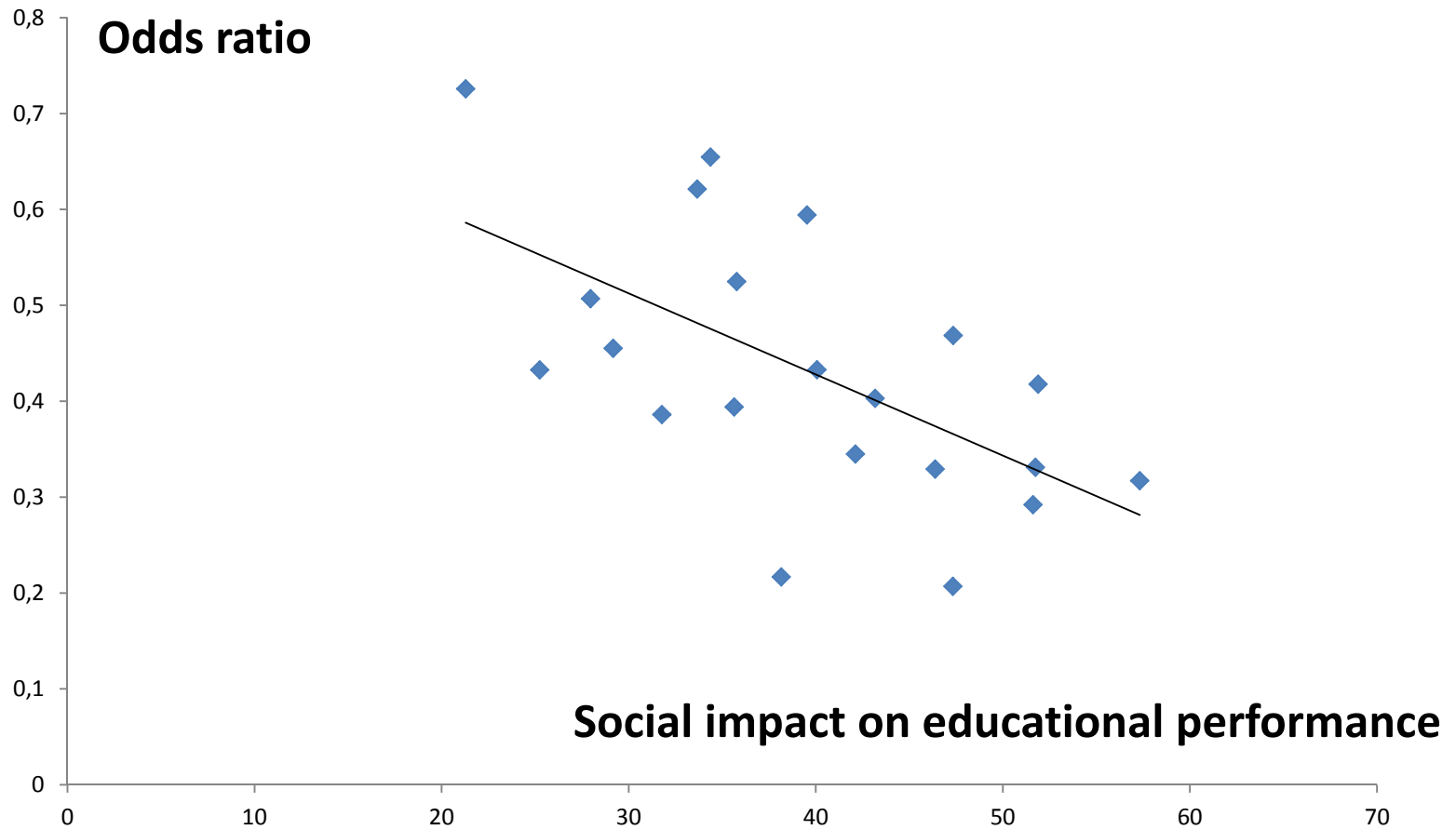
# Empirical evidence

## Social barriers

- Strong social gradient in education
  - Entry
  - Performance
- Social gradient present even if economic barriers are minimized

# Social path dependence





# Education as active redistribution

- Extensive margin + social barriers
- Public education can affect the share of skilled
- Taxes finance education and transfers
- Wage distribution depends on skill composition of labour supply

# Tail winds from a change in skill composition of labour supply:

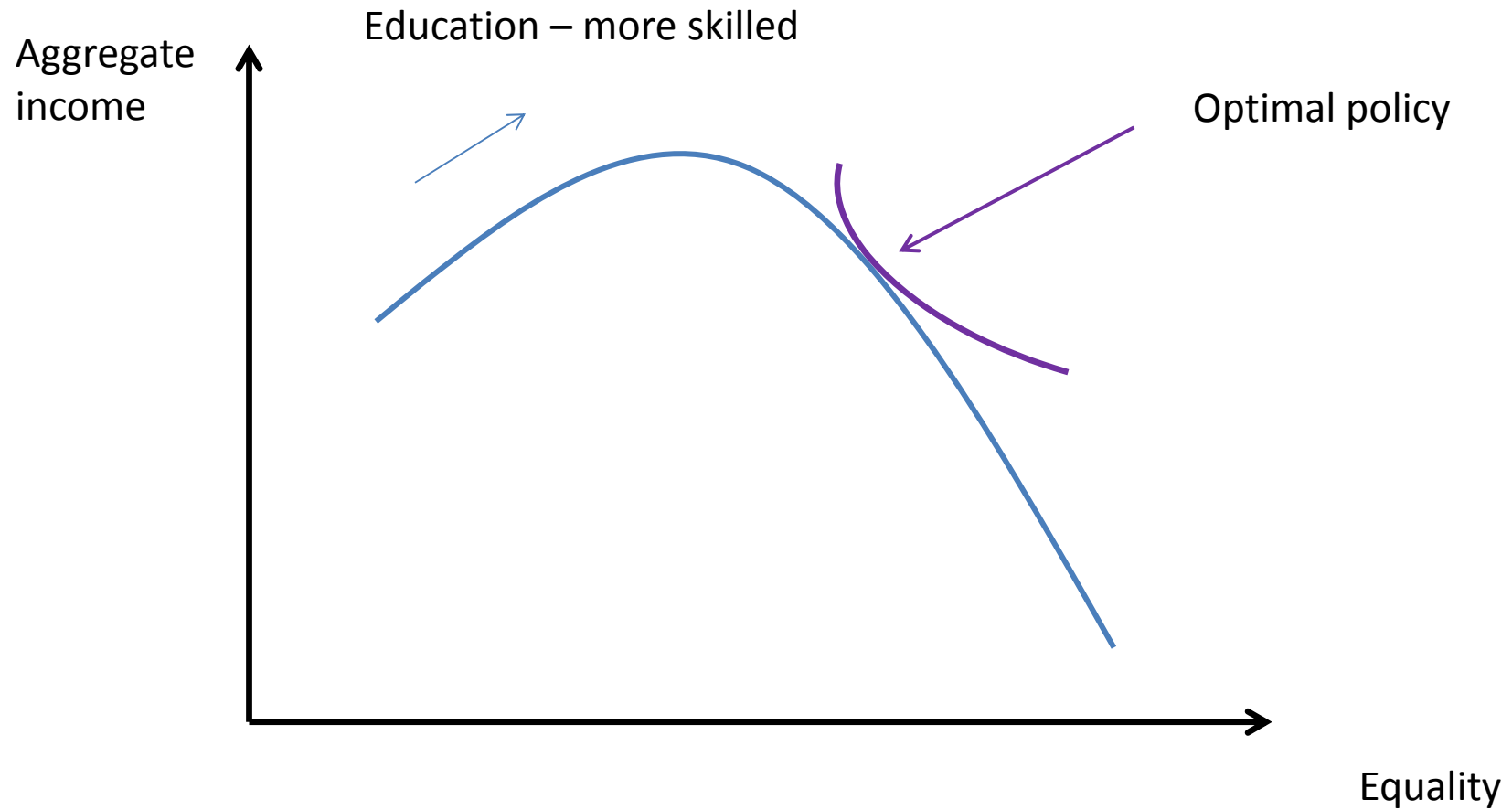
- More skilled - less unskilled: More compressed wage structure
- Public budget: Less transfers more tax revenue

# Redistribution

- Does tax revenue spent on education buy more redistribution than passive redistribution?
- Passive redistribution: Differences in marginal utilities of consumption
- Active redistribution: Differences in levels of utility



# The efficiency-equity trade-off



# Active vs passive redistribution?

- Active redistribution part of the optimal package (utilitarian criterion)
- More active redistribution – less passive redistribution
- Skill-bias: More active redistribution under plausible conditions

# Policy implications

- Education an important structural factor
  - Employment
  - Wage structure
- Large "residual group" is a structural problem in the labour market which is difficult to solve via "passive" policies

# Quantity vs quality

- Empirical work on productivity
  - Education is important
  - Quality more than quantity
  - Base more than top
- Too much focus on quantitative measures?
- How do we ensure quality in education?

# Educational inflation?

- Too much focus on tertiary education?
- Korean lesson: unbalanced educational system with too much focus on tertiary education
  - High unemployment rates for highly educated
  - Shortage of skilled workers

# Educational financing

- Social barriers are most important in early schooling/education
- More specific education/training generate rents which can be appropriated by employers/employees – less need for public intervention
- More value for money!

# Europe 2020 – Five headline targets

## 1. **Employment**

- 75 % of the 20-64 year-olds to be employed

## 2. **R&D / innovation**

- 3 % of the EU's GDP (public and private combined) to be invested in R&D/innovation

## 3. **Climate change / energy**

- greenhouse gas emissions 20 % (or even 30 %, if the conditions are right) lower than 1990
- 20 % of energy from renewables
- 20 % increase in energy efficiency

## 4. **Education**

- Reducing school drop-out rates below 10 %
- at least 40 % of 30-34-year-olds completing third level education

## 5. **Poverty / social exclusion**

- at least 20 million fewer people in or at risk of poverty and social exclusion