



ZEW LUNCH DEBATE
ECONOMIC RECOVERY IN EUROPE

INEQUALITY PATTERNS AFTER DOWNTURNS:
WHAT LESSONS FOR SOCIAL POLICIES?



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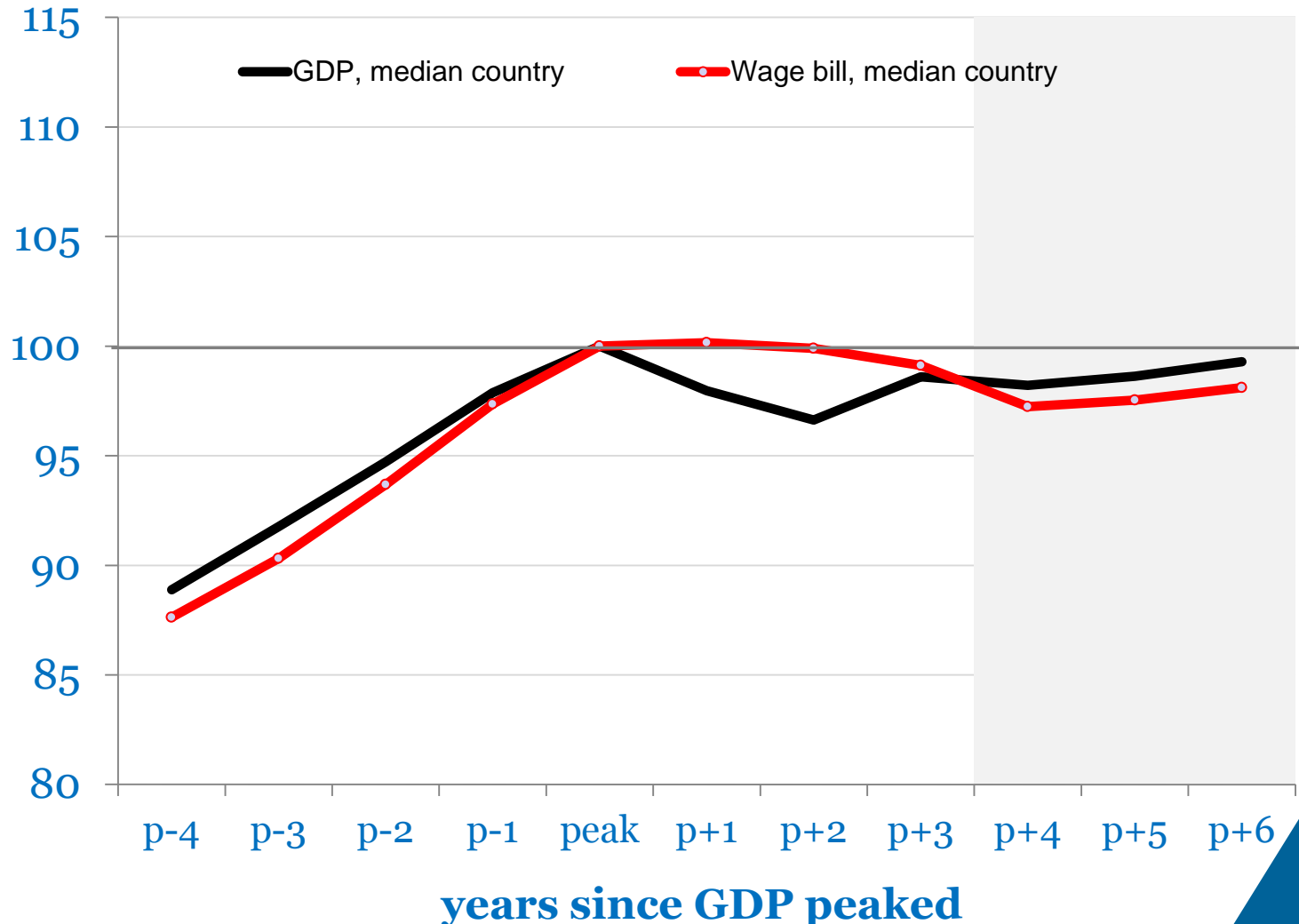
Summary: Main messages

- Economic & fiscal crisis is also a social crisis: much greater need for support
- Crisis preparedness instead of ad-hoc emergency measures. ‘Crisis proofing’ should to be central design feature of social protection, during all stages of economic cycle
- ‘Active’ social policies reduce long-term costs of crises by adapting support to changing economic and social conditions



Economic output has begun recovery everywhere but employment and wages have not

pre-crisis
peak=100

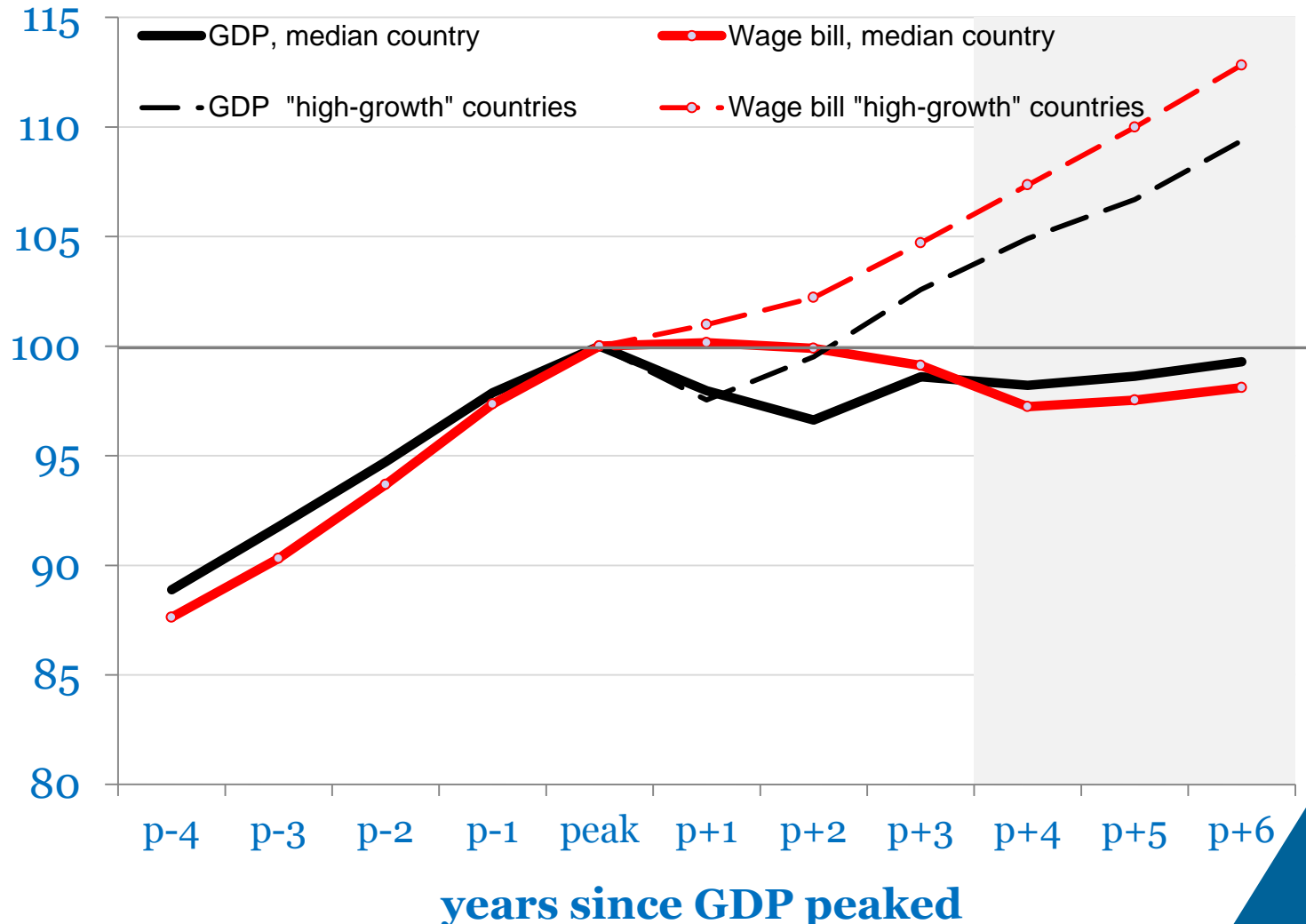


Notes: Data are annual and changes are in real terms. Countries without drops in annual GDP between 2007-9 are excluded. Data in shaded area are projected.
Source: Society at a Glance 2014, using OECD Economic Outlook No. 93.



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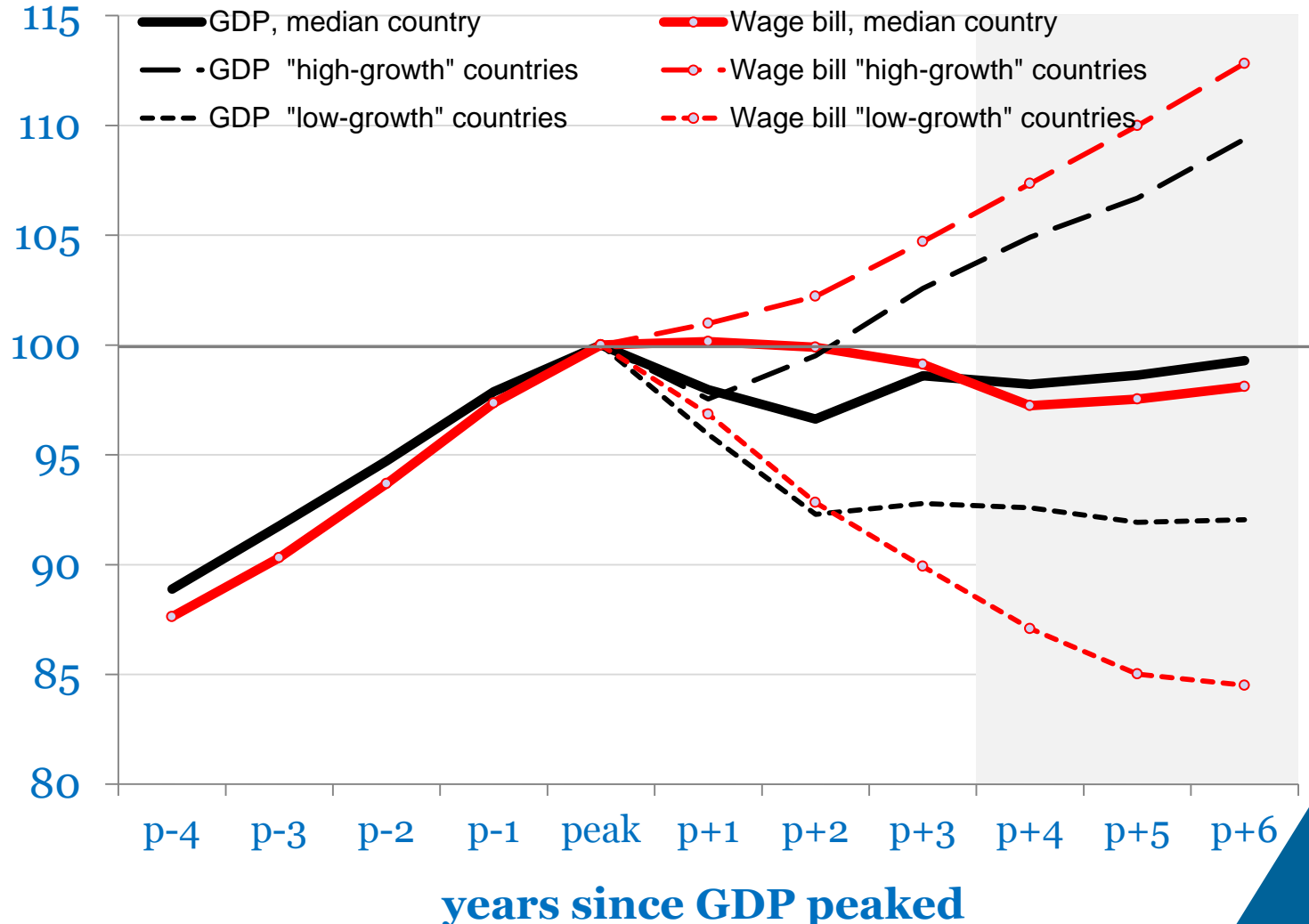


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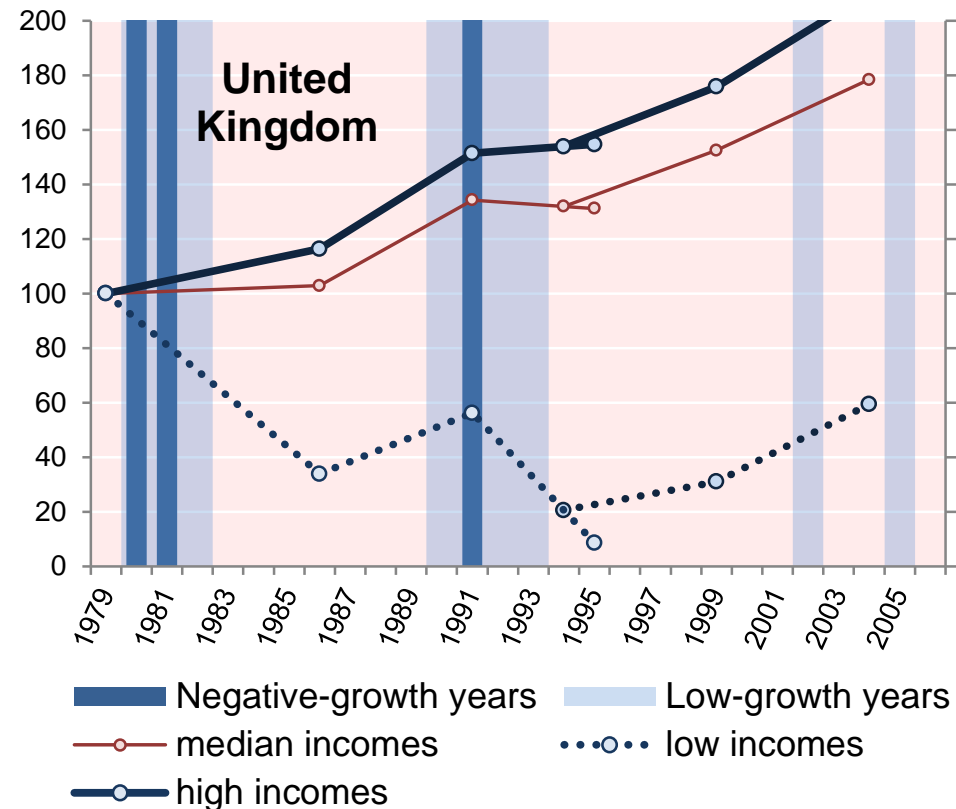
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Previous crises: Income gaps widen in/after recessions, often persist during recoveries

- Income gaps widen – and recoveries often fail to close them
- At bottom: incomes fall rapidly during & after recessions, remain low for long time
- At top: incomes often continue to rise (at reduced pace)
- Any narrowing of gaps after recessions does not last long enough to close gap
- Longer time series for several other countries similar
- Data for recent crisis point in similar direction as historic trends

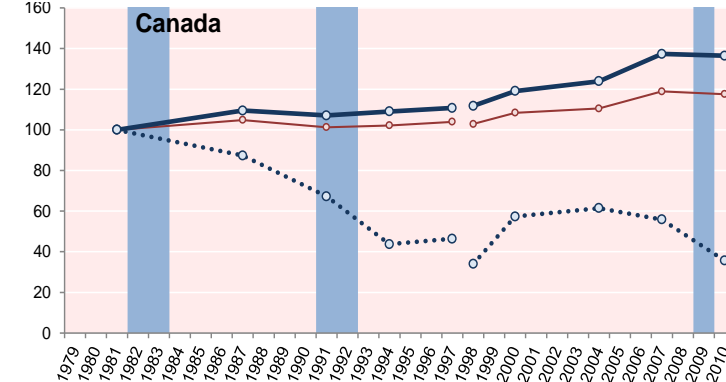
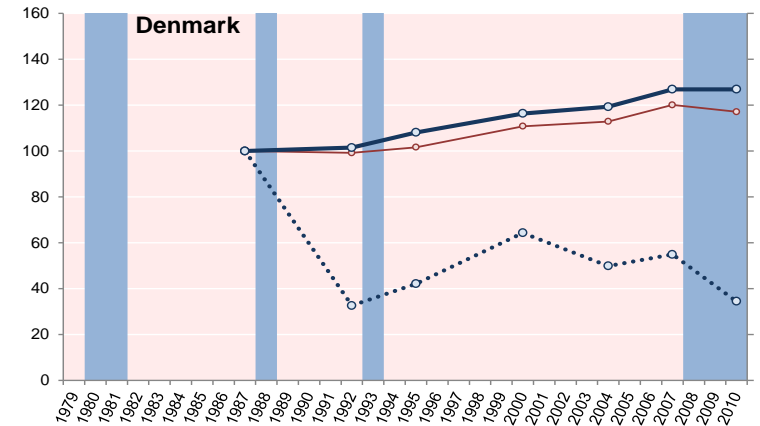
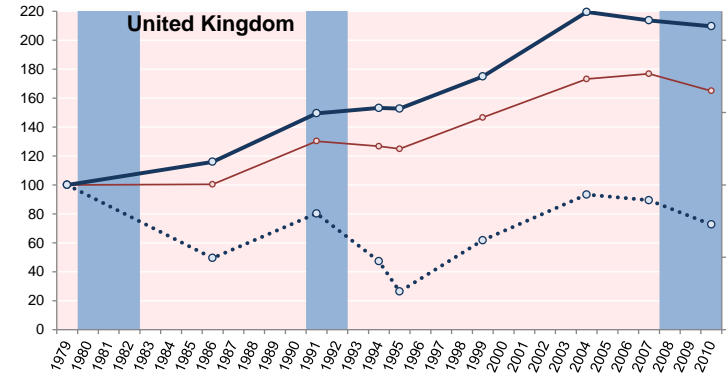
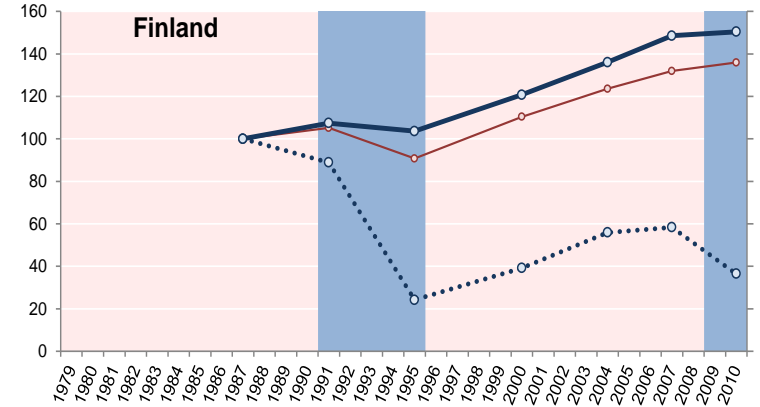
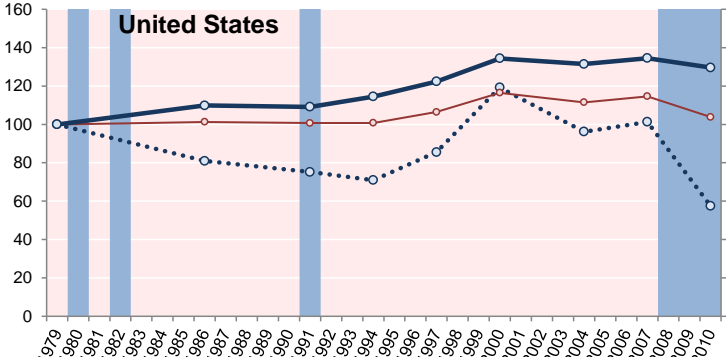
Household market incomes, working-age
in real terms, earliest data point = 100



“Low” and “high” incomes refer to the 10th and 90th percentiles.
Source: Immervoll and Richardson (2011), using LIS data.

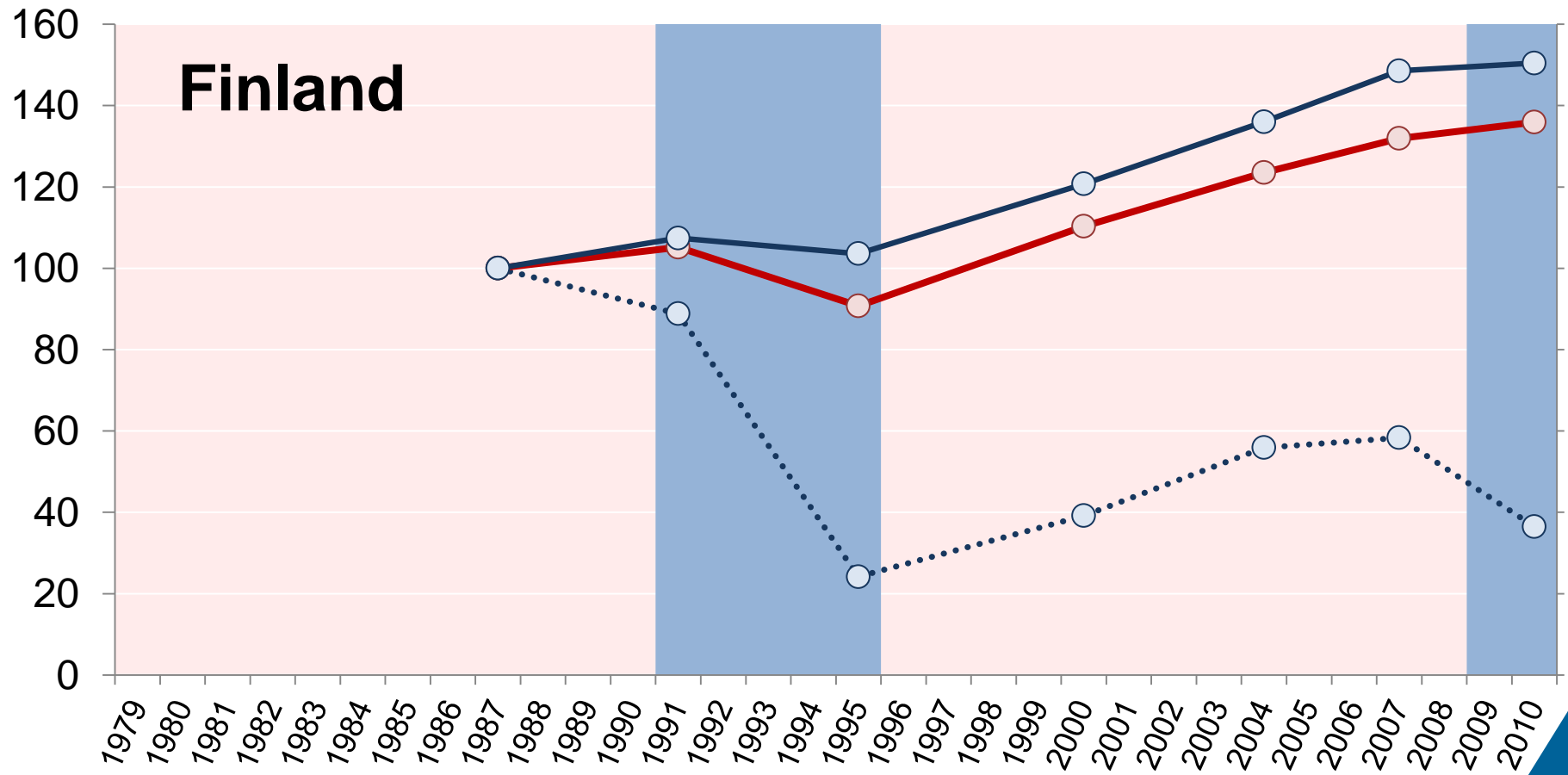


Some signs that similar patterns in recent downturns





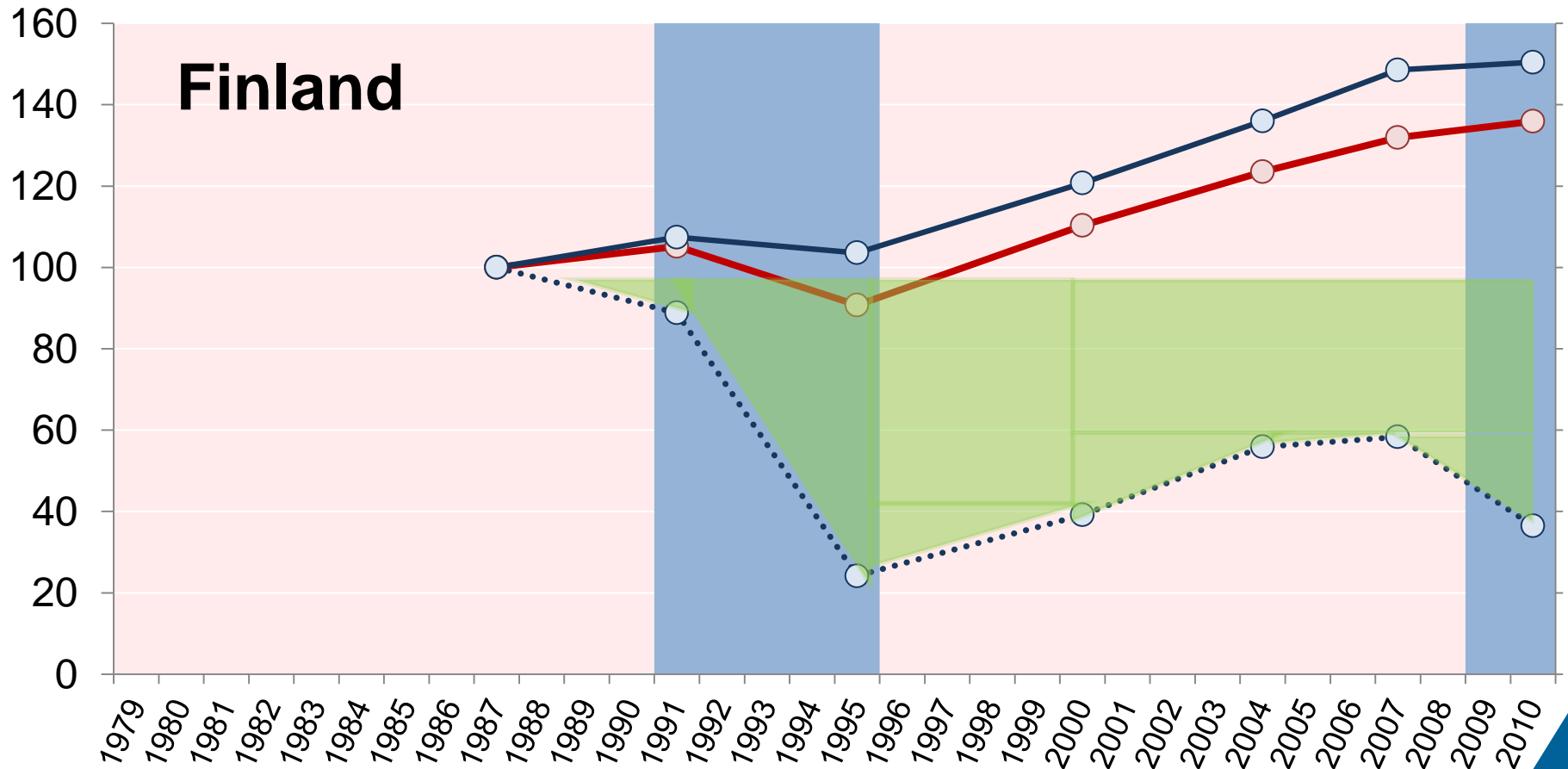
Declining market incomes at the bottom: Challenges & scope for social policy





Declining market incomes at the bottom: Challenges & scope for social policy

Cushioning income losses

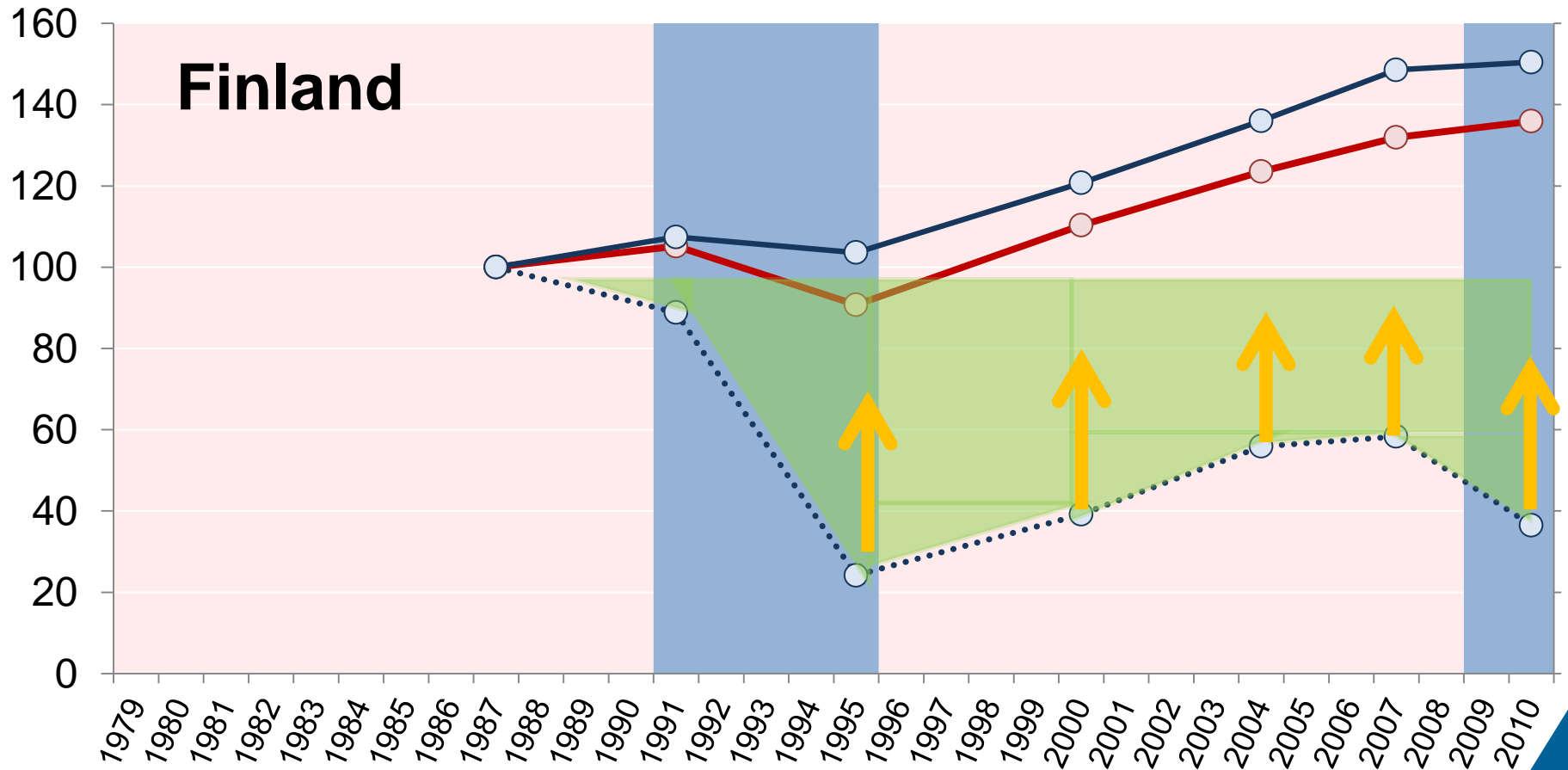




Declining market incomes at the bottom: Challenges & scope for social policy

Cushioning income losses

Supporting self-sufficiency





Policy challenge #1

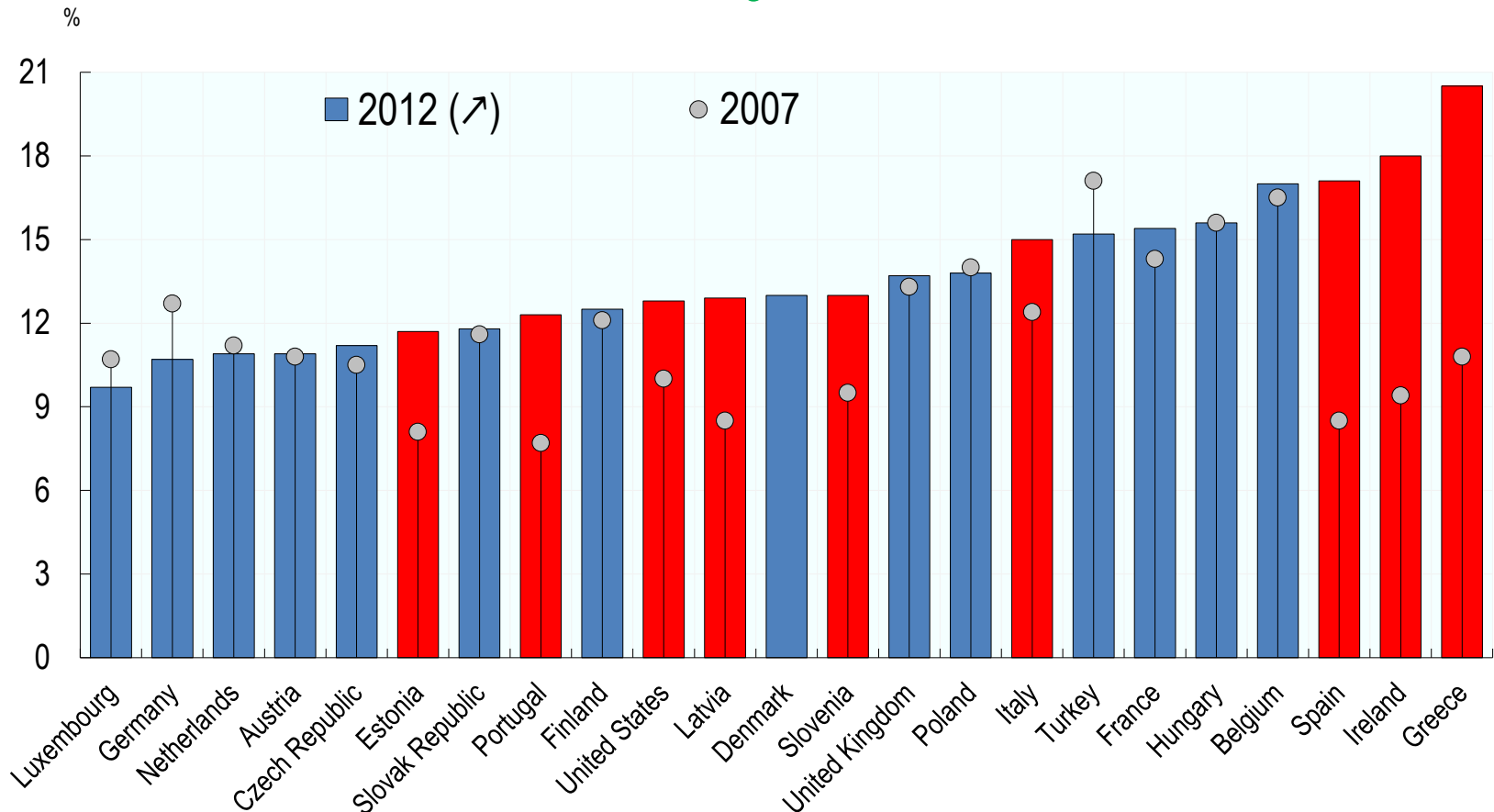
Effective safety nets





Very large increases in the number of workless households are a major test for social policies

Shares of adults living in workless households, %



Note: Households are defined as “workless” if all household members are either unemployed or labour-market inactive.

“Adults” refers to the population aged 15-64.

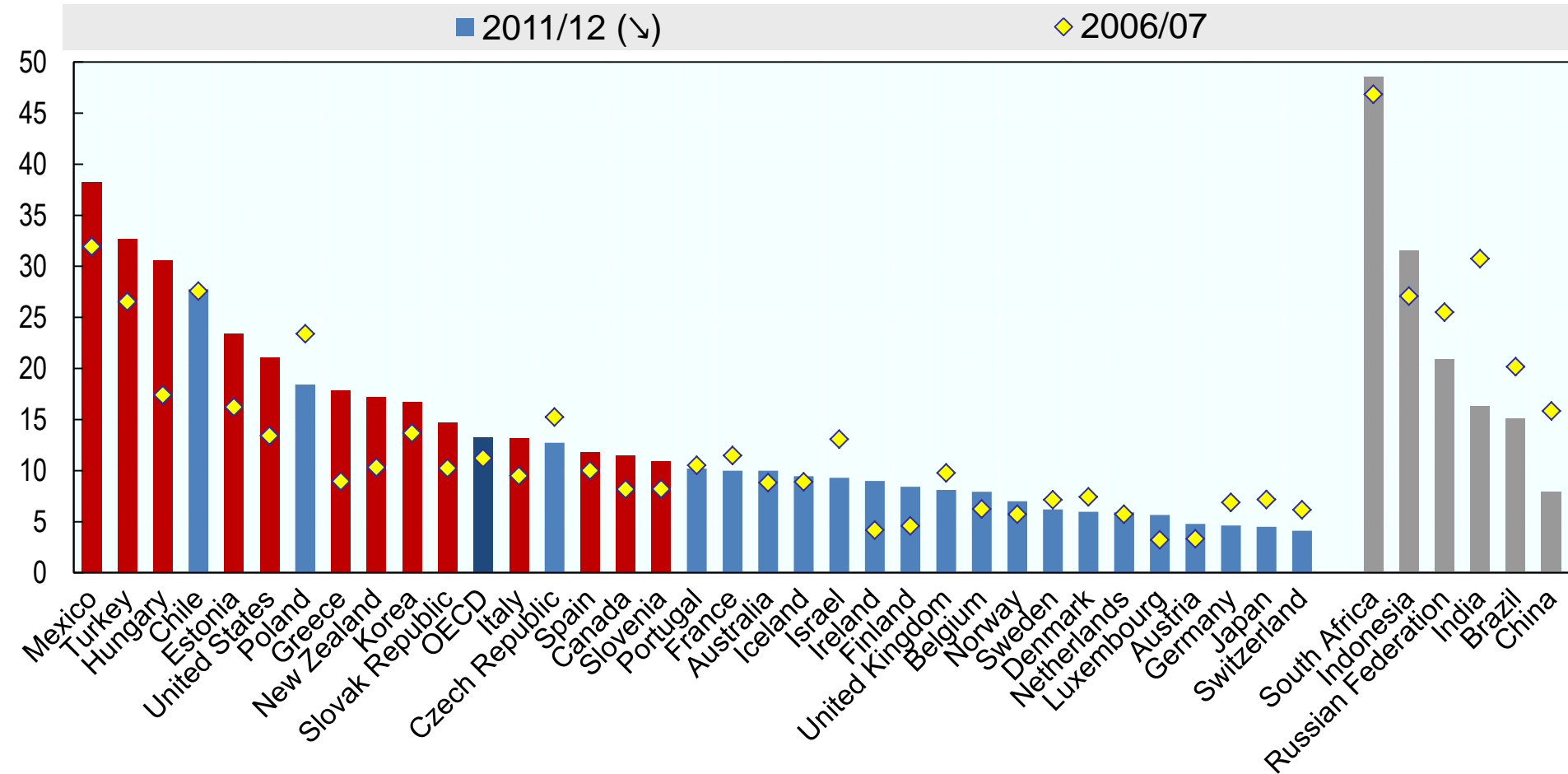
2013 instead of 2012 for the United States.

Source: OECD estimates based on the European Union Labour Force Survey and the United States Current Population Survey.



Struggle to meet basic needs, negative consequences for current & future well-being

Share of people feeling they cannot afford food, %



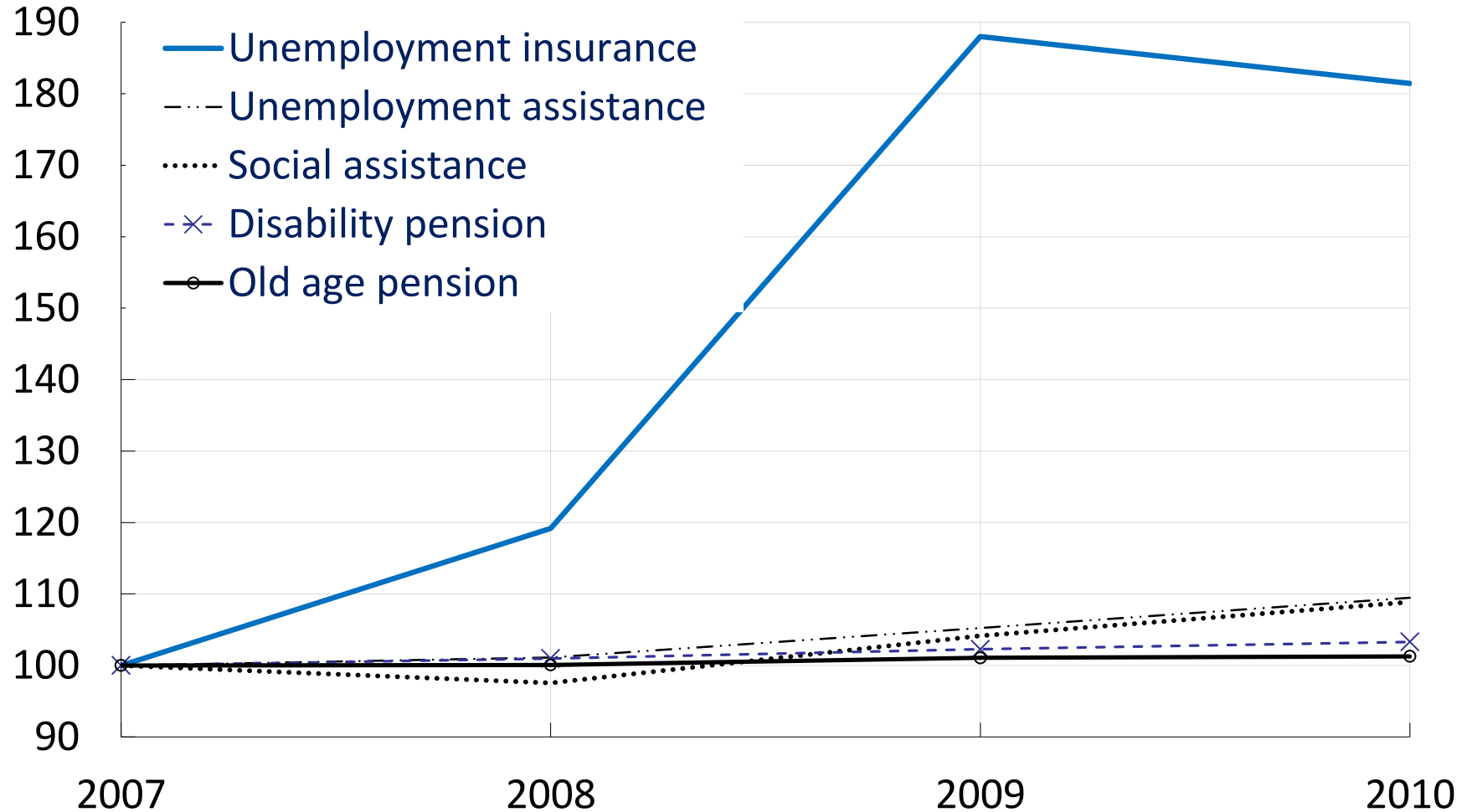
Note: Share of "yes" responses to the question "Have there been times in the past 12 months when you did not have enough money to buy food that you or your family needed?"

Source: GallupWorld Poll, www.gallup.com/strategicconsulting/en-us/worldpoll.aspx.



Limited responsiveness of assistance benefits

Recipient numbers, OECD total, 2007=100



Source: OECD Social Benefit Recipients database, forthcoming.



Some key challenges for social protection...

- Social insurance where affordable
- Complemented by effective safety nets:
 - responsive to downturn, i.e. ready to scale up
 - adequate resources for meeting basic needs
 - ensure health and human capital is maintained
- Support families' own capacity to adapt to economic difficulties



Policy challenge #2

Suitably targeted support

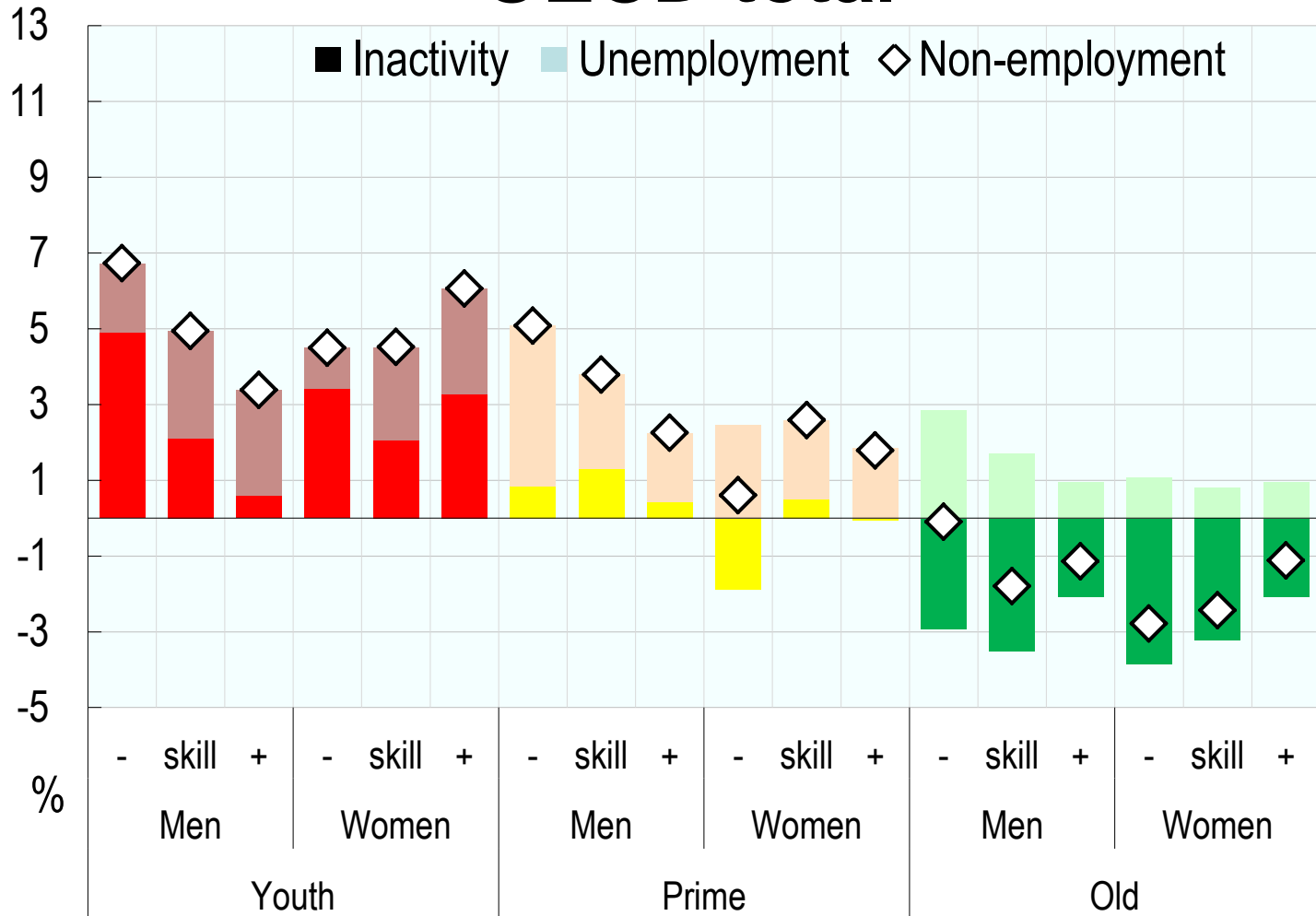




Job and income losses were not symmetric

Change in shares of people without work, by age, sex and edu weighted average, percentage-point change Q4 2007-Q4 2012

OECD total

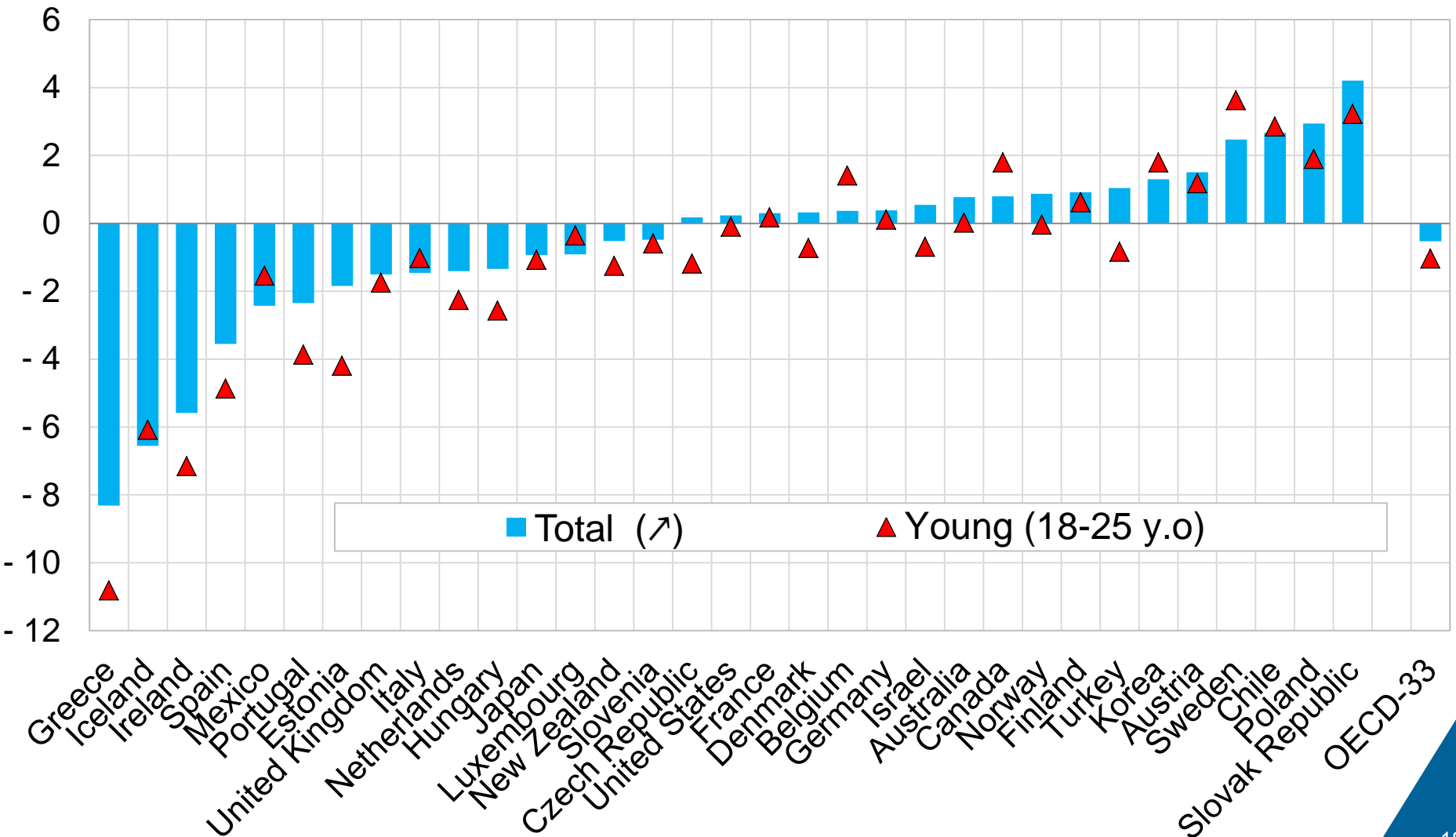




Job and income losses were not symmetric

Incomes mostly fell, but elderly either not affected, or less so

(annual % change 2007-2011 in real terms)



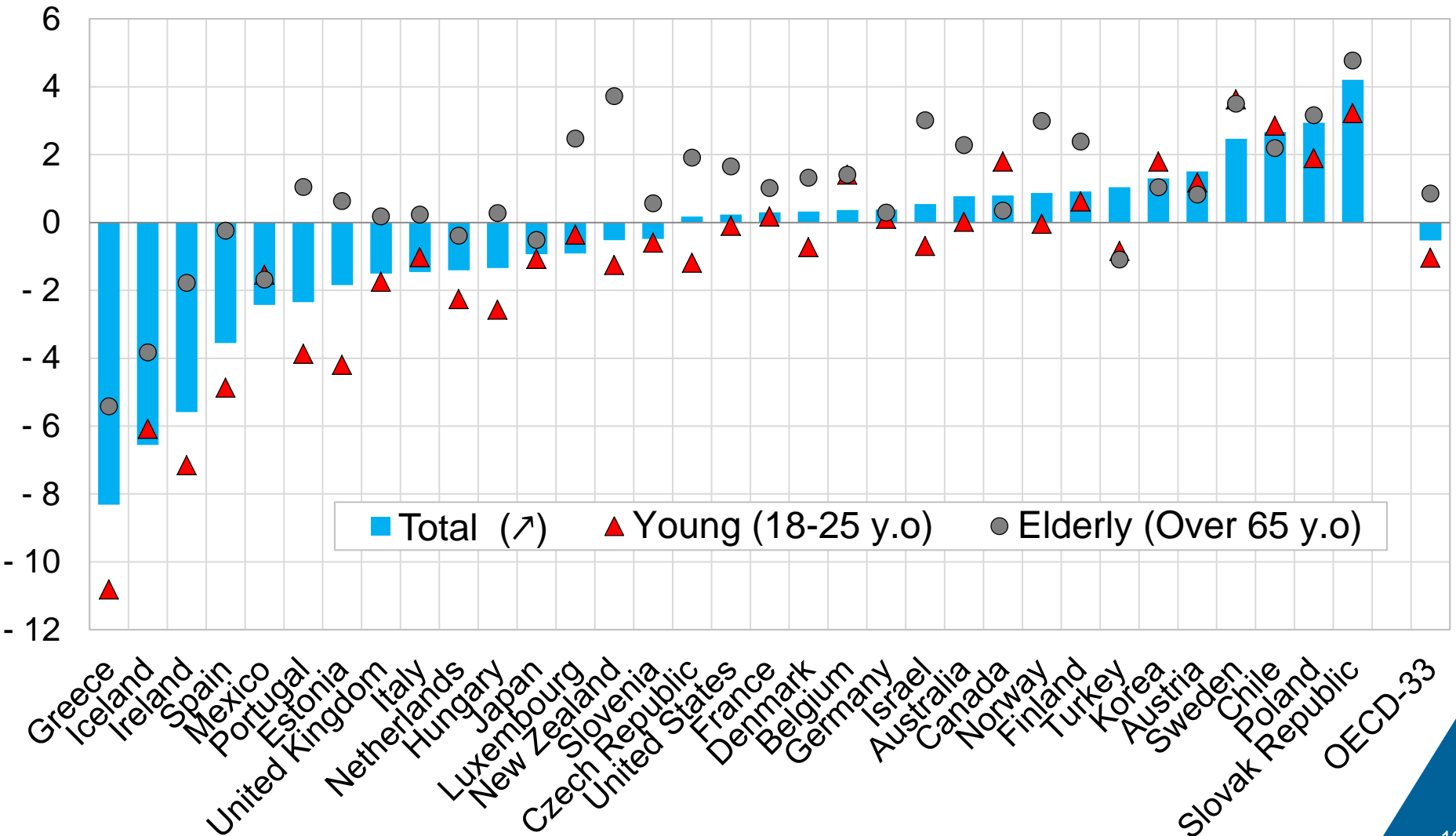
Source: OECD Income Distribution Database. www.oecd.org/social/inequality.htm.



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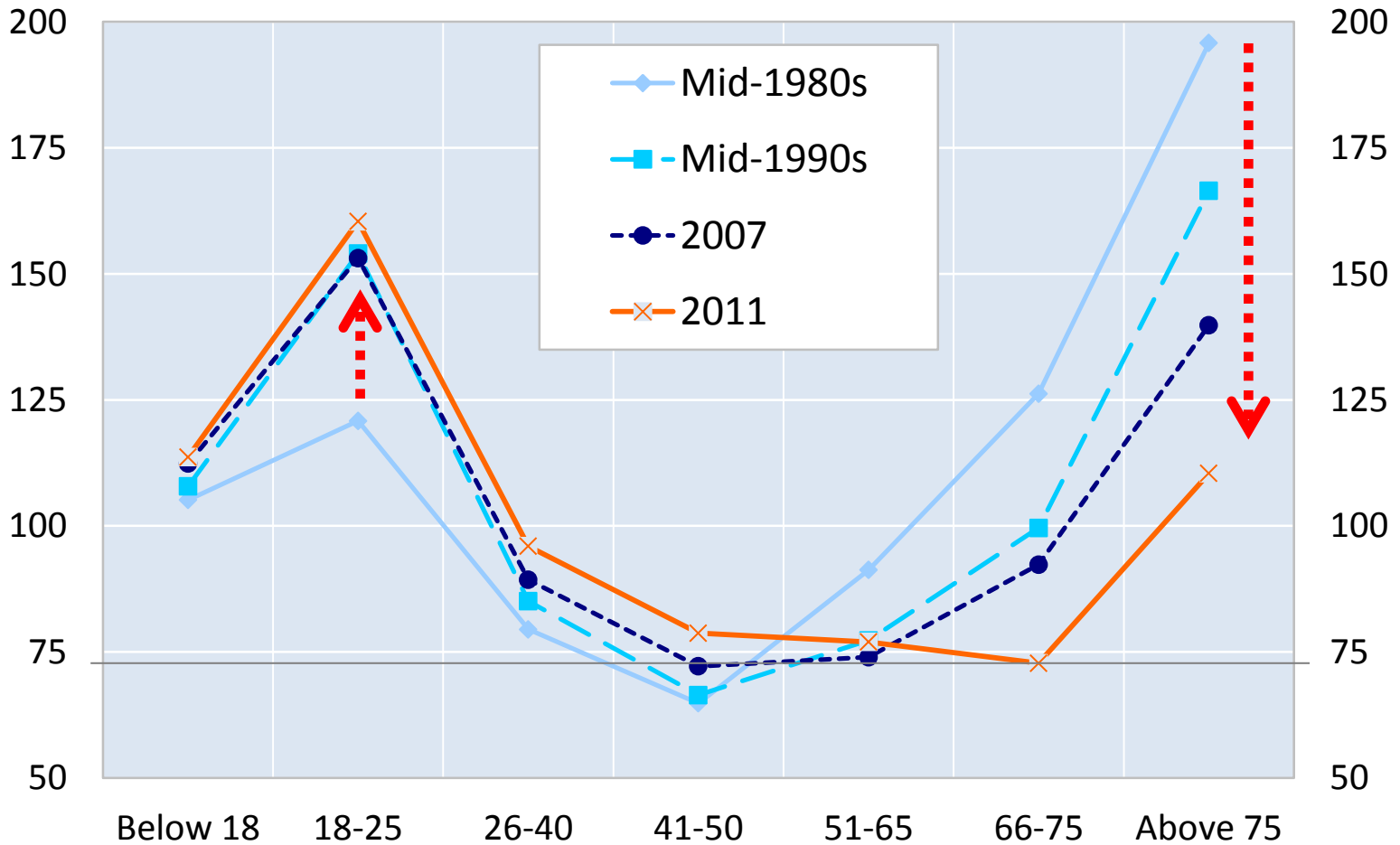


A longer-term trend: Shift of poverty risks from elderly to youth

Rates of relative poverty, by age group

Total poverty
rate = 100

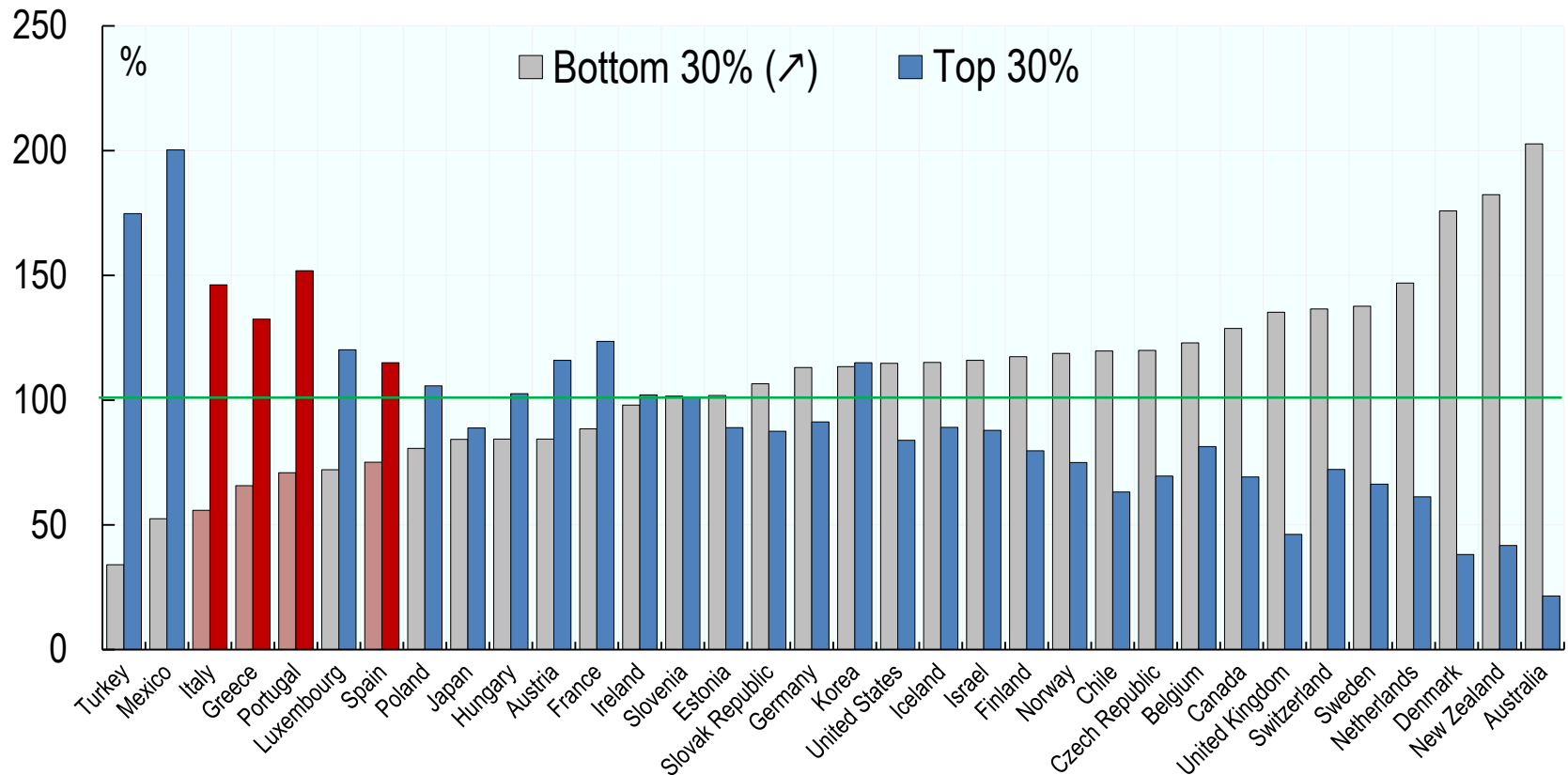
OECD country average





When social transfers are highly targeted, spending cuts are more likely to hurt the poor

Cash transfers received by low- and high-income groups, % of average transfers in 2010



Reading note: In Portugal, the average total transfer payment received by low-income families (in the bottom 30% of the income distribution) is 71% of the average payment across all families, and less than half of the average benefit payment received by high-income families, who receive 52% more than the average family.

Notes: Reference year is 2009 for Hungary, Japan, New Zealand, Switzerland and Turkey. "Bottom 30%" and "top 30%" refer to average public transfers received by decile groups 1 to 3 and 8 to 10, respectively. Decile groups are determined in relation to household disposable income after accounting for taxes and transfers. All incomes and transfer amounts are adjusted for household size (see www.oecd.org/social/inequality). Transfers include all public social benefits.

Source: OECD Income Distribution Database, www.oecd.org/social/inequality.



Some key challenge for social protection...

- Rebalance support for different groups
- Address structural factors that lead to unequal burdens for different groups
 - Social protection provisions that render support largely inaccessible for some groups
 - Labour-market inequality (“insider/outsider”)



Policy challenge #3

Adaptive social policies



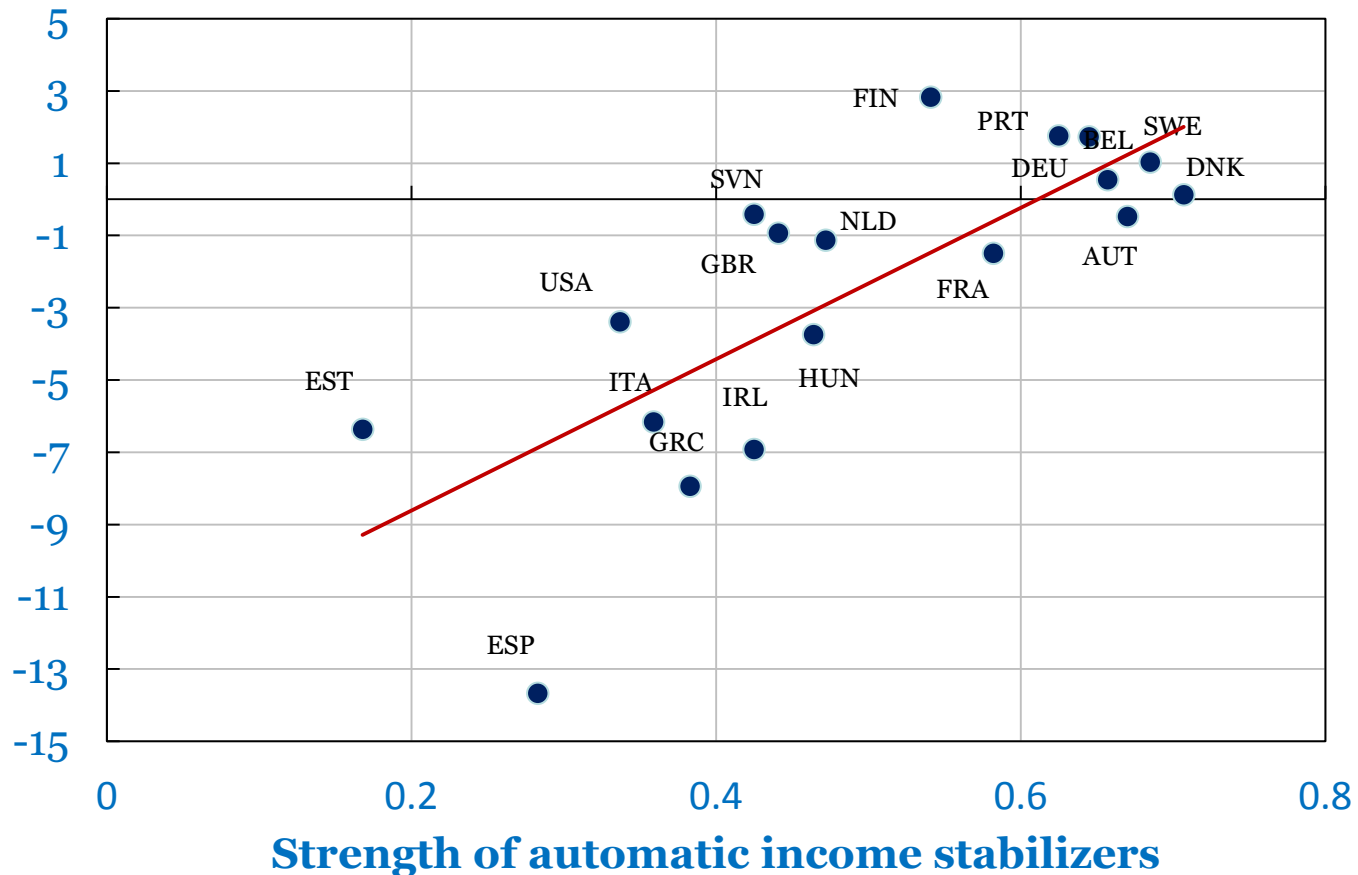


Adaptive social policies

- Adaptive social policy structures
 - Out-of-work benefits: Good social & economic arguments for modifying benefit provisions when labour-market conditions change substantially
 - Active labour-market policies
 - In-work benefits and other into-work support
- **Adaptive social policy resources**

Automatic stabilisers: role in limiting income losses among poor

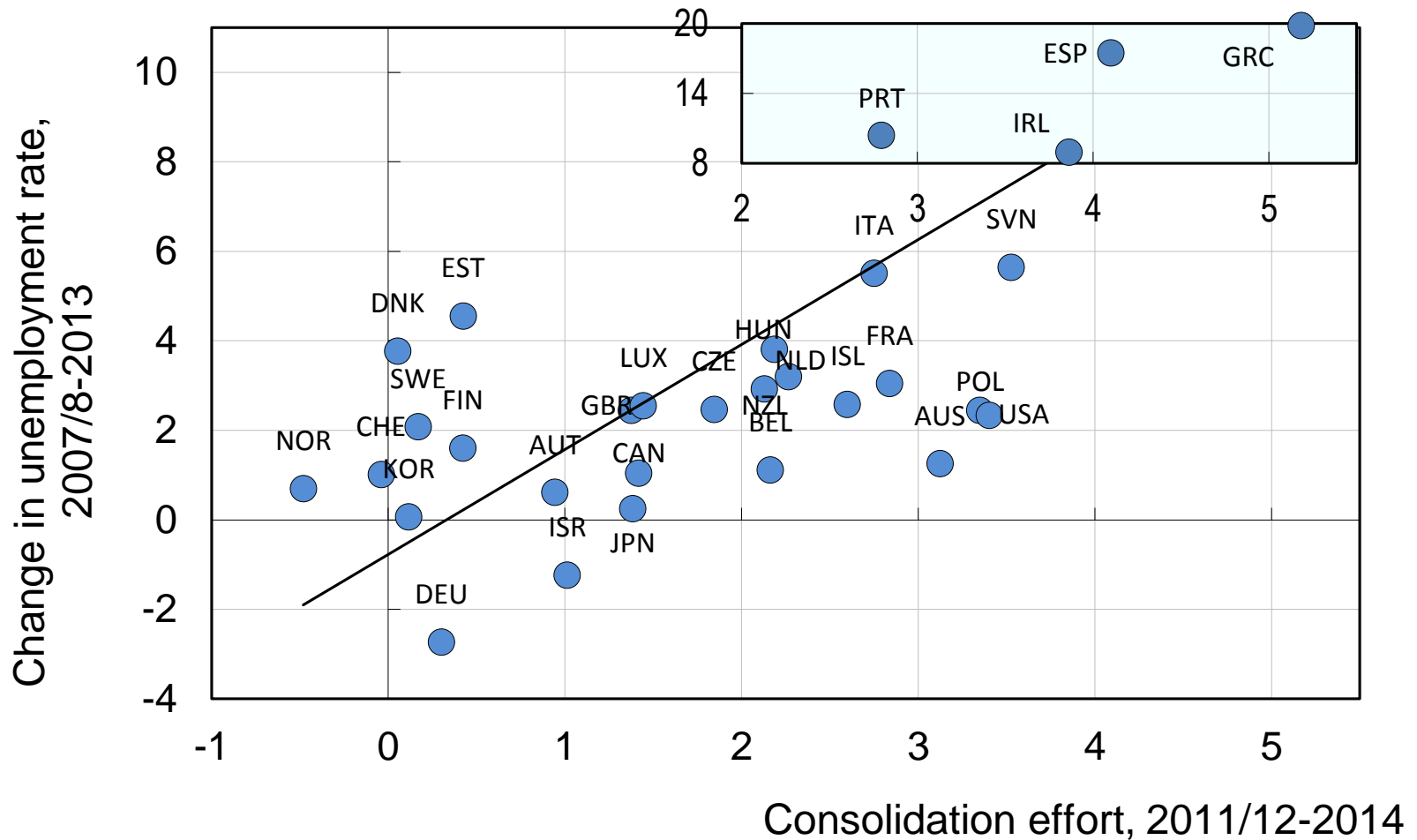
disposable income for bottom 10%,
annual change 2007-10





Rising social spending and social needs, but decreasing fiscal space

Fiscal space narrowing, especially in high-unemployment countries



Note: Averages for 2007/8 and 2011/12 are used as the timing of the downturn and the beginning of any fiscal consolidation efforts varied across countries.

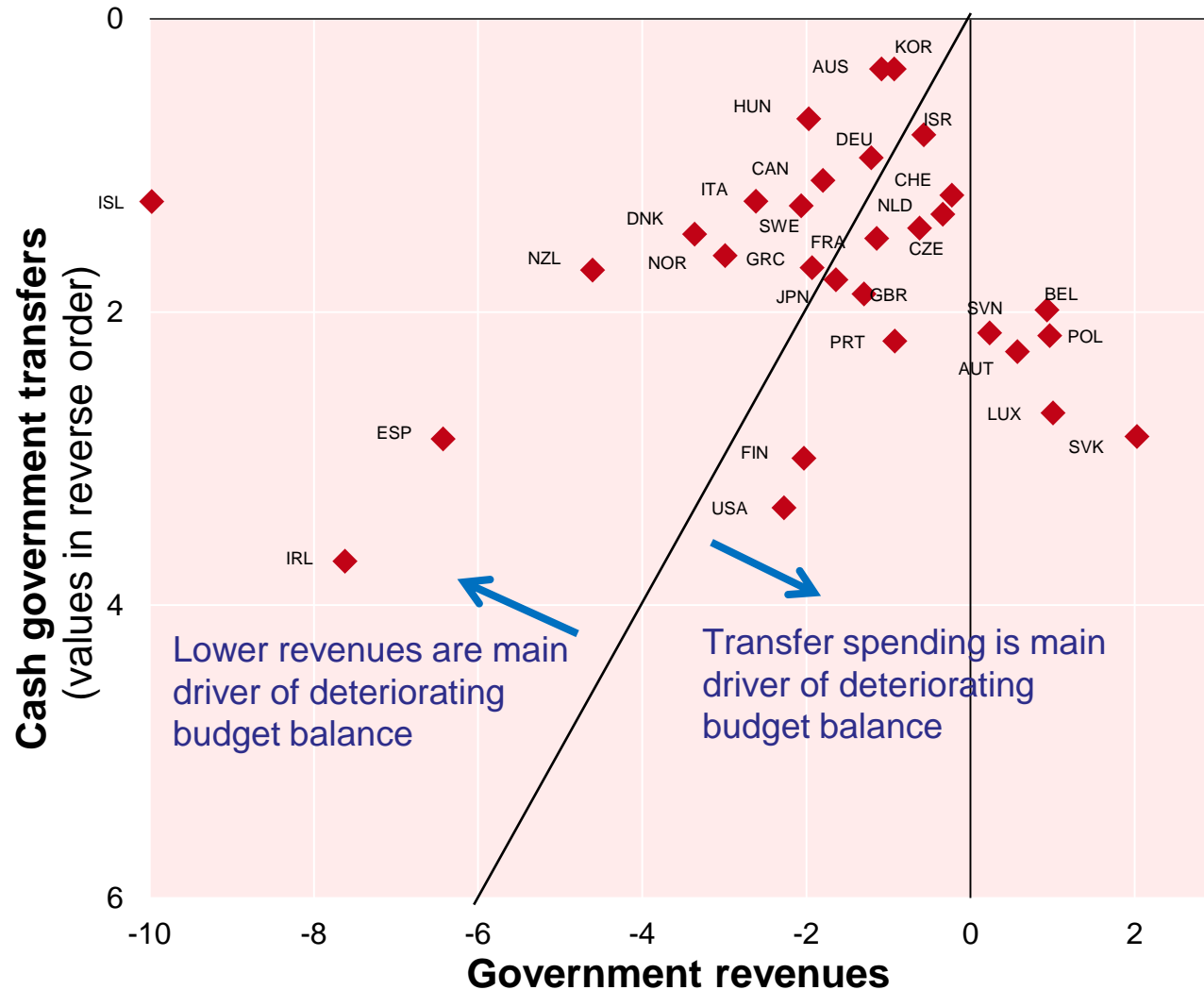
“Consolidation effort”: change in underlying primary government balance, percentage points of GDP. Correlation: 0.69, excl. GRC, IRL, PRT and ESP: 0.46

Source: OECD (2013), *Economic Outlook Database*, No. 93, June, www.oecd.org/economy/outlook/economicoutlook.htm.



Drivers of widening budget deficits

Changes in revenues and transfer spending, 2007-10, in real terms



Notes: The vertical y axis is inverted (a positive number indicates an increase in social benefit expenditure and a worsening budget balance). Government transfers: all cash social benefits paid by government. Government revenues: total tax and non-tax receipts of the general government sector (central and sub-central) plus social security contributions.



Some key challenge for social protection...

- Counter-cyclical fiscal policies
 - Increase/maintain cyclicity of social spending
 - Complement revenues; less variable tax bases
 - Downturn: design and time spending cuts accordingly
 - Upswing: build up reserves (earmarked taxes/contributions; link support to labour-market conditions)
- Continue structural reforms begun before the crisis
 - Old-age pension
 - Health
 - Activation



How to inform and support this broad agenda? Some activities at OECD

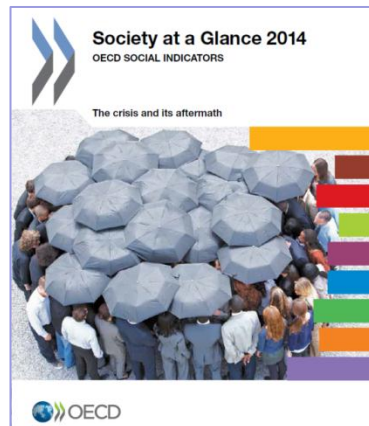
- 'Efficiency' of social policies: How do countries adapt social policy efforts over the cycle? What are effects on key social outcomes?
- Benefit dependence: Patterns and drivers of benefit inflows, outflows, durations.
- Multi-dimensional "profiles" of populations with labour-market difficulties: Inform targeting, customising 'active' and 'passive' support
- Work incentives: When and for whom are they relevant? New empirical work



Thank you

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Additional slides

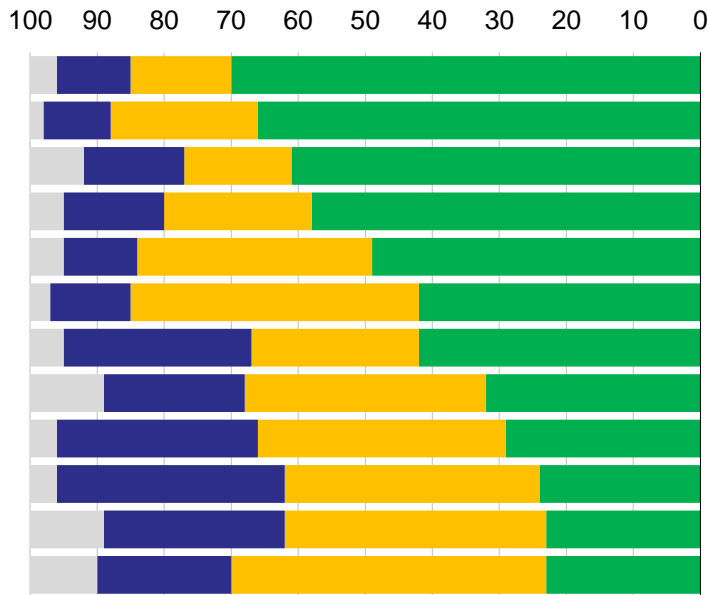




Political sustainability

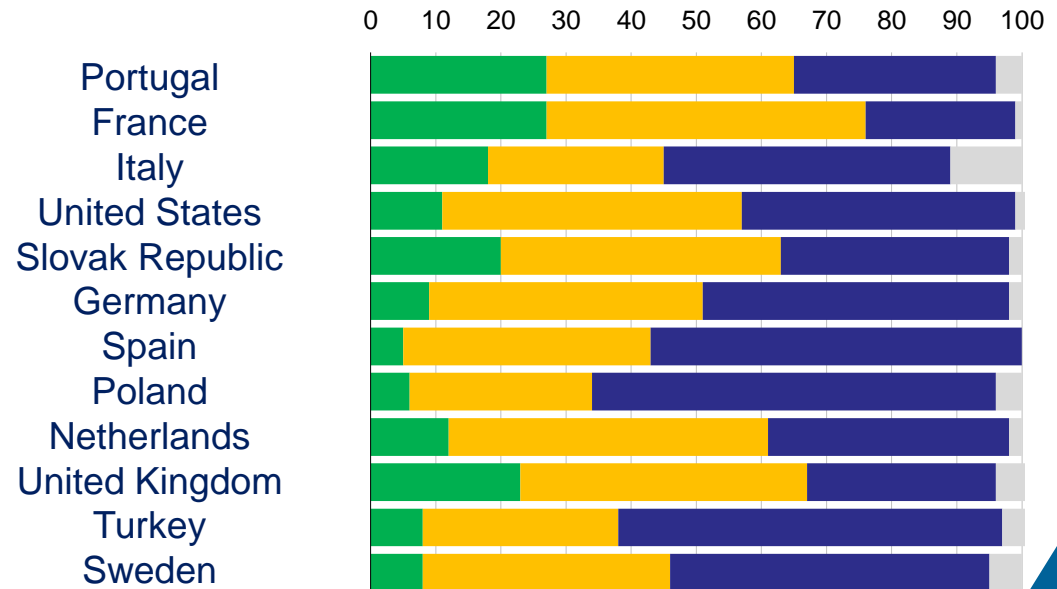
1. "What should happen to government spending?"

- Decrease spending
- Increase spending



2. "What should happen to welfare-state spending?"

- Maintain current levels of spending
- "don't know"/refusal



Data are taken from Transatlantic Trends, an annual survey of public opinion by German Marshall Fund of the United States, Compagnia di San Paolo, Barrow Cadbury Trust, Fundação Luso-Americana, BBVA Foundation, Communitas Foundation, and Swedish Ministry for Foreign Affairs. Polling for the 2013 results took place in June and July by phone interview. In each country, the sample consists of approximately 1 000 randomly chosen men and women of 18 years of age and older. The 95% confidence interval attributable to sampling and other random effects is no more than plus or minus three percentage points.



Unemployment benefit generosity varies enormously across countries

Net replacement rate over a long unemployment spell

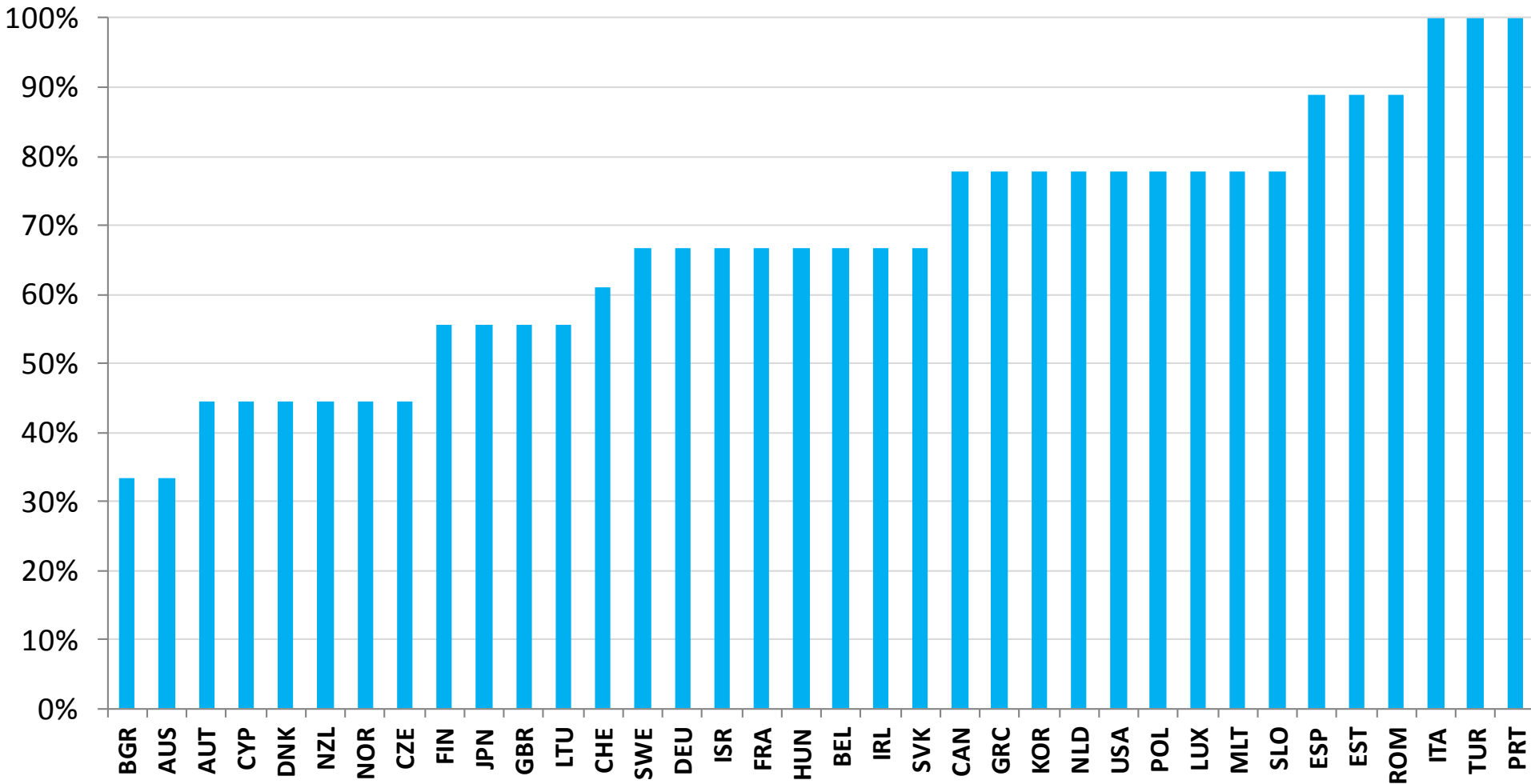
Year	1	2	3	4	5
Belgium	70	64	64	64	64
Ireland	62	62	62	62	62
Finland	64	62	35	35	35
France	67	67	29	29	29
Germany	67	35	35	35	35
Norway	73	73	17	17	17
Sweden	58	57	54	19	7
Iceland	60	56	56	7	7
Spain	68	65	23	23	2
Portugal	72	64	34	4	4
Denmark	74	74	9	9	9
United_Kingdom	33	31	31	31	31
Netherlands	73	61	5	5	5
Canada	58	16	16	16	16
United_States	50	34	0	0	0
Poland	45	8	8	8	8
Japan	47	5	5	5	5
Lithuania	31	8	8	8	8
Latvia	46	2	2	2	2
Greece	34	9	4	4	4
Italy	45	0	0	0	0
Year	1	2	3	4	5



Who receives benefits?

More or less strict gatekeeping

Illustration: Strictness of entitlement conditions



Indicator on two aspects of entitlement conditions:

(a) employment/contribution requirements, (b) sanctions for “voluntary” unemployment

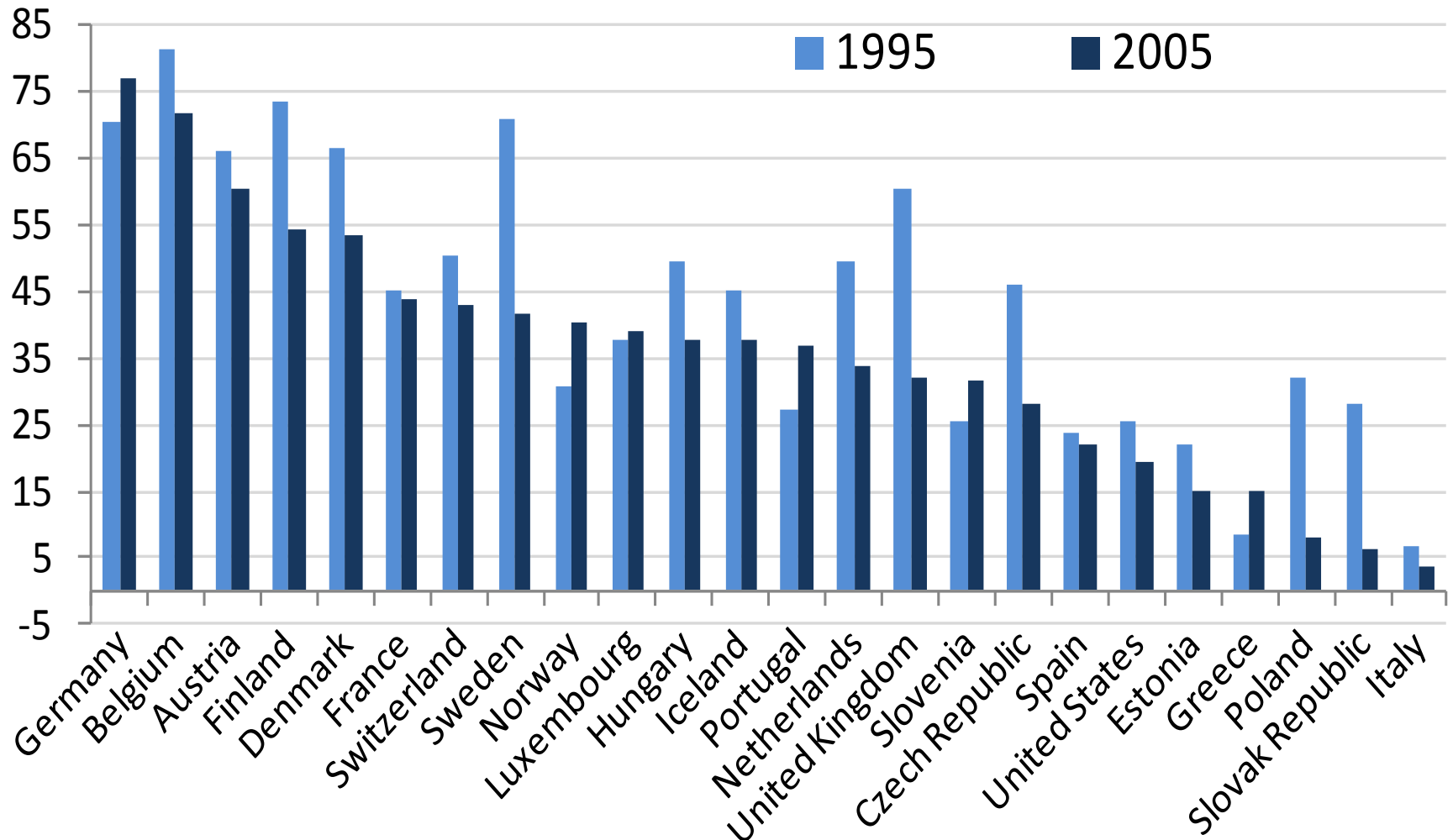
Source: Venn (2012), “Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries”



Who receives benefits?

Coverage has been falling in most countries

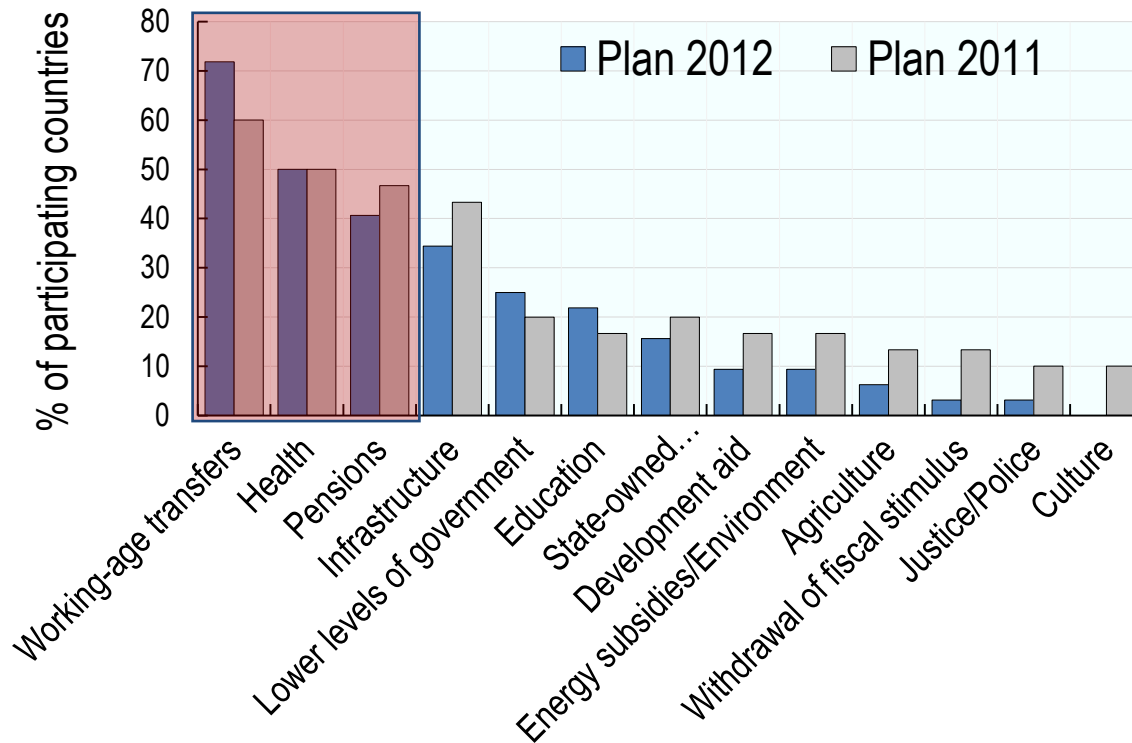
% of ILO unemployed, selected countries



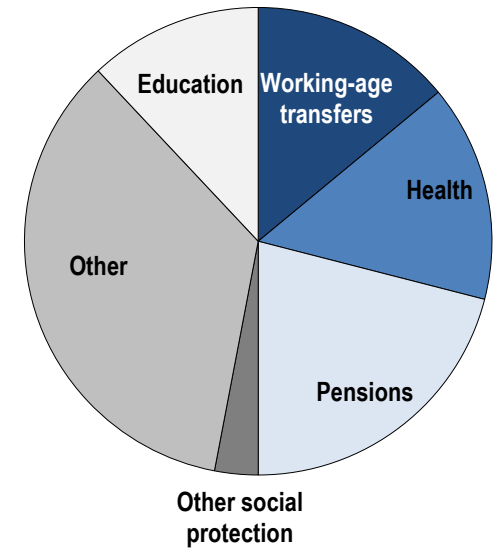


Working-age social spending most-frequently cited item in consolidation plans

Major programme measures in fiscal consolidation plans, by domain, based on 2011 and 2012 surveys, OECD



Government spending by function, OECD average, 2011



Note: A questionnaire was submitted to countries in December 2011 to update The OECD 2010-11 report on fiscal consolidation strategies. Based on country responses and publicly available sources, information was collected for 31 countries. Explanation: 70% of countries plan to cut welfare spending in 2012. Welfare includes working-age social transfers, such as unemployment benefits, social assistance, disability benefits, child benefits, etc. Pensions comprise old-age pensions.

Source: OECD National Accounts, OECD (2012), "Restoring Public Finances, 2012 Update", and OECD (2011), "Restoring Public Finances: Fiscal Consolidation in OECD Countries".



Active labour-market policies: Falling resources per unemployed

- Except if linked to unemployment levels (CHE, DNK, AUS)

Change in spending per unemployed, 2007-11



Note: OECD is the weighted average of 32 OECD countries (excluding Iceland and Turkey). 2010 for Ireland.

Source: OECD estimates based on the *OECD Labour Market Programmes* and *OECD Short-Term Labour Market Statistics Database*.



Key trends by policy area:

(1) Cash transfers

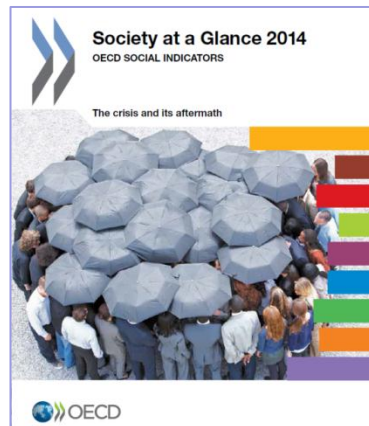
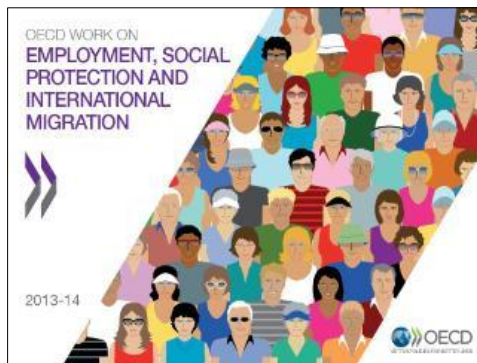
- **Unemployment insurance: strengthened, extensions now phased out.**
But some countries restricted durations or access early on (CZE, DNK, ESP, HUN, PRT)
Others moved later to strengthen benefits (ITA, PRT)
- **Unemployment assistance: strengthened**
But cuts in HUN, PRT. Access remains very limited in GRC
- **Social assistance safety nets: fewer changes, some strengthening**
But cutbacks or tighter eligibility in HUN, NLZ, PRT, UK
- **Disability: stricter gate keeping, time limits, reassessments**
- **Family benefits: savings measures since 2010**
- **Old-age pensions: pre-crisis “structural” reform plans brought forward.**
New means-tested safety nets in CHL, FIN, GRC, MEX, enhanced in AUS, ESP
Some across-the-board cuts (GRC, freezes in AUT, GRC, ITA, PRT, SLO)



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