



# Ivie

Fundación **BBVA**

## ***Inequality in a Recessionary World: From global to local***

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Económicas (*Ivie*)

*Valencia, 19 June 2015*



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## ***A helicopter tour on the recent evolution of the income distribution in Spain***

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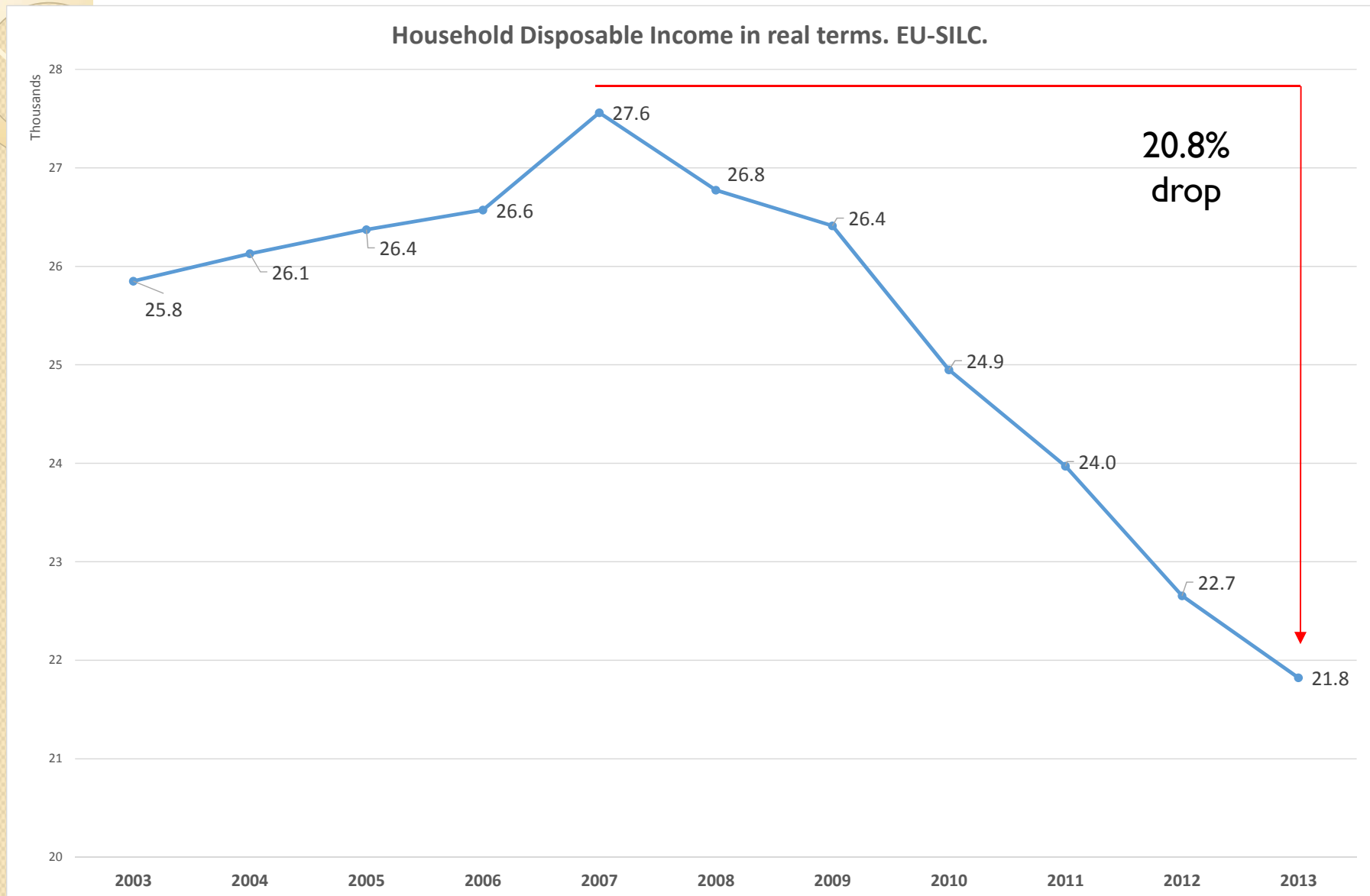
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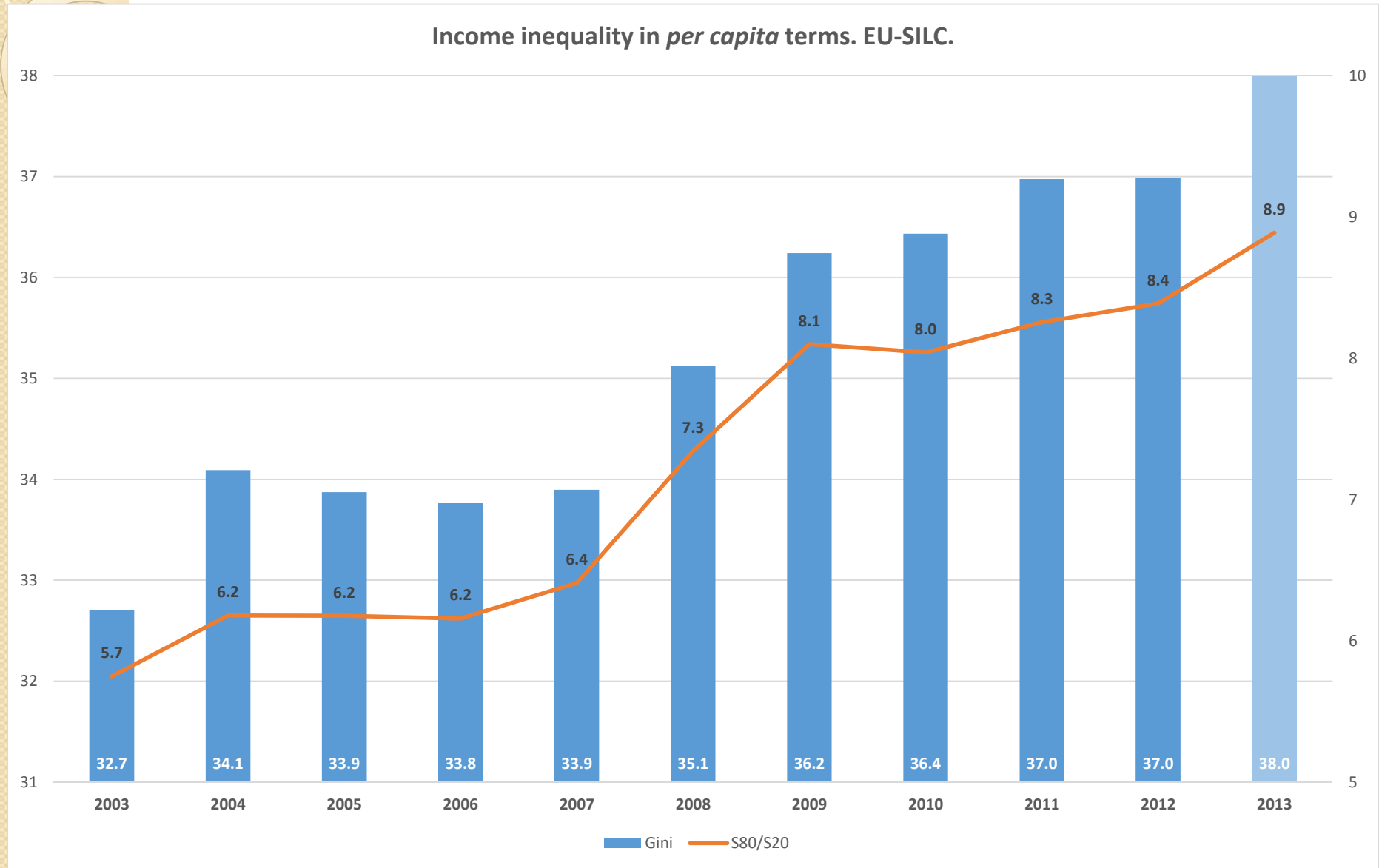
## A historical note...

- The evidence we have for Spain since household micro-data is available is that:
- Inequality fell in the 70's and the 80's...
- ...and the distribution became quite stable in the 90's.
- But suddenly, everything changed with the crisis...
- It's worth mentioning that in the years previous to the crisis, a period of rapid growth, this growth was unable to reduce the inequality by a significant amount

# Household income fell sharply



# Income inequality rose sharply

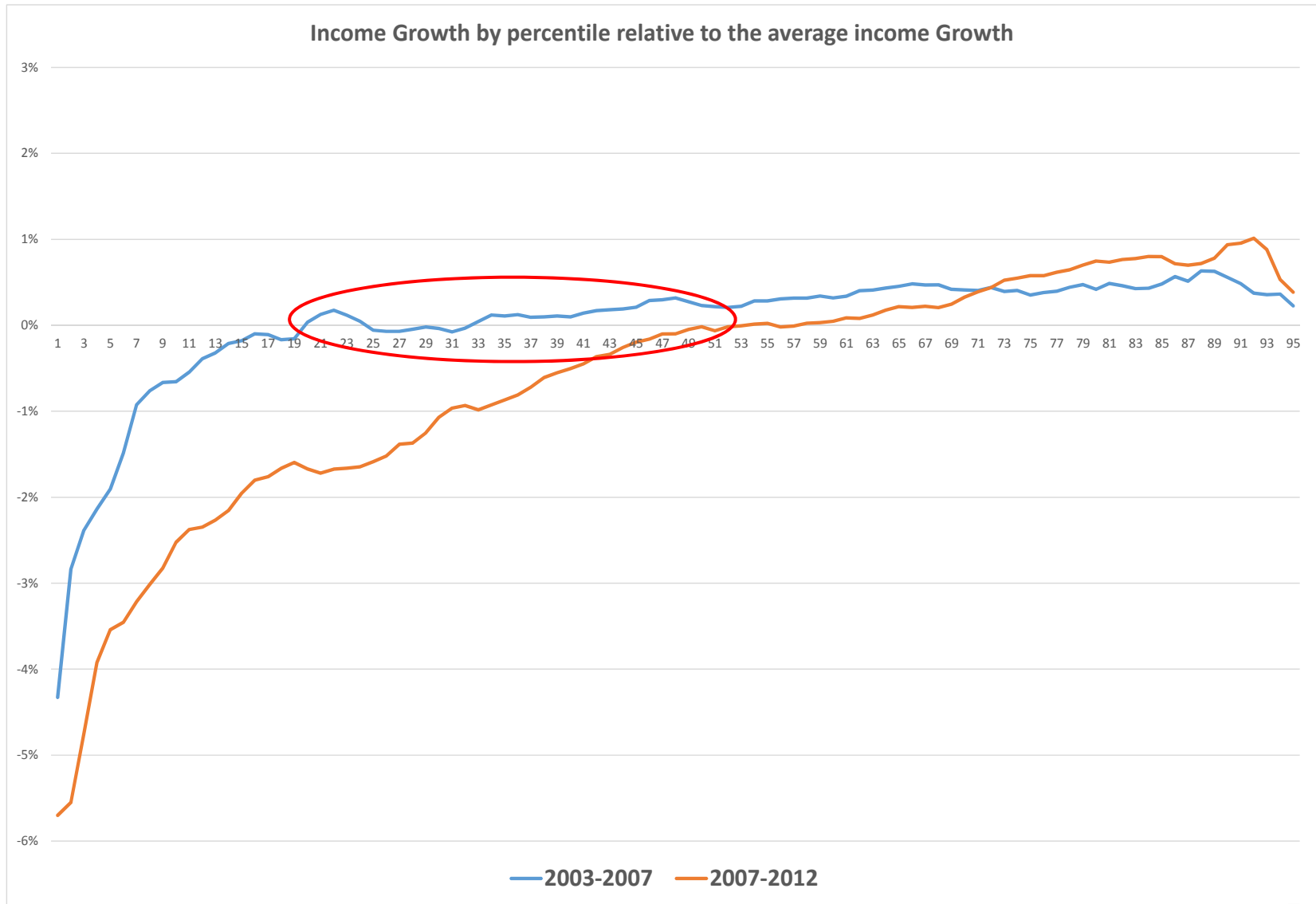




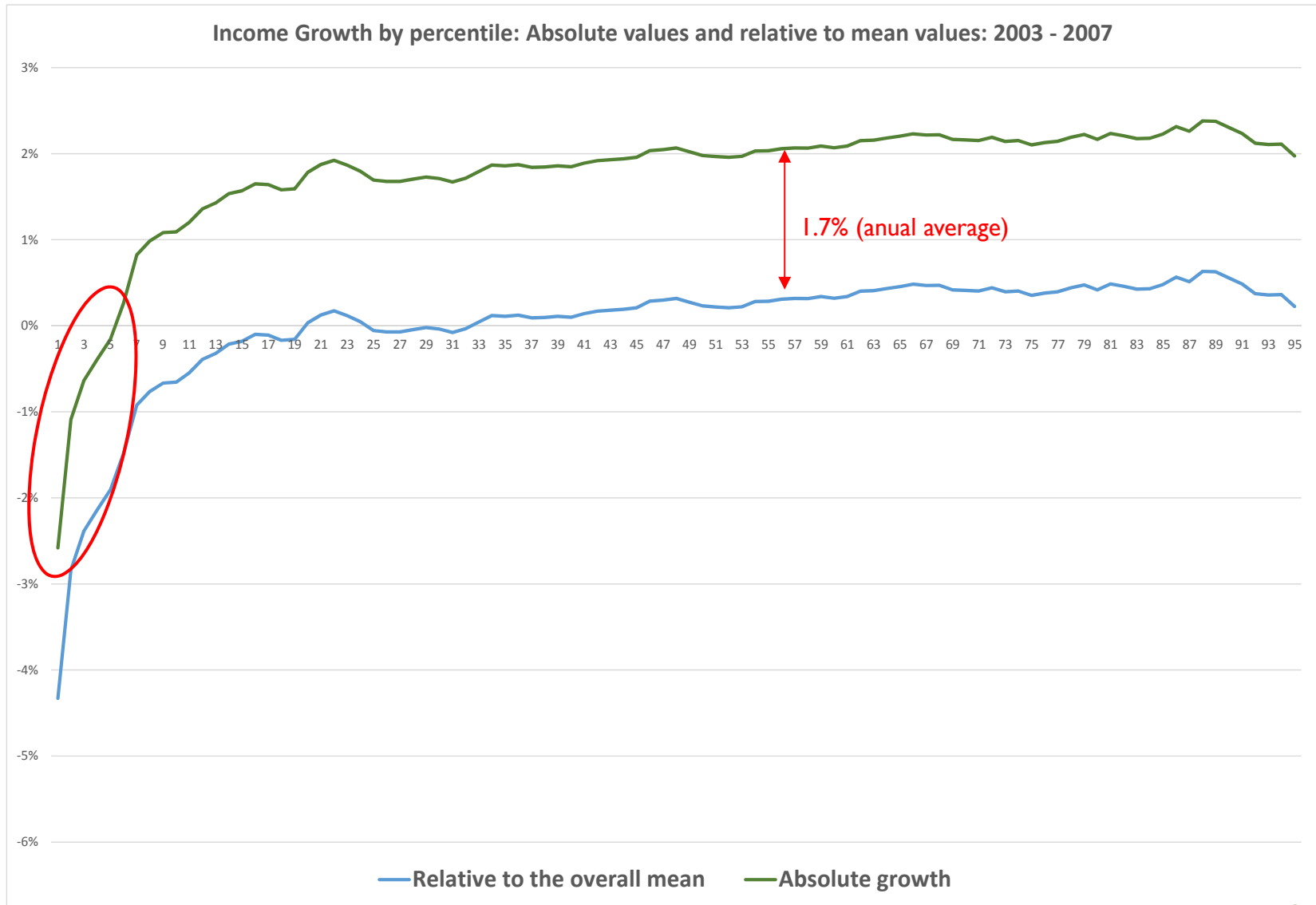
# The Great Recession:

- If inequality is growing, and income falling, the natural conclusion is that the cost of the recession is being shared very unevenly among the population.
- We measure inequality with relative indexes!
- The Great Recession has changed completely the pattern of growth of household income across percentiles in the income distribution.

Incidence curves: Even in 2003 – 2007 the growth was not pro-poor, the slightly reduction in inequality comes from the ‘middle class’.

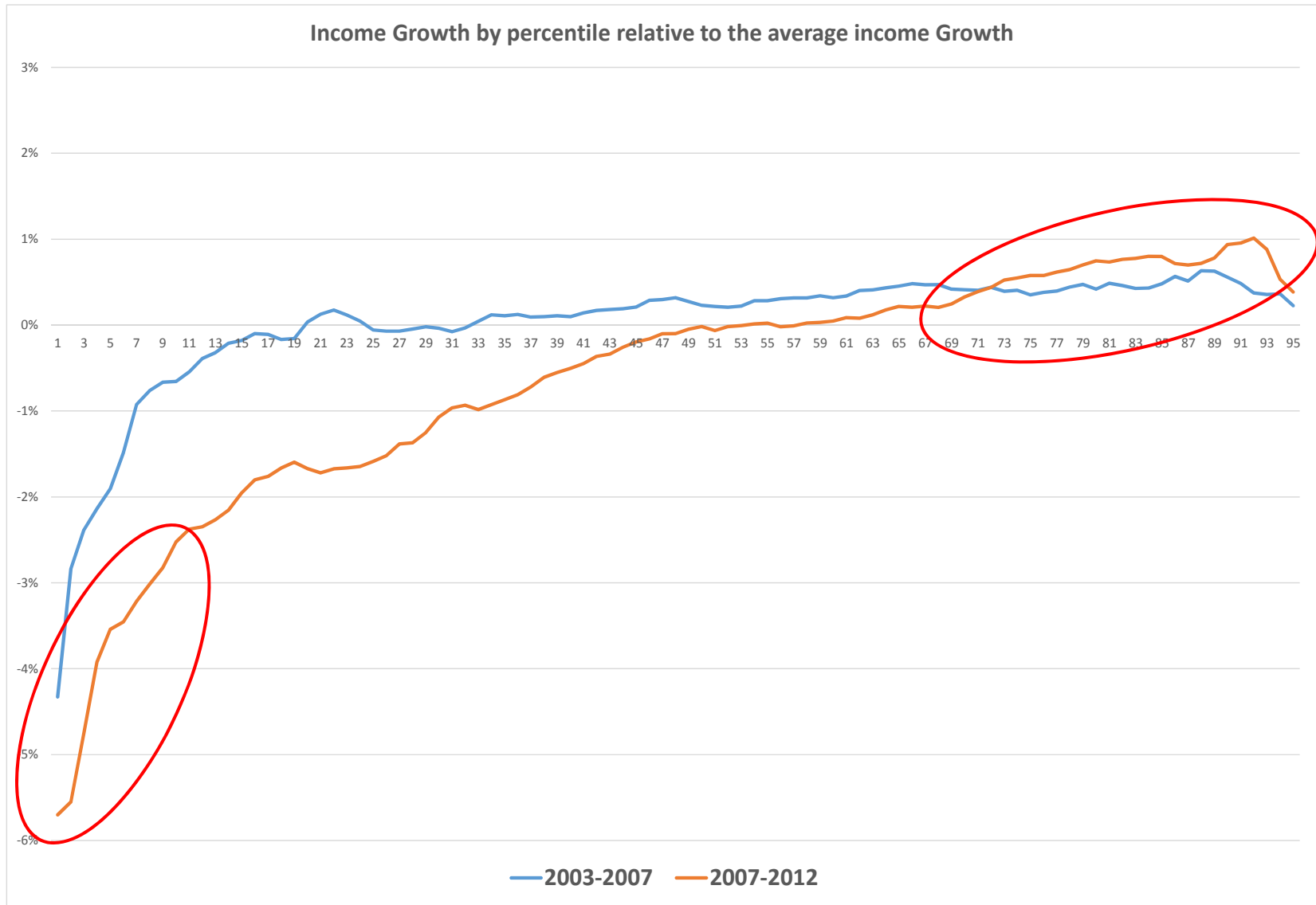


But (almost) everyone was happy, because the strong growth were causing everybody to be better-off. Except some people at the bottom!



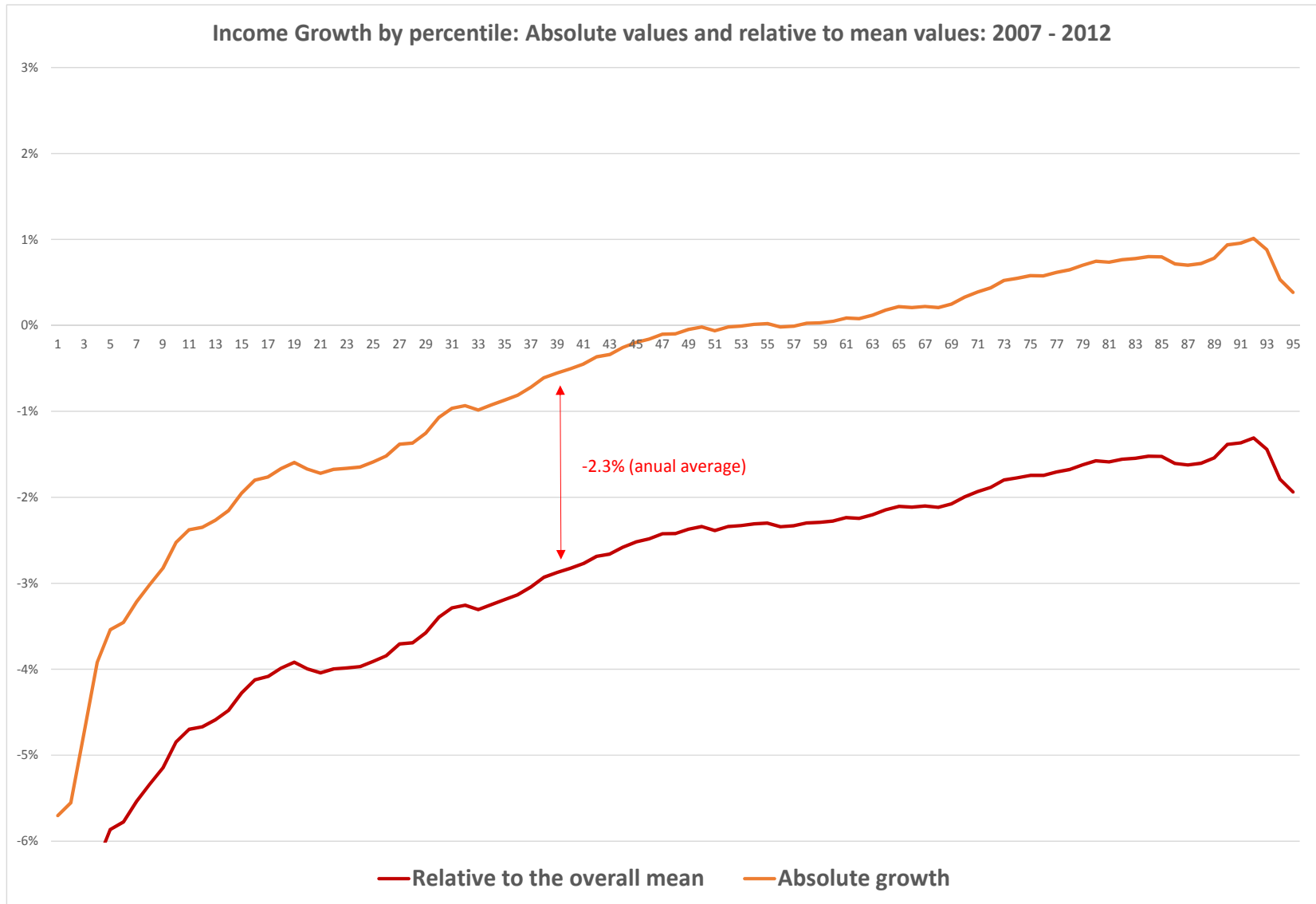


Incidence curves: After 2007 the pattern changes quite a lot, and now the evolution is clearly pro-inequality.



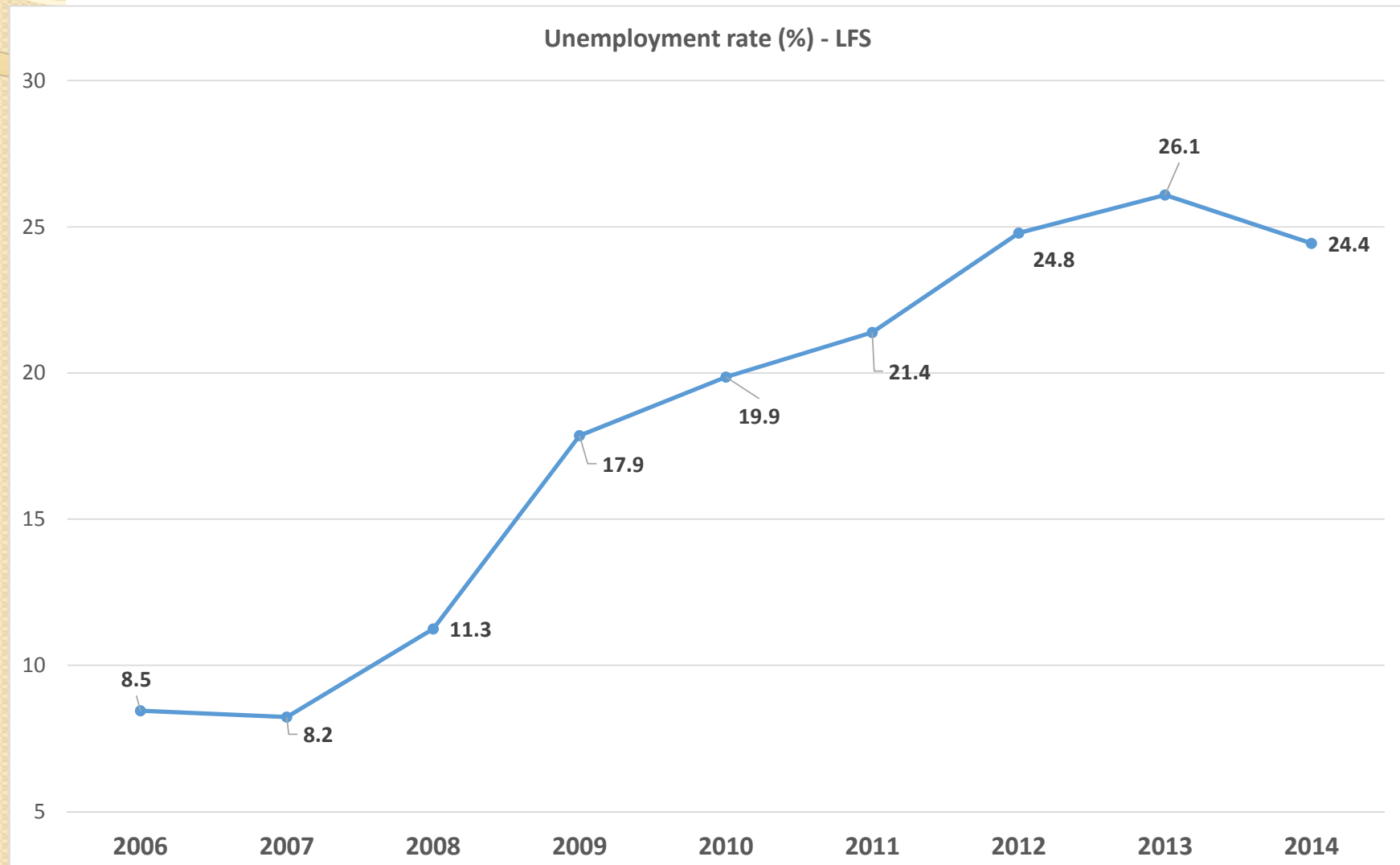
But now income is falling, so in absolute terms (almost) everybody is losing.

Top-incomes are not un household surveys!

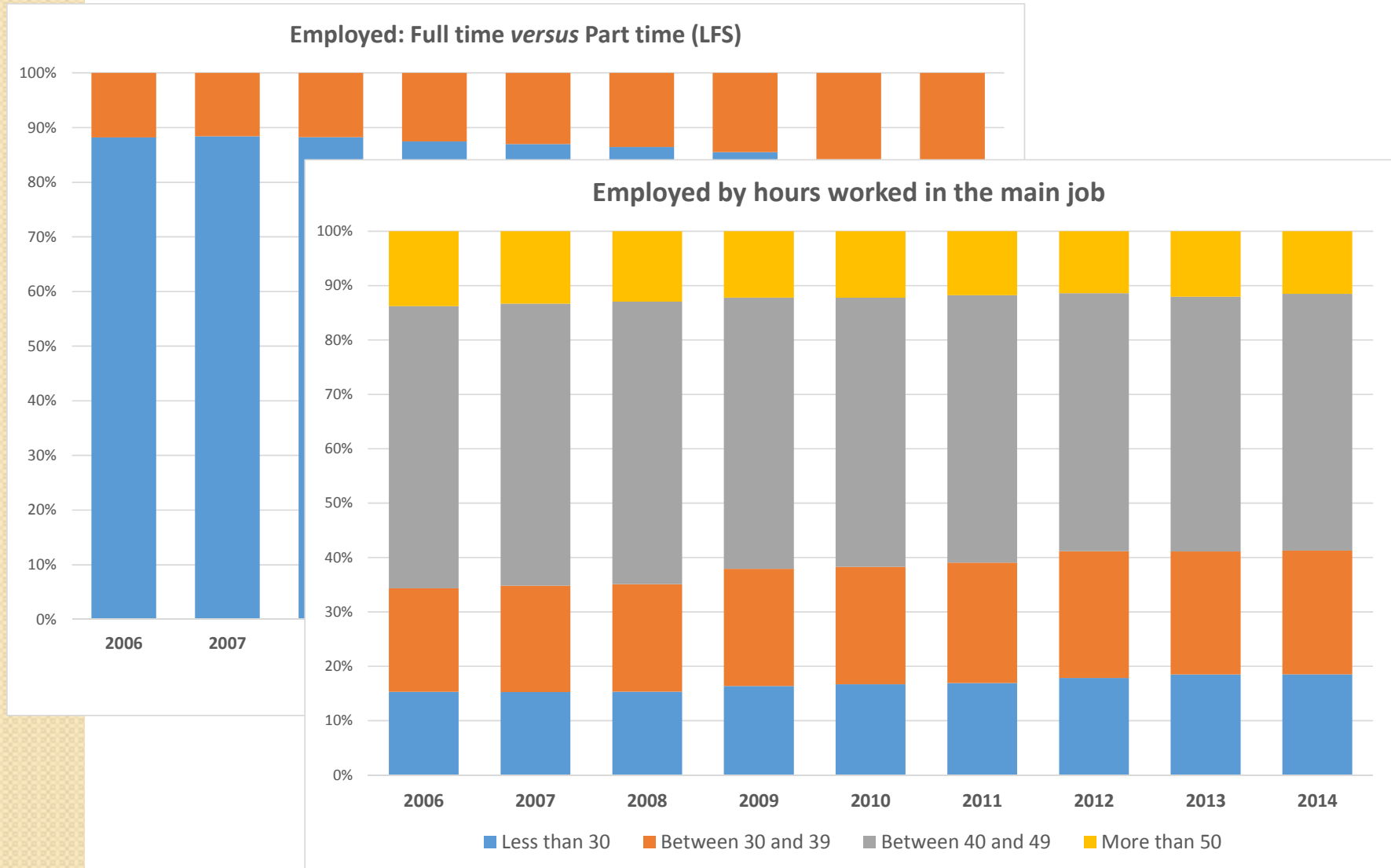


# Who is responsible for that?

## To a great extent the labour market



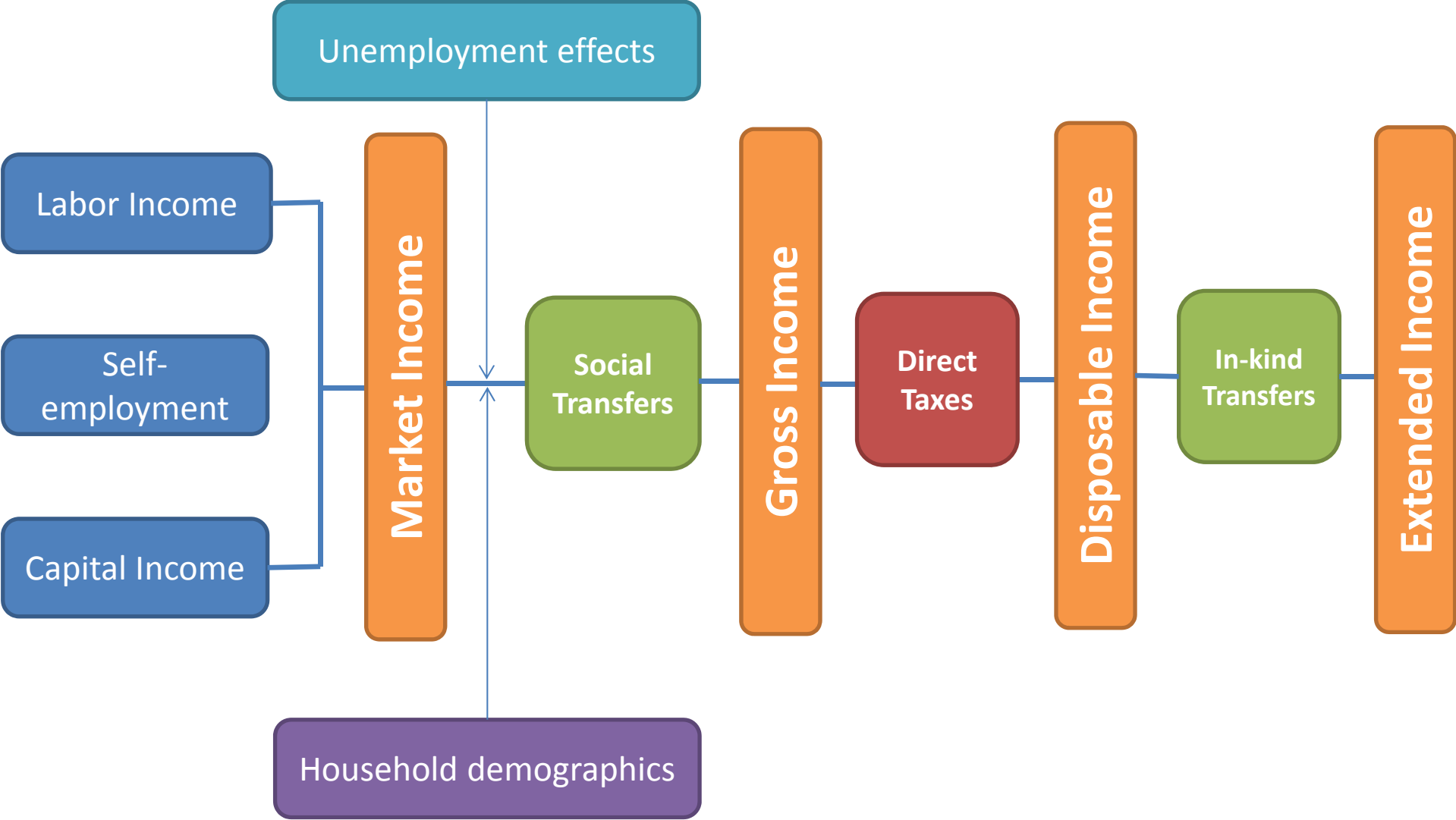
Not only aggregate unemployment figures, besides lower wages we have more people working part time and less hours



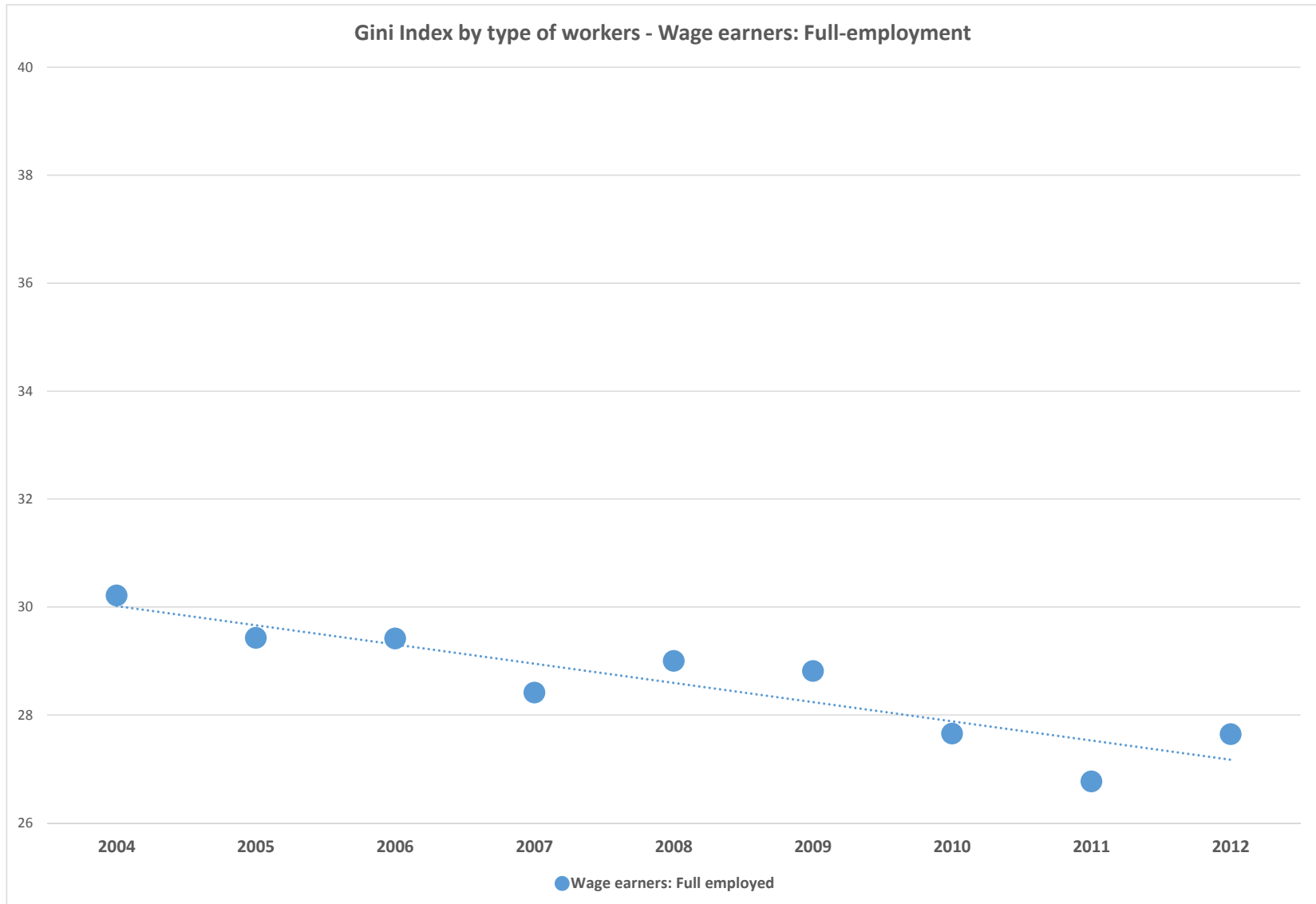
# Simple model of household income determination

Individual Level

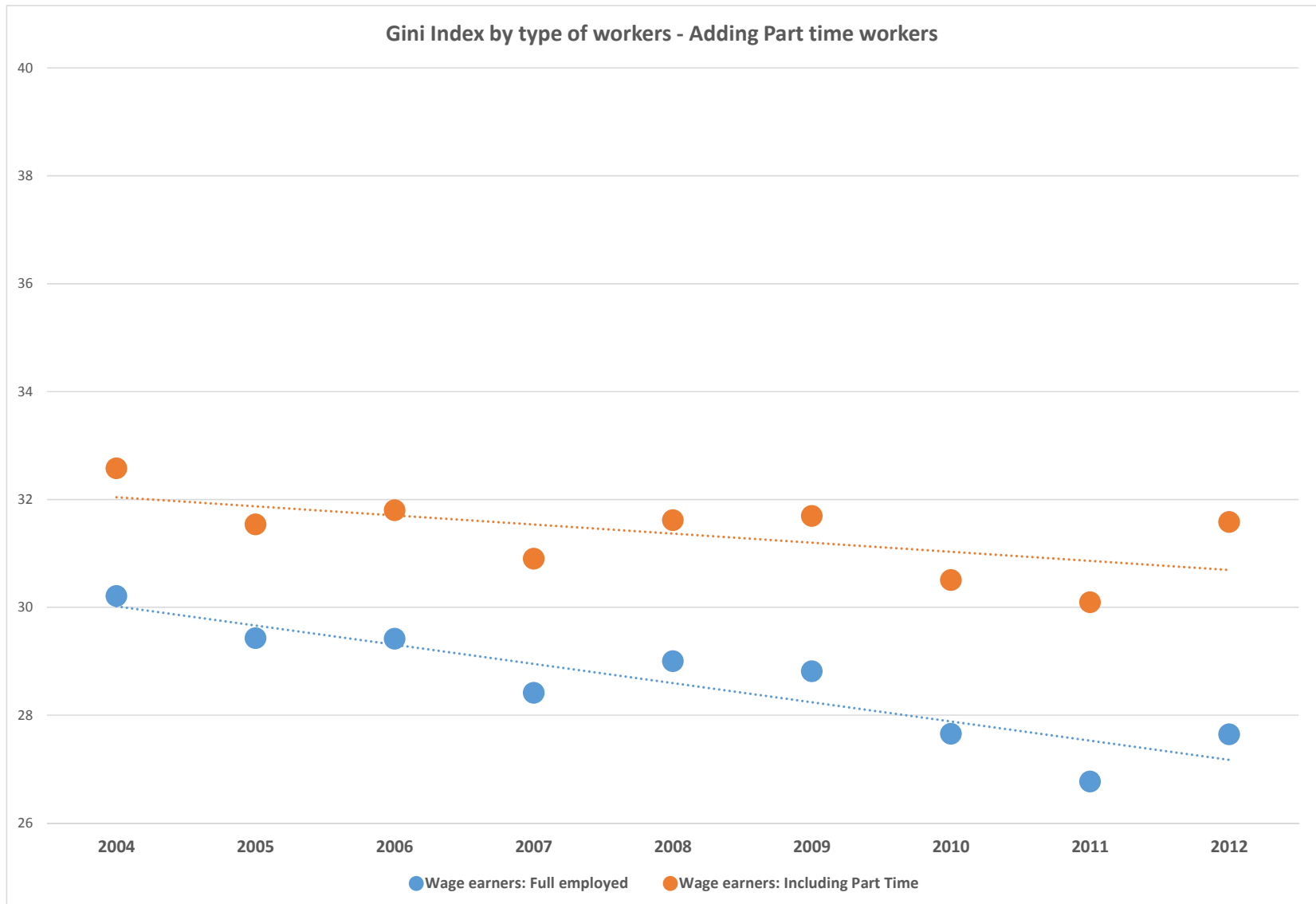
Household Level



## Earnings distribution of full employed workers shows a decreasing tendency



# If part-time workers are added to the reference population the tendency flattens




If self-employed people are added, the tendency clearly shows an upward-slope (self-employed is a very polarized group!)





Of course adding unemployed, even adding only those receiving unemployment benefits, makes things much worse.



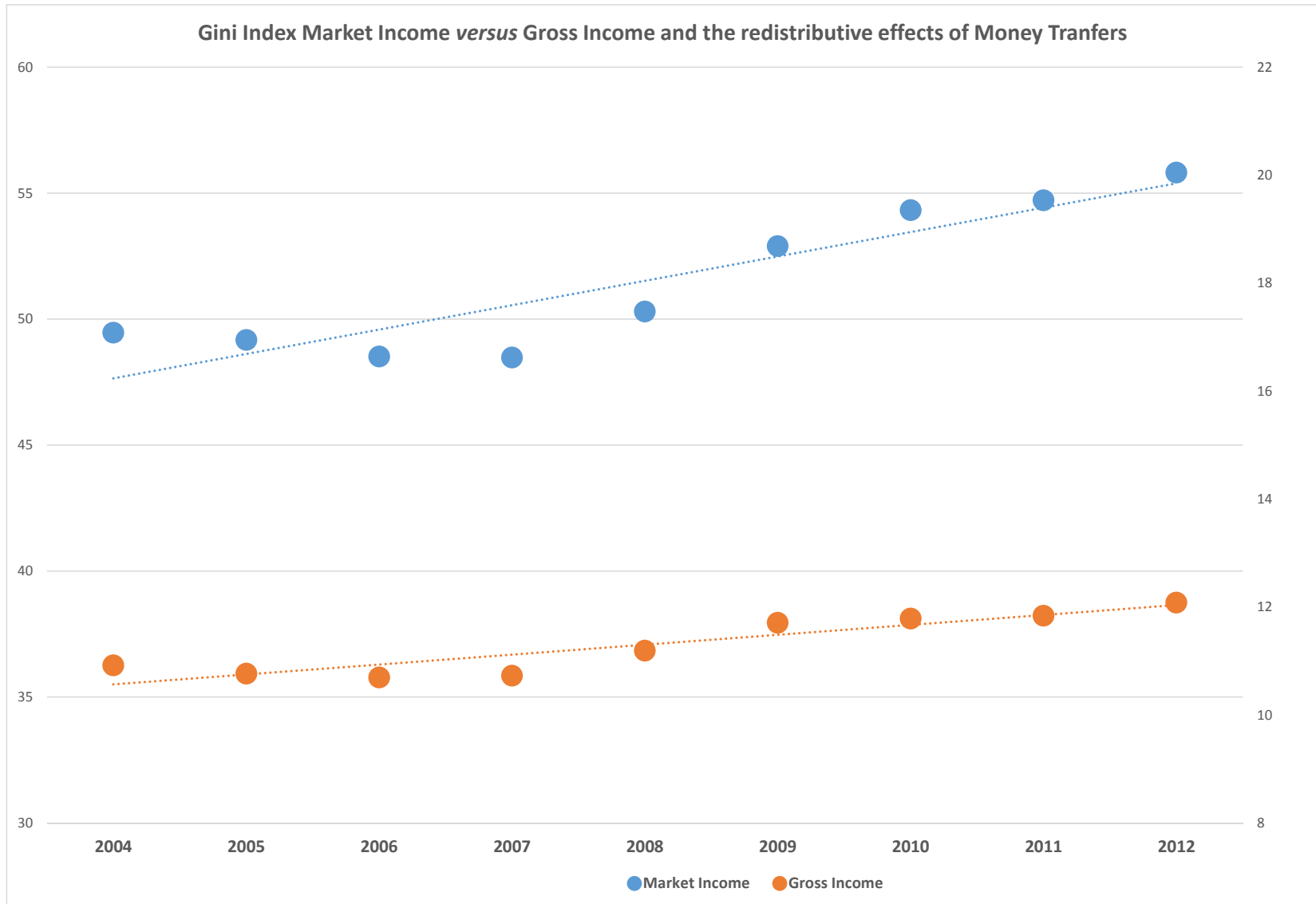


# From individual income to household income

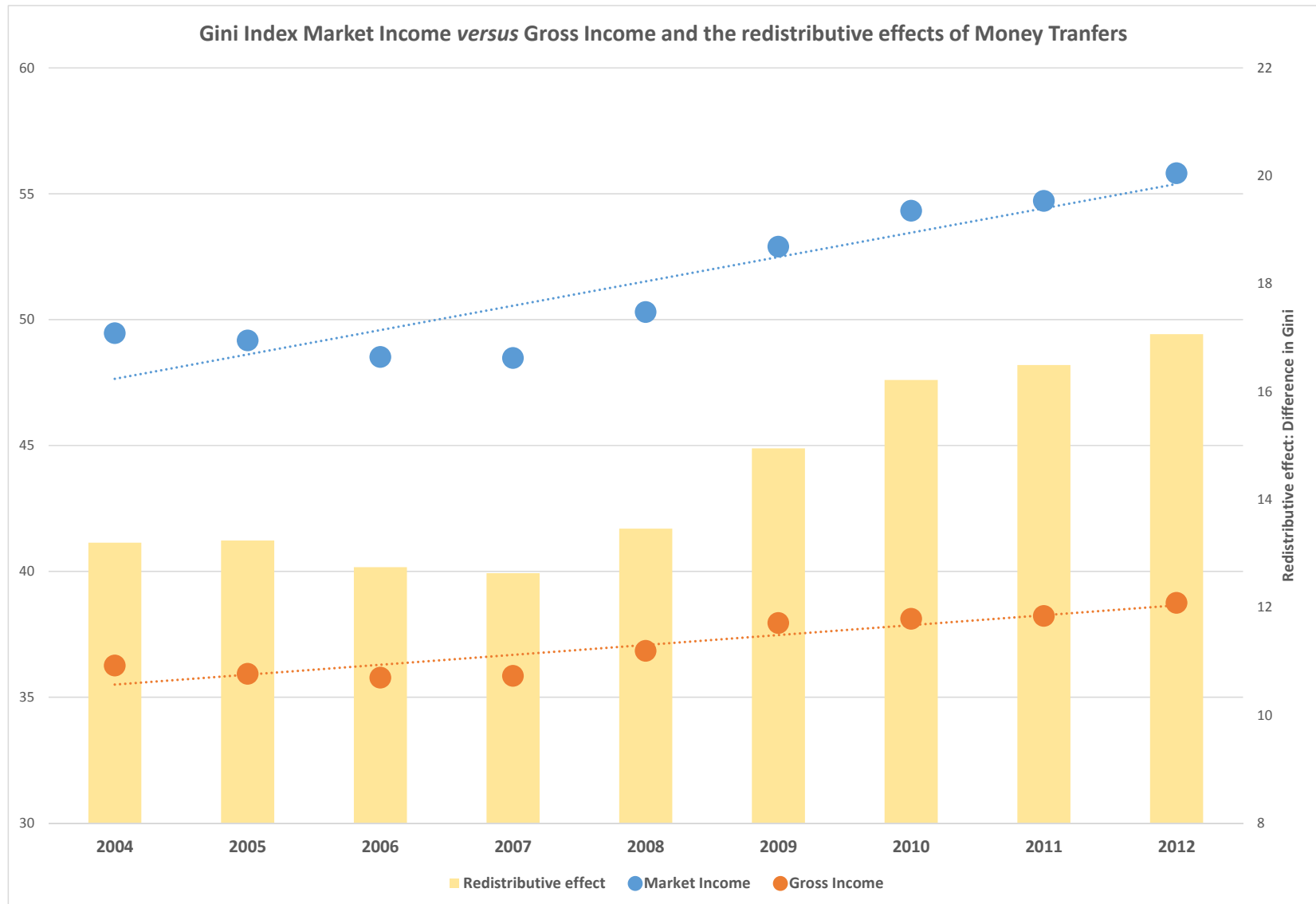
- In the transition from individual income to household income there are two main factors to consider:
  1. Demography of households.
  2. Labour market factors.

Our estimates indicate that demographic factors have played no role in the increase of inequality during the Great Recession, but changes in work intensity by households account for 5 out of 7 percentage points of the increment in the Gini index.

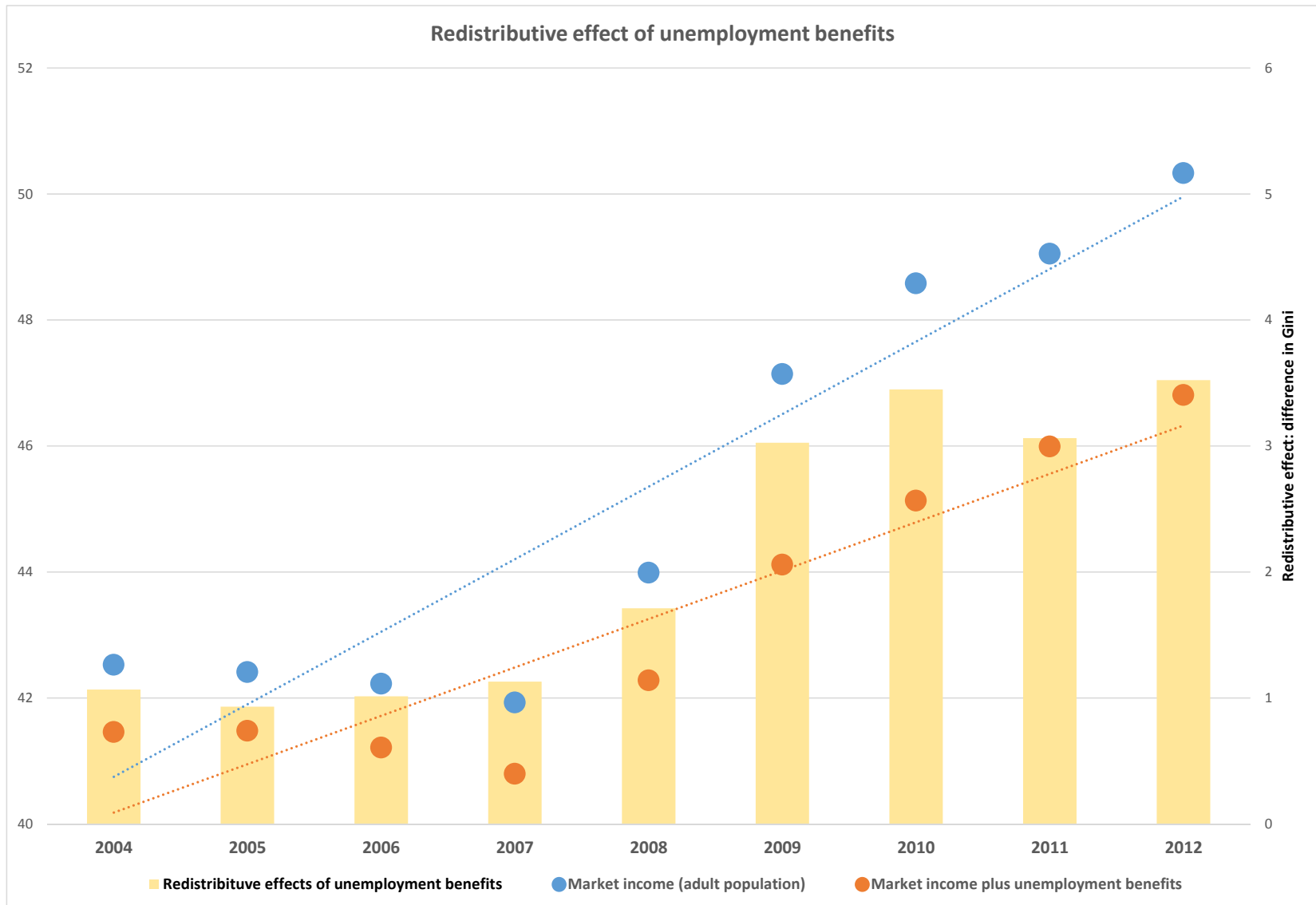
# Public monetary transfers are highly redistributive



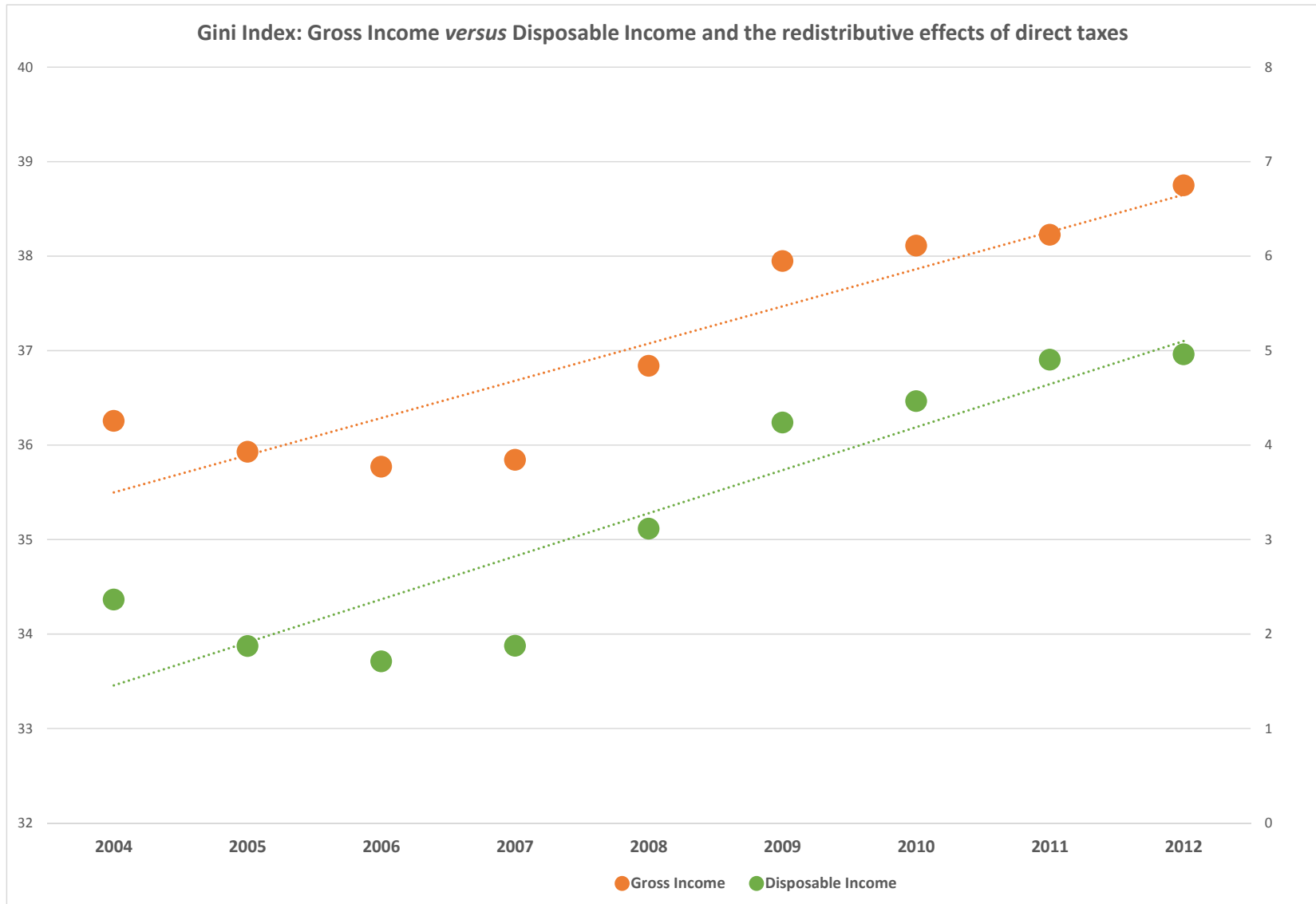
Public monetary transfers are highly redistributive, and the redistributive effect has grown in the recession years.



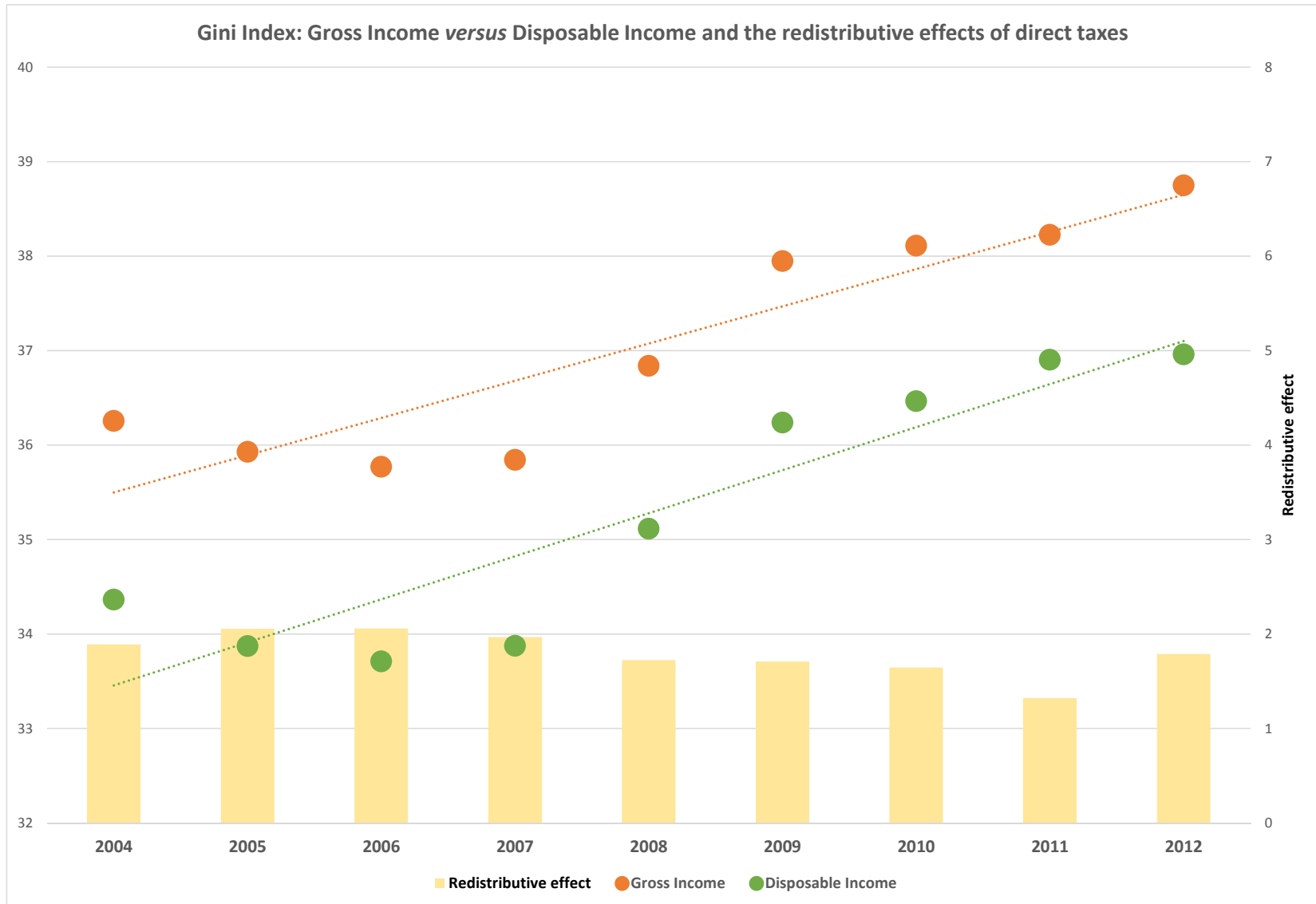
Highest redistributive effect is associated with old-age pensions, but second one is due to unemployment benefits.



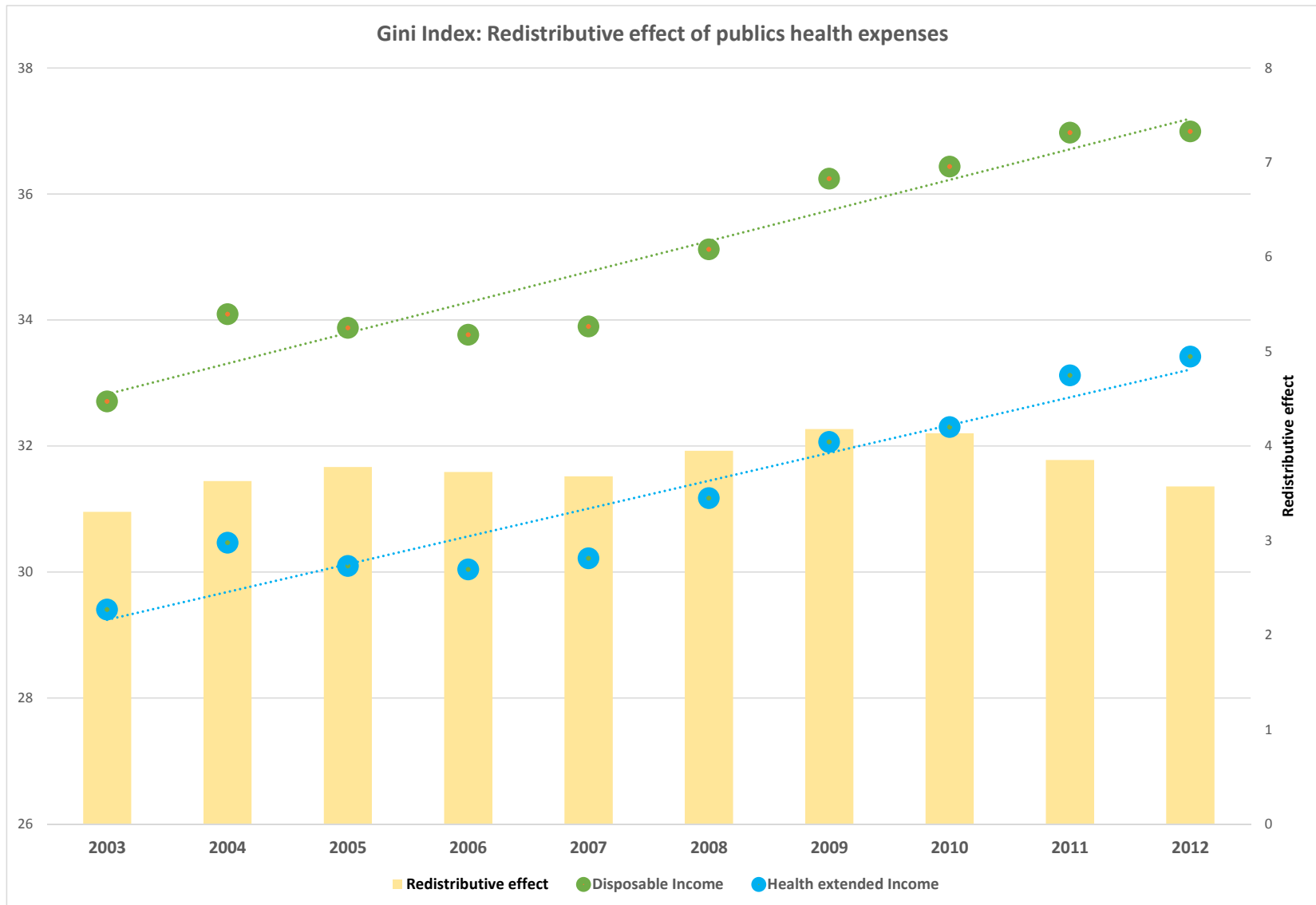
# Taxes are progressive but not so much redistributive



Taxes are progressive but not so much redistributive, and their effects have not increased during the recession.

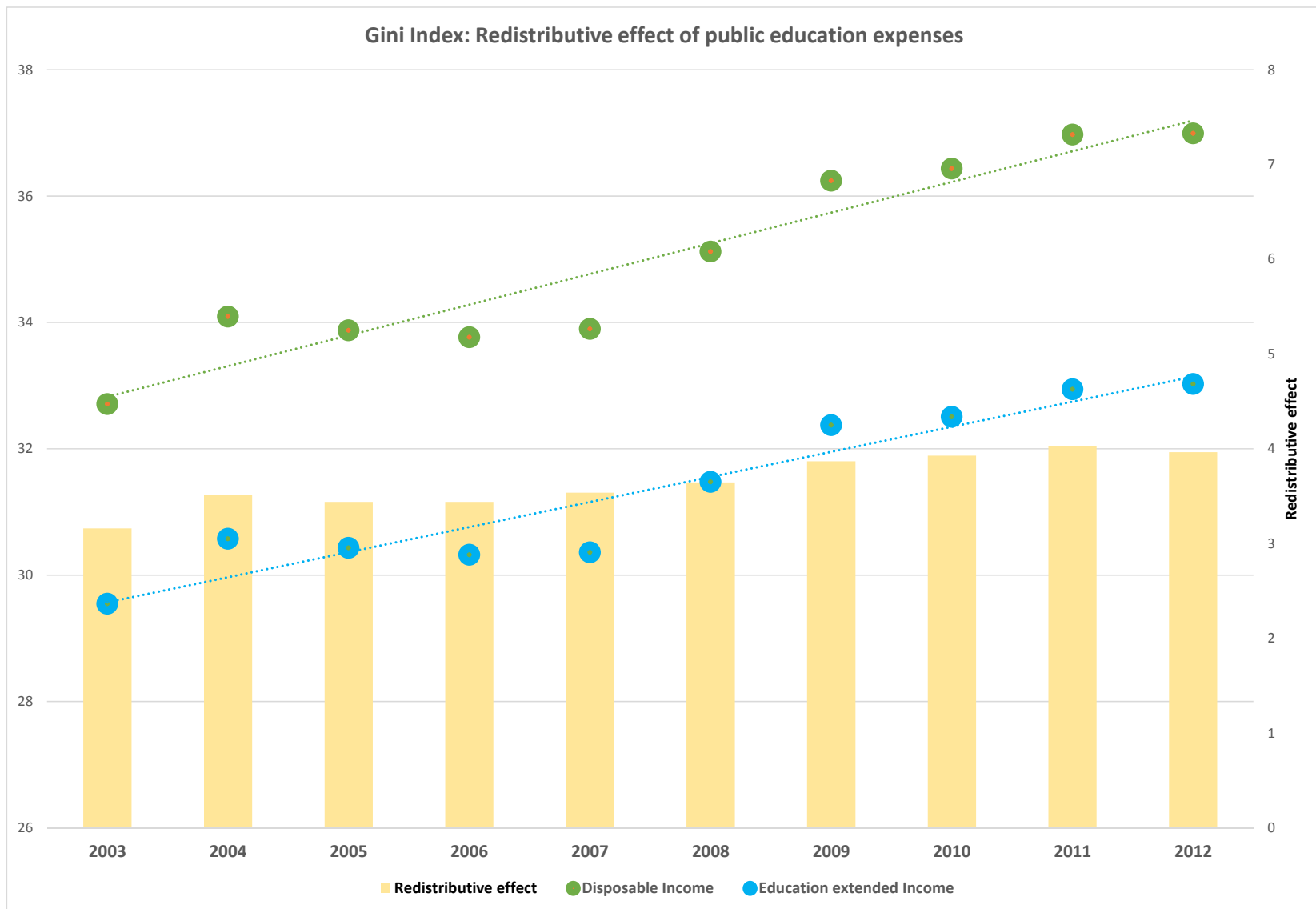


# What about in-kind transfers? Health expenditure is highly redistributive, specially *Hospital Services*.





Public education is also highly redistributive, but the effect is limited to *Primary and Secondary Education* only.





# Summing up

1. The Great Recession has completely re-shaped the income distribution in Spain, and inequality is now at historical records.
2. The recession have been shared very unevenly, and this has led to a huge increase in inequality (and also poverty).
3. The increase in inequality can be traced to the deterioration in the labour market. Not only the increment in unemployment, but also the rise in part time jobs and the reduction in hours worked.
4. As a consequence, growth (an employment recovery) is a necessary condition to revert the situation, but it should be clear that is not a sufficient one.
5. Even recovery seems to have started now, it is not clear at this stage when pre-crisis levels of 'inequality' will be reached, or if we have suffered a permanent shock and will have to live in the future with higher levels of inequality.
6. Public intervention has affected the distribution in the right direction during the crisis, but the magnitude of the recession has been so great, that public policies have been insufficient.



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***Many thanks for your attention and  
lets begin with the presentations***

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