

EU Labour Market Inequality and Income Inequality, and the Pillar of Social Rights

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Increasing Divergence and Changing Social Trends in Europe?

15th Conference “Social Monitoring and Reporting in Europe”

Virtual Villa Vigoni, 9 March 2021

To take away

1. Growth and divergence of poverty and inequality 2006-2019

- EU inequalities have increased and significantly diverged, in spite of ten years of anti-poverty policy making.
 - The bottom of the distribution fell away in the 5 'peripheral' countries (**PERIS**)*.
 - New member states (**NMS12**) did relatively well, mainly due to falling severe material deprivation among non-poor households.
 - The remaining countries (**CORE10**) redistributed most, but increasingly less, with growing inequality and poverty as a result.
- Income inequality of the EU as a whole offers an essential perspective on the future of poverty.

2. Analytics: The consequential role of labour households

- Labour households shine an essential light on income inequality for policy making.
 - They skew towards high incomes, and simultaneously spread low-wage jobs all over the income distribution.
 - They signal the importance of looking beyond equivalised incomes for poverty and the effectiveness of (redistribution) policies.

3. Failed policies: Can the EPSR improve upon Europe 2020?

- *Europe 2020* anti-poverty policy was weak in itself and lost out severely to austerity policies.
- For its impact, the *European Pillar of Social Rights* needs to prioritise child poverty and minimum income protection.
- For the *Pillar's* mainstreaming the *European Semester* needs to rebalance and the *Social scoreboard* extended.
- Stressing the social dialogue for securing the *Pillar* bears two risks: weak dialogue and undue prioritisation.
- The analysis of labour households suggests complementing the minimum wage with a child basic income and an Earned income tax credit.
- The EU-wide distribution of incomes enables a road map to social unification and a focus on top incomes across EU as well.

*) Three regions of EU27 (ex Croatia): **PERIS**: (Greece, Ireland, Italy, Portugal, and Spain), **NMS12** (ECE + Cyprus and Malta), and **CORE10** (rest of 'old' EU-15). The split is inspired by the book chapters.

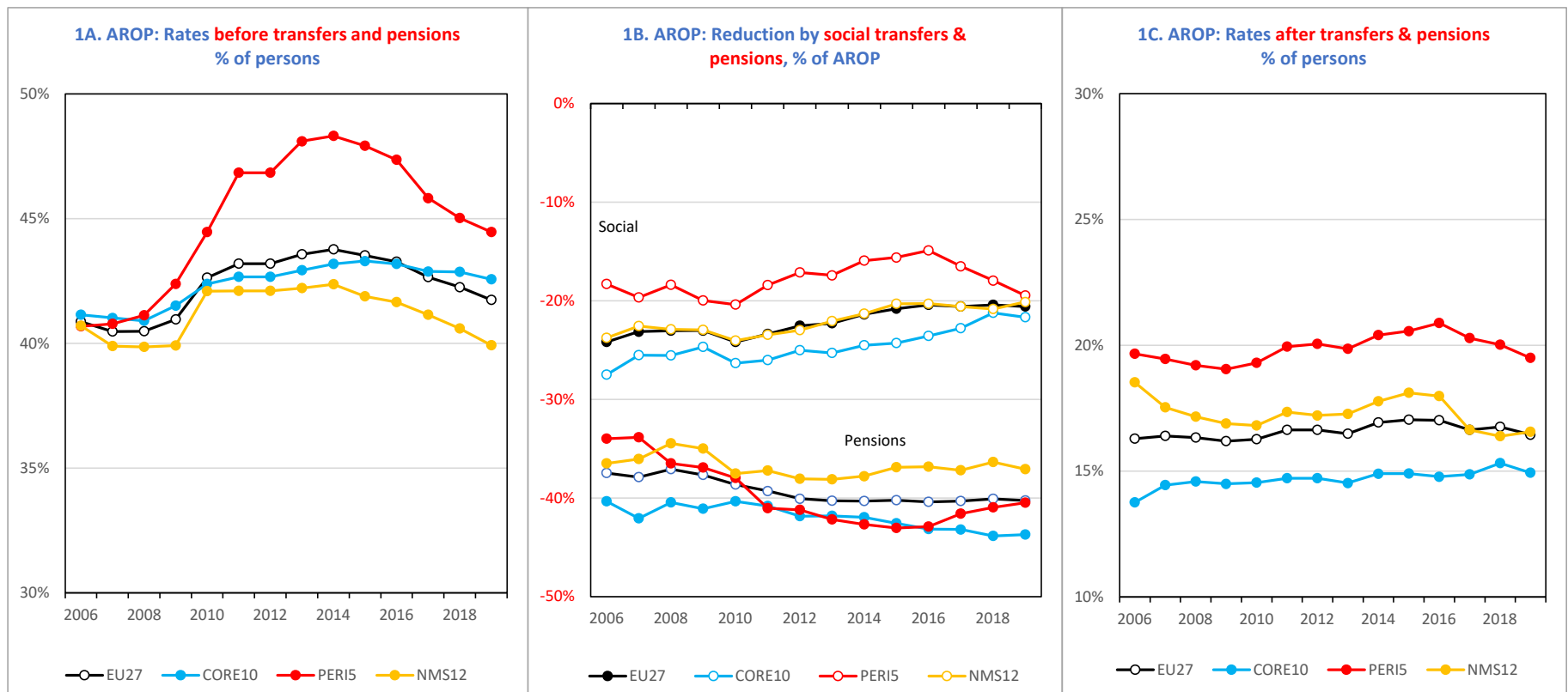
1. Growth and divergence of poverty and inequality 2006-2019

The general picture: increased poverty, reduced transfers, and strong regional divergence - esp. for PERI5, where the bottom fell away, while NMS12 improved and CORE10 became steadily more unequal.

More details on poverty reinforce the plight of PERI5 and nuance the accomplishment of NMS12.

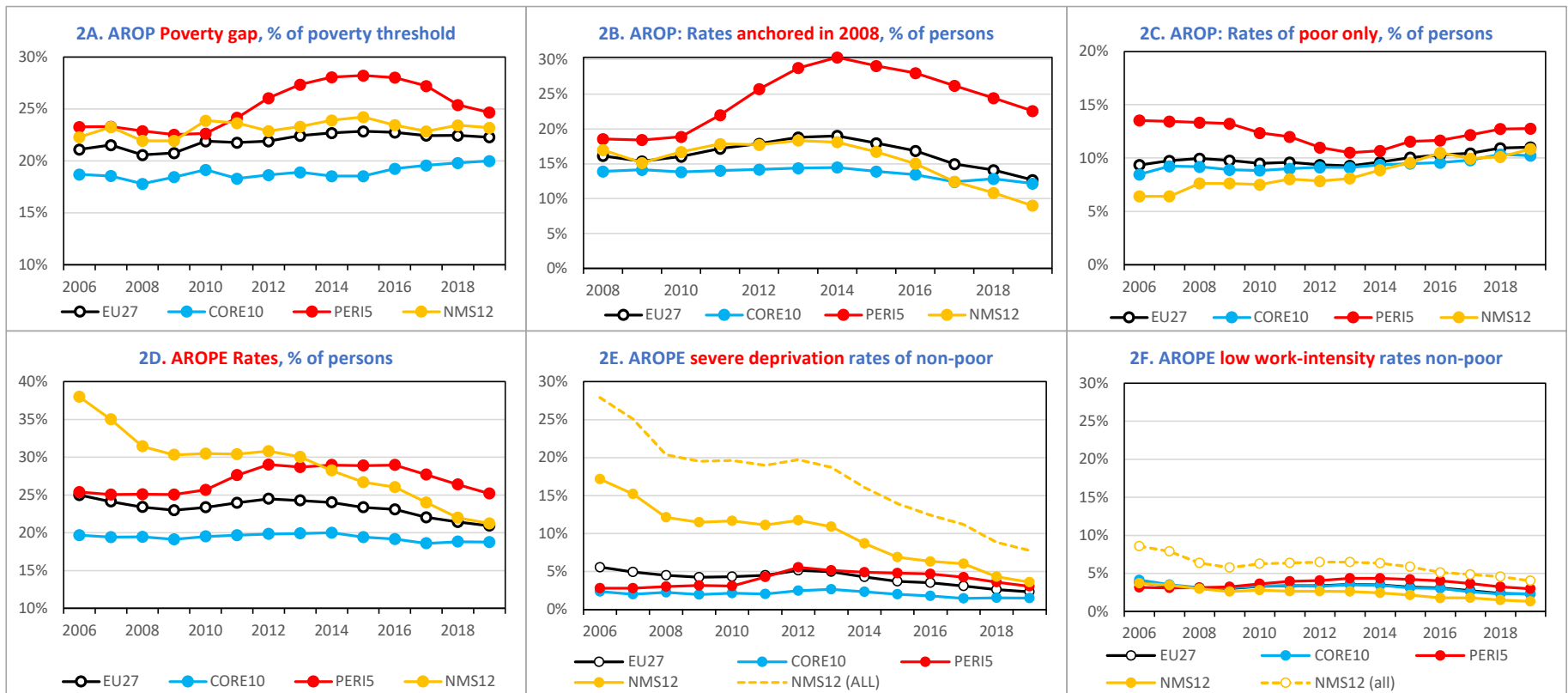
EU-wide inequality gives NMS12 a much higher poverty rate, which indicates the long way to go to social unification.

- . EU27 monetary poverty shot up strongly after 2008 and never recovered to the earlier level (1A). At the same time effects of social transfers diminished, those of pensions slightly increased (1B). Variation in ultimate rates remained large (1C).
- . Strong regional divergence:
 - PER15 suffered cruelly, in spite of pensions growth (+7pp, 1B) and increased transfers over the last few years.
 - NMS12 performed best, but not because of improved redistribution efforts (reduction by transfers fell by 4pp, 1B).
 - CORE10 reduced transfers steadily and strongly (-6pp, 1B).



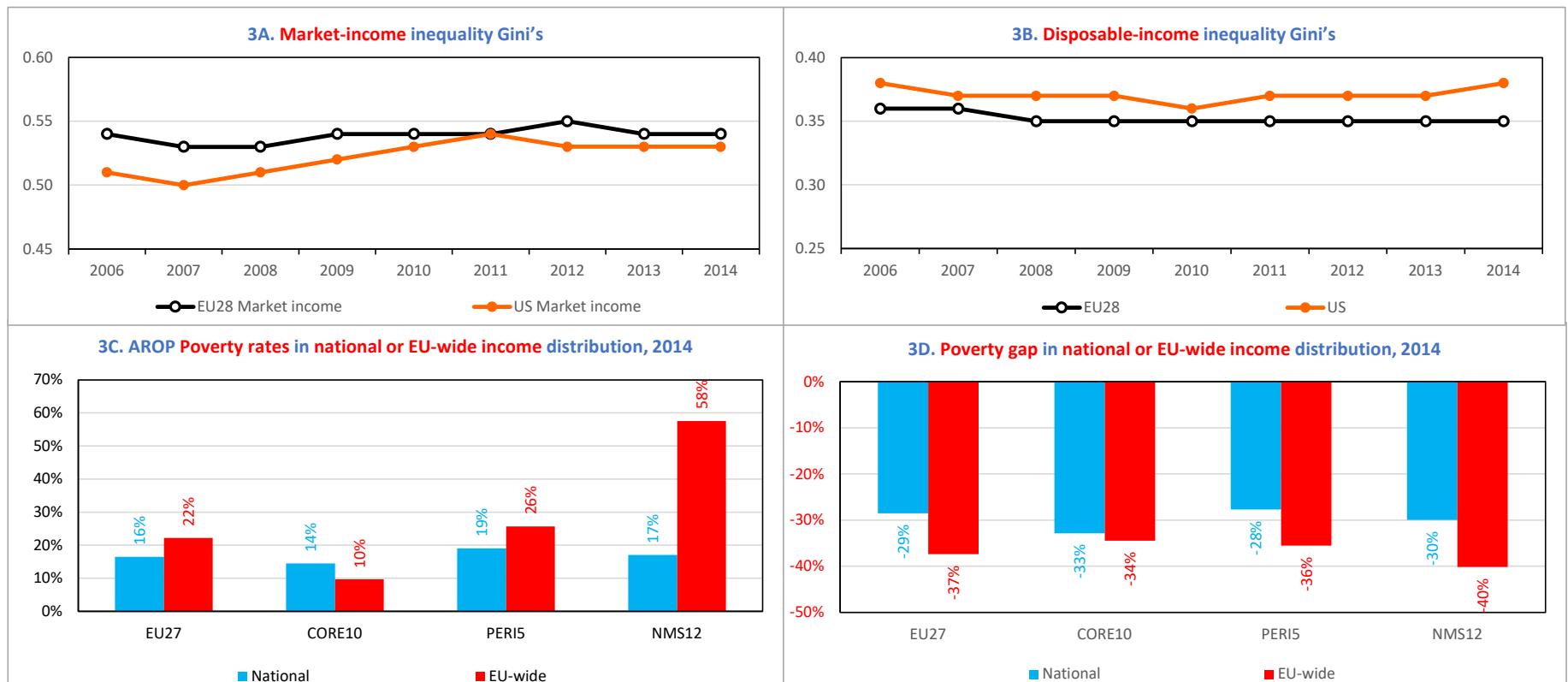
All data from Eurostat. Note that incomes are always after tax and equalised for household size and composition; it is in addition to this that social transfers and pensions are accounted for. EU27 and regions are unweighted country averages.

- . **PERIS**: Poverty gap (+5pp, 2A) and Anchored poverty rate (+11pp, 2B) show that the poor became poorer and many non-poor became poor by 2008 standards, while also material deprivation doubled among the non-poor (+3pp, 2E).
- . **NMS12**: AROPE decline (-17pp, 2D) rests largely on a strong fall in severe material deprivation among the non-poor (-13pp, 2E); this option may have run out of steam and other regions did not have it from the start. **NMS12** poor became less poor (-8pp, 2B) but pure monetary poverty increased (+4pp, 2C).



All data from Eurostat Rates (B to F) are % of all persons. Regions are unweighted country averages. Pure poverty is AROP excluding severe material deprivation and low work-intensity.

- . EU-wide inequality exceeds USA (3A), but EU corrects this with larger redistribution (3B). It demonstrates the importance of retaining and improving EU redistribution policies.
- . EU-wide measurement increases the poverty rate particularly for NMS12, from 17% to 58% (3C), showing the long way EU has to go for social unification. It affects the poverty gap surprisingly little (3D).



3A and 3B concern the distribution of all incomes in the Union as a single entity, expressed in PPP's and not equalised. Source: Filauro and Parolin (2018). 3C and 3D are unweighted EU27 country averages – author's calculations from SILC wage 2015 for year 2014.

2. Analytics: the consequential role of labour households

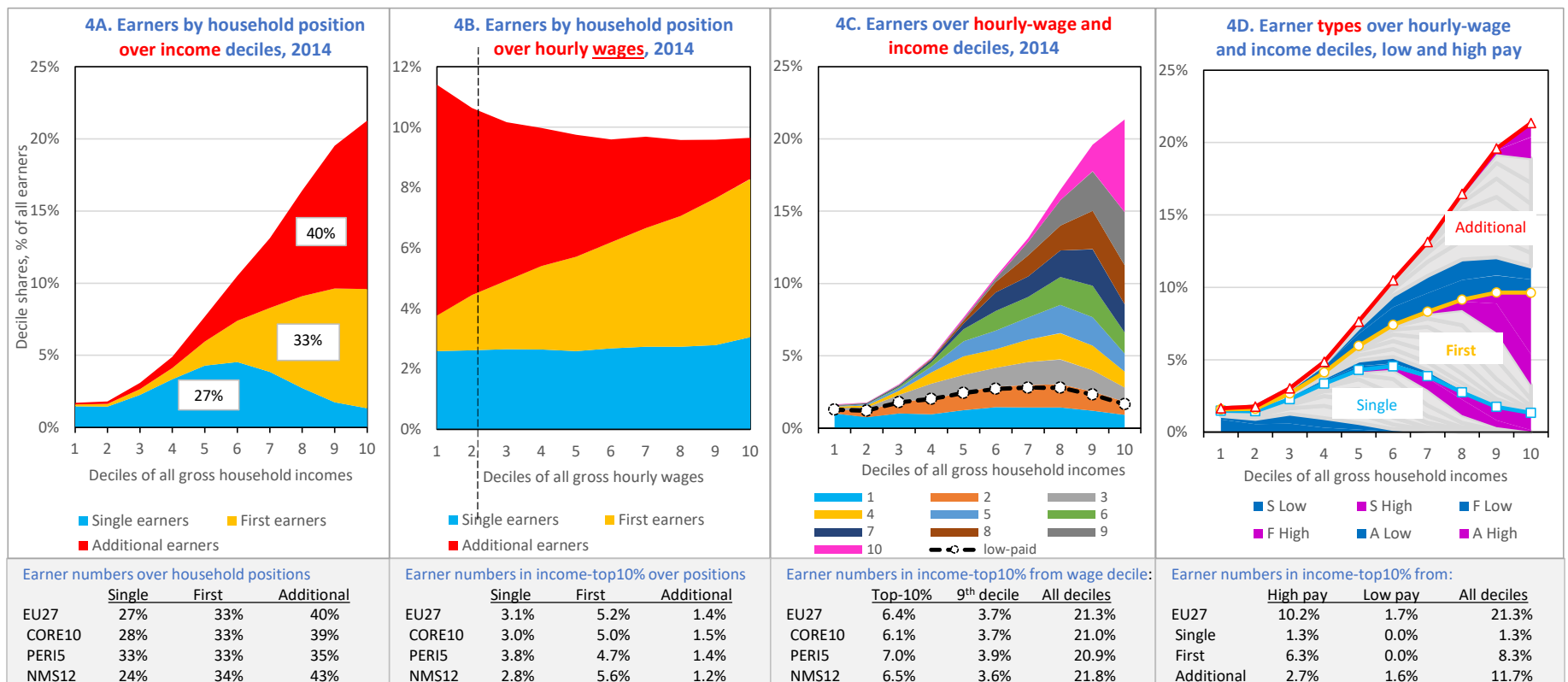
At issue:

- Three different takes on income: gross, net, and net equivalised.
- Focus on 'labour households' (wages are their main income), inserted in the overall distribution of incomes, with earner types based on contributions to household earnings: Single, First, and Additional earners.

Findings:

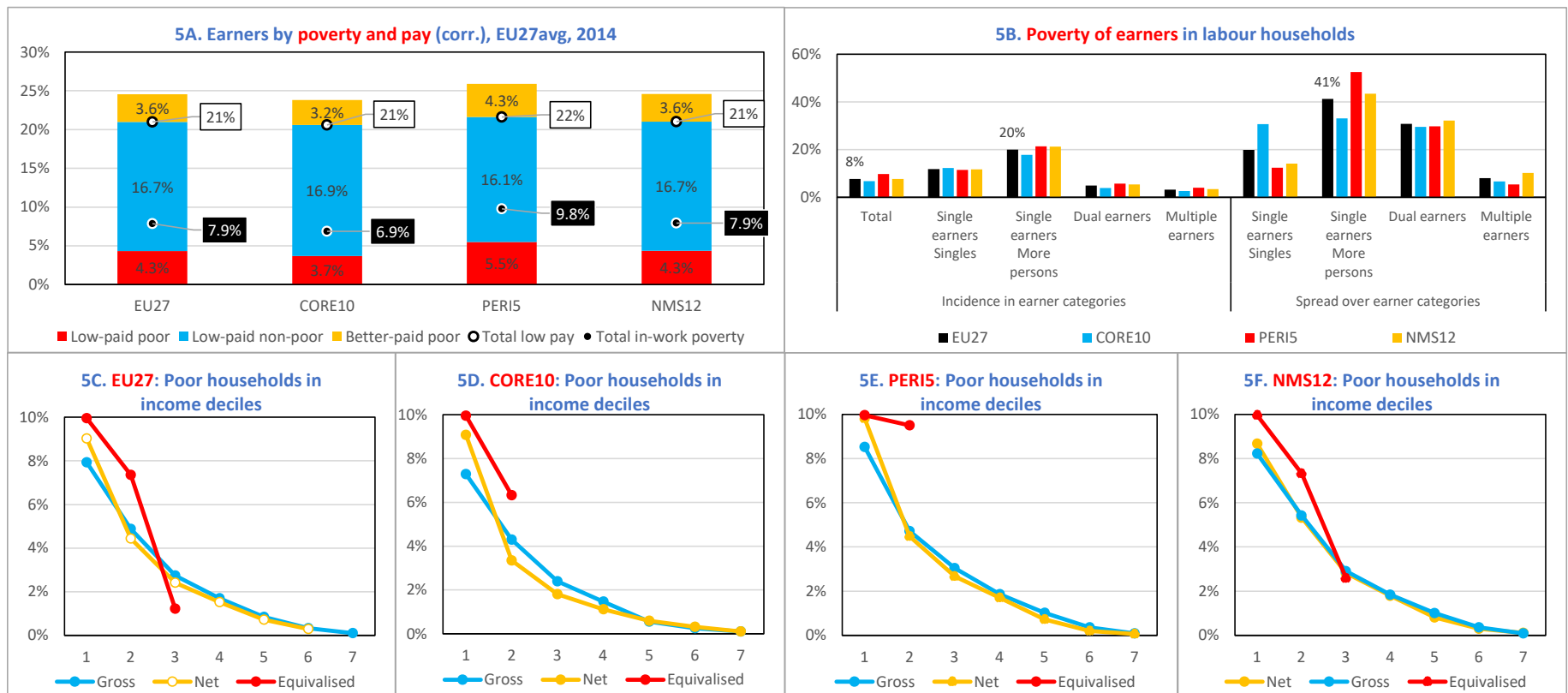
- Labour households are skewed towards the higher end of the gross income distribution, thanks to multiple earning in households. Conversely, households on benefits and pensions amass at the lower end (with some self-employed).
- At the same time, Additional earners spread (hourly) low pay over the entire income distribution.
- A hybrid society: 73% of earners share a household but 45% of households are single-breadwinners.
- The three regions basically share the same pattern.
- The exclusive focus on equivalised incomes overestimates the effects of (redistribution) policy: poor (labour) households reach almost as high up in the distribution for net incomes as well as for gross incomes. In-work poverty is a minority of all poverty and rests on better pay to a significant degree.

- . Labour-household earners concentrate in the highest income deciles, due to First and Additional earners sharing households (73%, 4A); 45% of households are single earners. PER15 have more Single earners, NMS12 more Additional earners.
- . Additional earners complement First earners in the hourly-wage distribution, with steep gradients (4B) – in all three regions.
- . Top-10% incomes depend on all wage deciles, low wages spread over all income deciles (4C) – very similar in all regions – , mainly via Additional earners (4D).



Wage deciles are based on total hours worked → more than 10% of earners found in the bottom wage decile (see B) because of part-time jobs. Dashed lines indicate low-pay threshold (2/3 of median gross hourly wage). Hourly wages are constructed, and corrected for missings, which particularly concern low wages (this correction is an improvement to the book chapter). Unweighted averages of EU27 countries.

- . The overlap between poverty and low pay is generally small and almost half the in-work poor are better paid by the hour (5A). In-work poverty is a minority share (8pp) of total poverty and it is much higher among single earners (20%, 5B).
- . Poor households (defined on equivalised net incomes) are found up to the 7th decile of both gross and net incomes (5C-F): (the extension to deciles 4 – 7 is almost entirely due to labour households).
- . Effect of redistribution is tiny compared to equalisation; gross incomes already at the bottom contribute the most.



C-F: rankings of same poor households according to their gross, net and equivalised incomes respectively.

3. Failed policies: Can the EPSR improve?

The experience: *Europe 2020* anti-poverty policy making (AROPE) was weak in itself and also weak relative to other EU-policy making

- It failed on its own (absolute) terms: the target was to reduce by 20 million persons (2020), the actual outcome was 9 million (2019).
- This reduction was limited to the non-poor part of AROPE (esp. material deprivation), while monetary poverty (AROP) for adults grew by 3 million and for children (<18) fell by 1 million (esp. in NMS12, where the young population also fell substantially).
- Social transfers actually shrank (think austerity), while pensions expanded, but not enough to keep poverty in check.
- Across EU countries the policy enjoyed no uniform targets or instruments (as, e.g., EITC in USA), and the national plans added up to only half the EU-level target (SPC).
- It paid no attention to the importance of access to public services, nor to the other end of inequality (top incomes) or to the possible inequality effects of other *Europe 2020* policies (employment rate: dual earning, and tertiary education: top dual earning) and the inequality effects of unification itself (employment and income shifts).
- The policy did not get its act together and lost out completely against EU-level financial and economic policy making (general austerity, the *Troika* for Greece, *Semester*) that served to severely cut public transfers & services without any regard for the effects on inequality.

Europe 2020 outcomes and 2020-2030 projections

	Changes 2008-2019				Baseline projection 2020-2030			
	EU27	CORE10	PER15	NMS12	EU27	CORE10	PER15	NMS12
All ages								
Population (x mln)	14.3	14.0	2.6	-2.3	1.5	3.9	1.0	-3.5
AROP xmln	2.8	2.9	0.9	-1.0				
% of population	0.1%	0.3%	0.3%	-0.6%				
AROPE (x mln)	-9.5	0.6	0.8	-10.9	-15 (+0.3)*			
% of population	-2.5%	-0.8%	0.1%	-10.2%				
non-poor AROPE (x mln)	-12.3	-2.3	-0.1	-9.9				
of which SMD (x mln)	-9.4	-1.2	0.0	-8.1				
Adults								
Population (x mln)	15.5	13.2	3.1	-0.9	6.0	4.2	3.6	-1.7
AROP (x mln)	3.8	2.3	1.2	0.3				
% of population	0.3%	0.2%	0.6%	4.4%				
AROPE (x mln)	-6.4	0.5	1.2	-8.1	-10 (+1.2)*			
% of population	-2.4%	-0.9%	0.4%	-9.5%				
non-poor AROPE (x mln)	-10.2	-1.9	0.0	-8.3				
of which SMD (x mln)	-5.9	-0.7	-0.1	-5.1				
Children								
Population (x mln)	-1.2	0.8	-0.6	-1.4	-4.6	-0.3	-2.5	-1.8
AROP (x mln)	-1.0	0.5	-0.3	-1.2				
% of population	-0.8%	0.7%	-0.6%	-5.0%				
AROPE (x mln)	-3.1	0.1	-0.4	-2.8	-5 (-1.1)*			
% of population	-2.9%	-0.1%	-0.9%	-12.8%				
non-poor AROPE (x mln)	-2.0	-0.4	-0.1	-1.6				
of which SMD (x mln)	-3.5	-0.5	0.1	-3.0				

*) Between brackets: population change times current AROPE rates.

3. Failed policies: Can the EPSR improve? (2)

Can the *European Pillar of Social Rights* do better?

- The *Pillar* contains 20 'principles' but these lend no individual entitlements, which only national law making can do. All worthwhile, but in need of prioritising with specified targets and time paths to prevent a weakening of the impact.
- Four principles seem most relevant here: #6 Adequate minimum pay to prevent in-work-poverty, #11 Child protection against poverty, #14 Minimum benefits for a 'life in dignity' (#15 Ibidem old age, #17 Ibidem disabled), and #20 Access to essential services.
- #11, #14 and #20 provide the strongest moral stepping stones. They would be helped by introducing a Child basic income (Atkinson), and a Directive on Adequate Minimum Income, but they need more than a 'report' on Access to services (due next year). So far, we have had a revision of the Parental leave directive, a Transparent work conditions directive, and a proposal for a Minimum wage directive (which may become undone).
- Three 3 years after its launch, the *Action Plan* supplies one precise target and time path: AROPE minus 15 million persons in 2030 (including minus 5 million for children). This largely copies Europe 2020, with its weaknesses (top incomes; uniform country targets and instruments, contributions to EU-level target; inequality effects of other *Pillar* principles (parental leave may benefit higher incomes), and of unification; applicability to policy making at EU-level.
- The *Action Plan* ranges now so many Commission actions (industrial strategy, MFF, cancer, SCG, E-ID etc.) under this heading that the *Pillar* risks becoming a catchall of policies and indicators and losing social focus and force and, eventually, status. The *Pillar* has to get its own act together to sort a clear effect and improve upon *Europe 2020*.

3. Failed policies: Can the EPSR improve? (3)

Can the *European Semester* rebalance to accommodate poverty and inequality policies?

- The proof of the *Pillar* is in the *Semester*. The intention to be no longer standalone but integrated into the mainstream of policy making can come true only if the integration will actually bear on EU policy making.
- Austerity – the *Semester's* hallmark – shall stay away, which seems an upbeat possibility at this moment.
- However, the *Semester's* aims are unchanged: sound public finances, preventing excessive macroeconomic imbalances, supporting structural reforms for more jobs and growth, and boosting investment – now “structured around dimension of (a.o.) fairness”. The very aims need revision, e.g. adding structural reforms for more equality.
- The *Action Plan* proposes some improvements to the *Social Scoreboard* for *Semester* decision making: Child poverty rate (headline), AROP Poverty gap and Benefit recipients rate among AROPE (secondary), and also the Income share of the bottom-40% of the distribution. However, the EU-wide distribution is sorely missing – for both the long way to go and the effects of unification itself.
- The *Pillar* attributes a key role for the delivery of social rights to the social dialogue of trade-union and employer associations at EU and national level. This can help public support but it also bears two risks:
 - outcomes depend on the relative strengths of the two parties, which receive no attention,
 - It may lend priority to certain working-age principles of the *Pillar* over and above other ones concerning society at large (e.g., minimum pay versus minimum income protection). After all, in-work poverty is only a part of poverty, and a significant part of the in-work poor are better paid and not helped by the minimum wage.

3. Failed policies: Can the EPSR improve? (4)

Analytical observations

- There is a need for improving the analysis, and basing *Pillar* policies on a thorough evaluation of the experiences of *Europe 2020* and a concomitant scrutiny of possible future trends (e.g. population growth).
- The hybrid society where most individuals are dual earners while an important share of households remain single earners, and where low pay is spread over the entire income distribution, complicates policy making significantly.
- Apart from fair pay, the minimum wage is absolutely necessary for fighting poverty among low-paid single earners, but via low-wage jobs it simultaneously contributes to high incomes, enhancing income inequality.
- Taxation may help to correct for this, preferably not by a household-based taxation of individuals but by introducing a household-targeting Earned income tax credit, for which minimum wages can also lay a bottom.
- A Child basic income can take children out of the equation of earnings and transfers; it could be partly monetary, partly material, e.g., as free access to services as probably proposed in the forthcoming Child Guarantee.
- The EU-wide distribution of incomes is needed to provide an essential perspective on the future of poverty and a road map towards social unification, and also for the effects of unification itself: migration of (poor) labour and geographical concentration of top incomes. Interestingly, it affects the poverty gap much less, which may underline its use as an indicator, ultimately: poverty gap = 0 implies poverty = 0.
- The EU-wide distribution also helps to catch top incomes, which make a separate and important contribution to inequality, and which may also (undesirably) migrate to concentrate geographically in certain EU countries.

*Thank you for your attention.
I welcome discussion!*

Note: Labour households analysis under construction

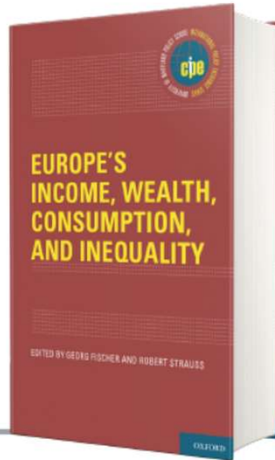
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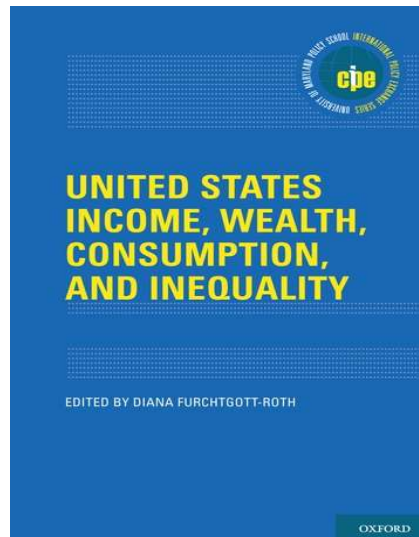
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February 2021 (US) | April 2021 (UK)
978-0-19-754570-6 | 616 pages | Hardcover
Price: ~~\$115.00~~ \$80.50* USD | ~~£75.00~~ £52.50* GBP
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