

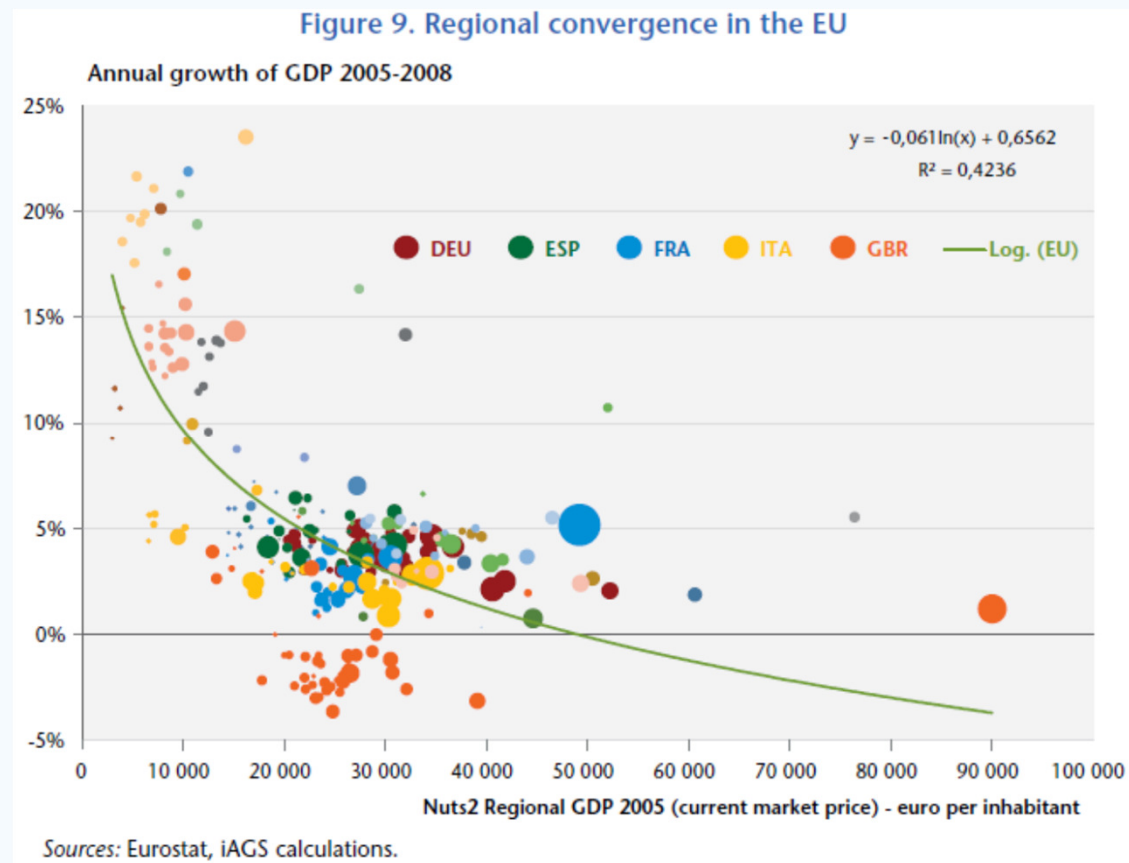
Ending Austerity: Macro-economic policy for a fairer society

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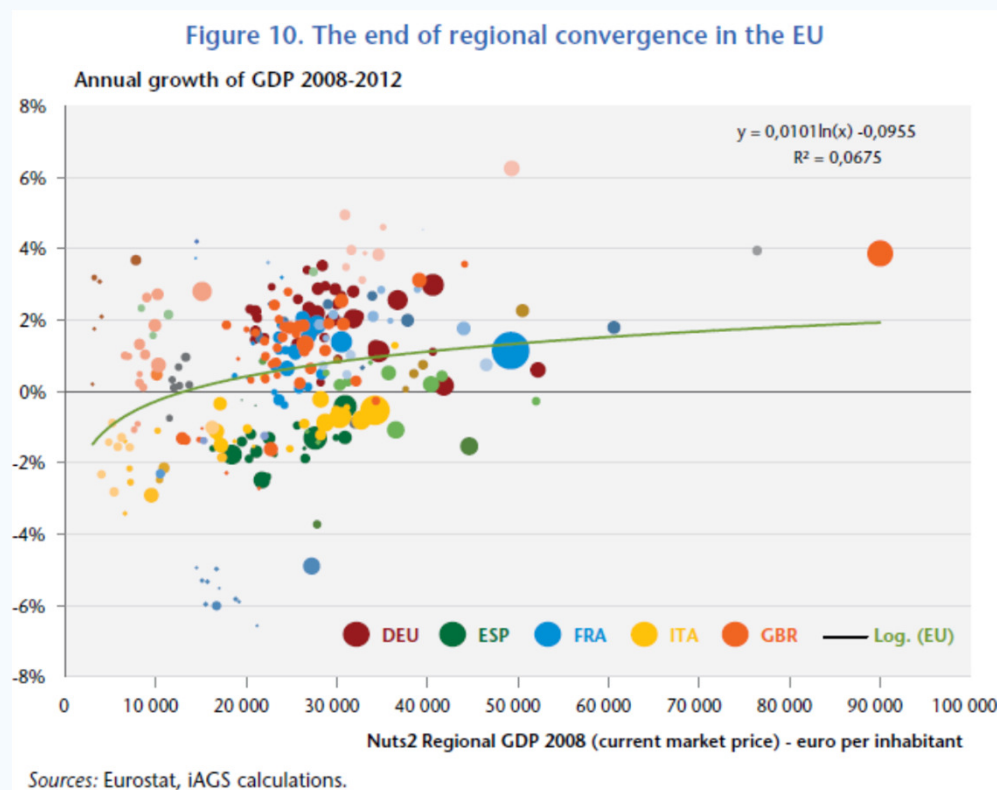
Regional convergence

- Prior to the crisis (2005-2008) regional convergence could be observed – meaning that regions with the lowest GDP per cap were growing the most



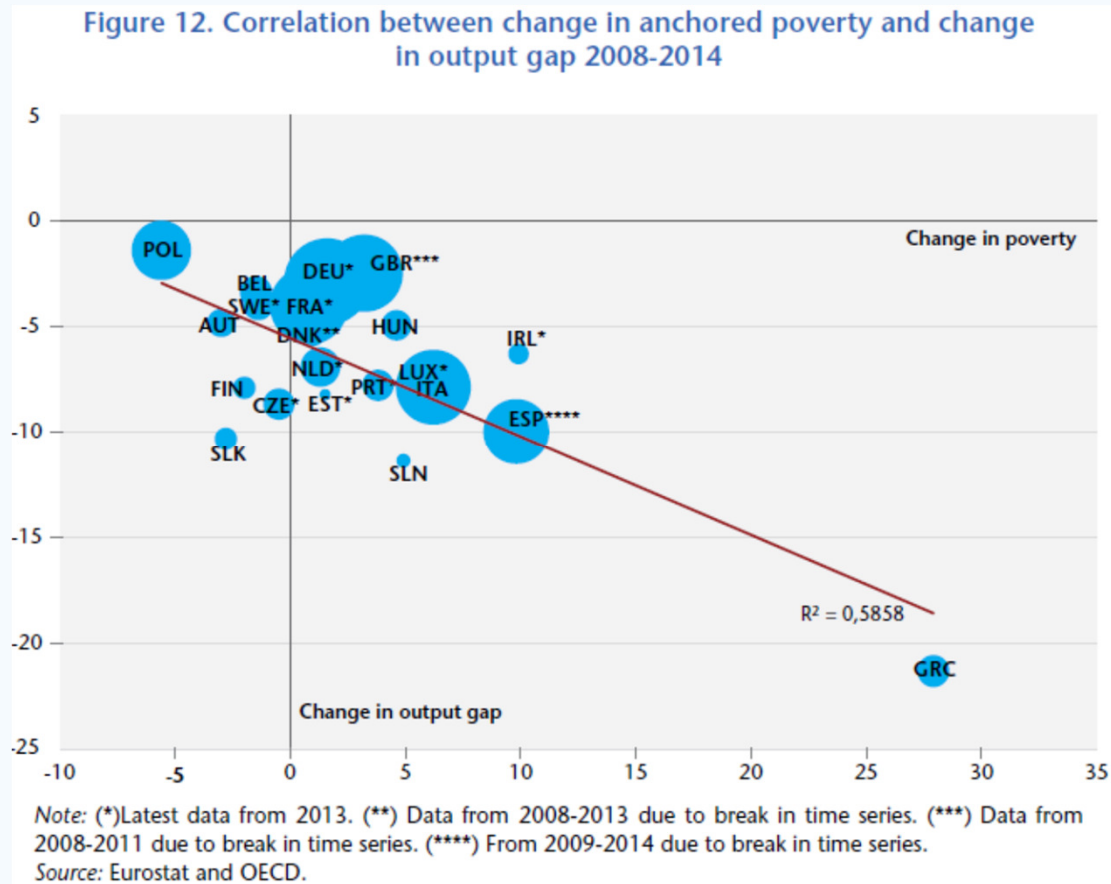
... has turned into regional divergence ...

- This picture has changed after the crisis
- From 2008-2012 we do not see the same relationship – meaning that there is not a strong link between initial GDP per cap in 2008 and annual growth in 2008-2012



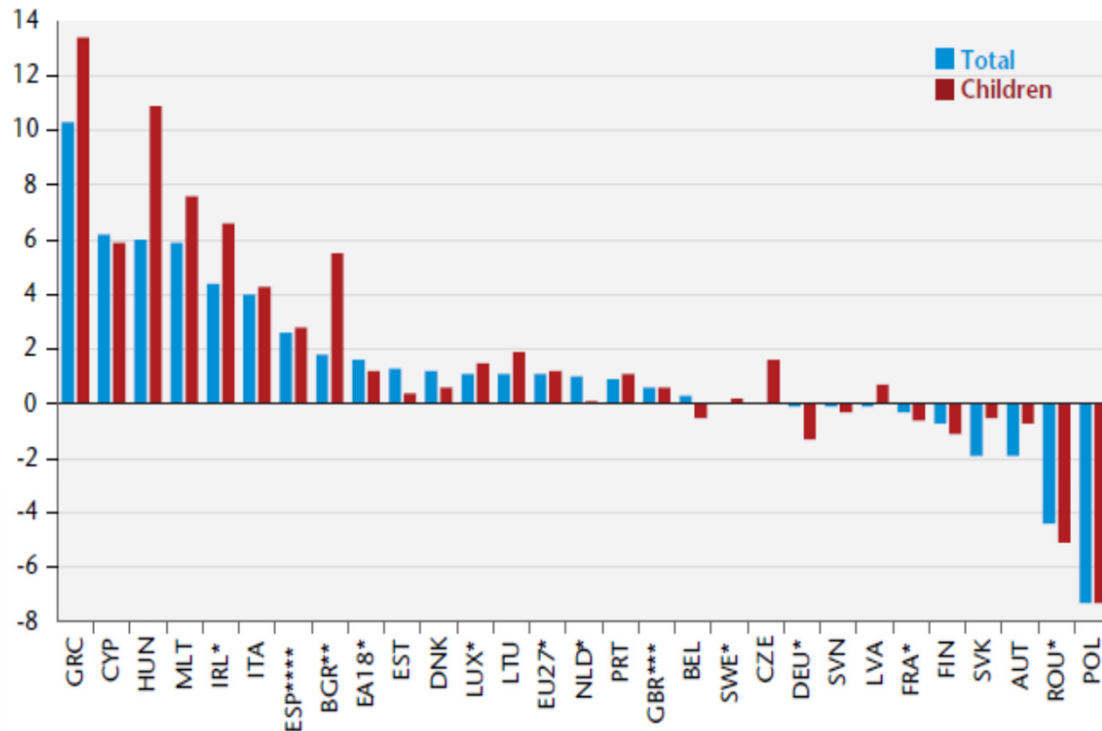
Poverty

- Countries that have been hit hardest by the crisis are also the countries that have experiences the highest increase in poverty (relative to 2008 income).



Severe material deprivation

Figure 13. Change in severe material deprivation rate 2008-2014



Note: (*) Latest data from 2013. (**) Data from 2008-2013 due to break in time series. (***) Data from 2008-2011 due to break in time series. (****) From 2009-2014 due to break in time series. The severe material deprivation rate is an EU-SILC indicator defined as the inability to do at least four of the following: to pay rent, mortgage or utility bills, to keep their home adequately warm, to face unexpected expenses, to eat meat or proteins on a regular basis, to go on holiday, to have a television set, a washing machine, a car and a telephone.

The indicator distinguishes between individuals who cannot afford a certain good or service, and those who do not have this good or service for another reason, e.g. because they do not want or do not need it.

Source: Eurostat.

- For countries that experience the largest increase in severe material deprivation, there is a tendency that the rate among children are even higher.
- Concerning since lack of opportunities in childhood can have long term consequences

Inequality has negative impact on economic growth

IMF:

- If the income share of the top 20 pct. rises by 1 percentage point, GDP growth is actually 0.08 percentage points lower in the following 5 years
- if the income share of the bottom 20 percent rises by 1 percentage point it is associated by an increase in GDP growth of 0.38 percentage points

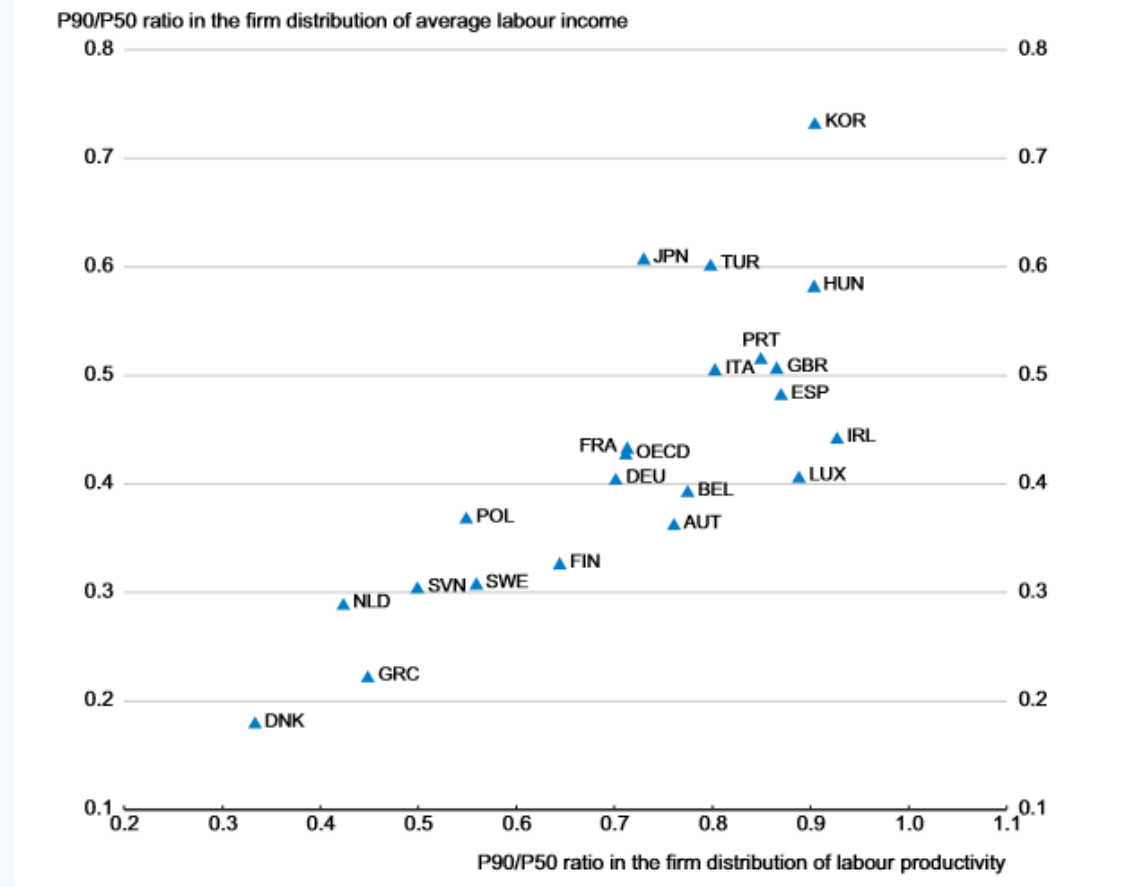
OECD:

- Growing inequality is harmful for long-term economic growth.
- Total growth in OECD countries from 1990-2010: 28 %
- Gini coefficient increased by two points from 1990-2010
- If inequality had remained unchanged in the period , Total growth in OECD could have been 33 % (increase of 5 pct.points)

Correlation betw. income spread and productivity spread

Figure 2.7. Labour income inequality and productivity dispersion across firms are positively correlated

2013



Skill-biased technological change



Source: ECLM and Economic Outlook 99, 2016.

- Technological developments have benefited the highly specialized labor
 - ➔ A significant increase in income,
- Low-skilled workers have not had the benefit of technological development
 - ➔ Pressure on incomes and working conditions
 - ➔ Is maintained in low-productivity jobs and industries no opportunity for advancement

Goes both ways:

- Higher income inequality ➔ Fewer among the poorest obtain required education
 - ➔ increase inequality further ➔ Reduce productivity growth

Policies to promote growth, productivity and equality

Table 2.1. The effects on growth, productivity and equality vary across different public spending policies

Policy		Growth	Productivity	Equality
Increasing government effectiveness		+	+	+
Increasing the overall size of government	Effective government	n.s.	+	+
	Ineffective government	-	-	+
Improving education outcomes		+	+	0/+
Increasing public investment		+	+	n.s.
Increasing family benefits		n.s.	n.s.	+
Decreasing public subsidies		+	n.s.	-

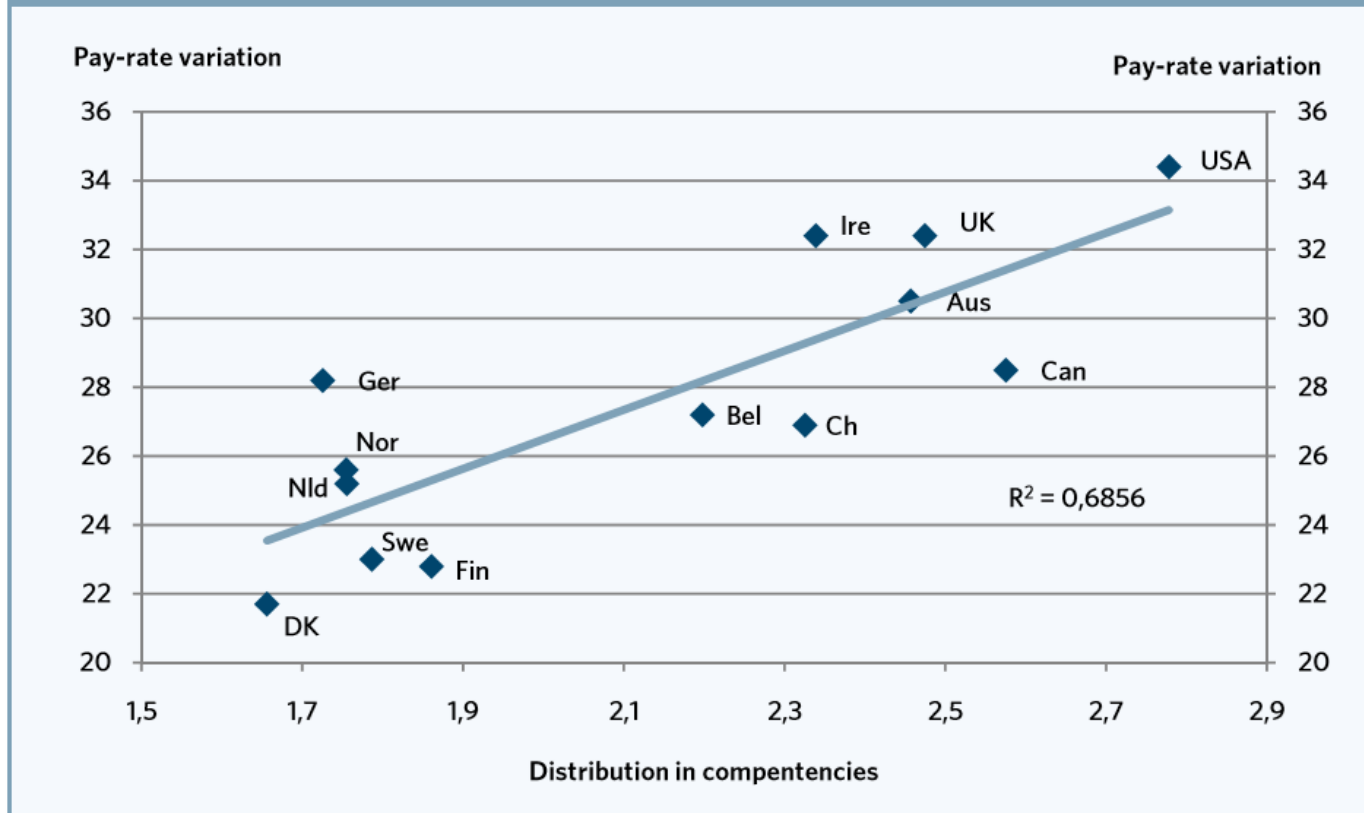
Note: + stands for a positively significant, - for a negatively significant and n.s. for an insignificant effect, each at the 10% level. 0/+ indicates that the equity effect of education depends on whether the reform focuses on reducing inequality in educational attainment.

Source: OECD estimations based on Fournier and Johansson (2016), “The Effect of the Size and the Mix of Public Spending on Growth and Inequality”, *OECD Economics Department Working Papers*, forthcoming; World Bank Worldwide Governance Indicators database.

Education

Equal competencies ➡ more equal pay ➡ less income inequality

Figure 2. Pay-rate variation and distribution of competencies



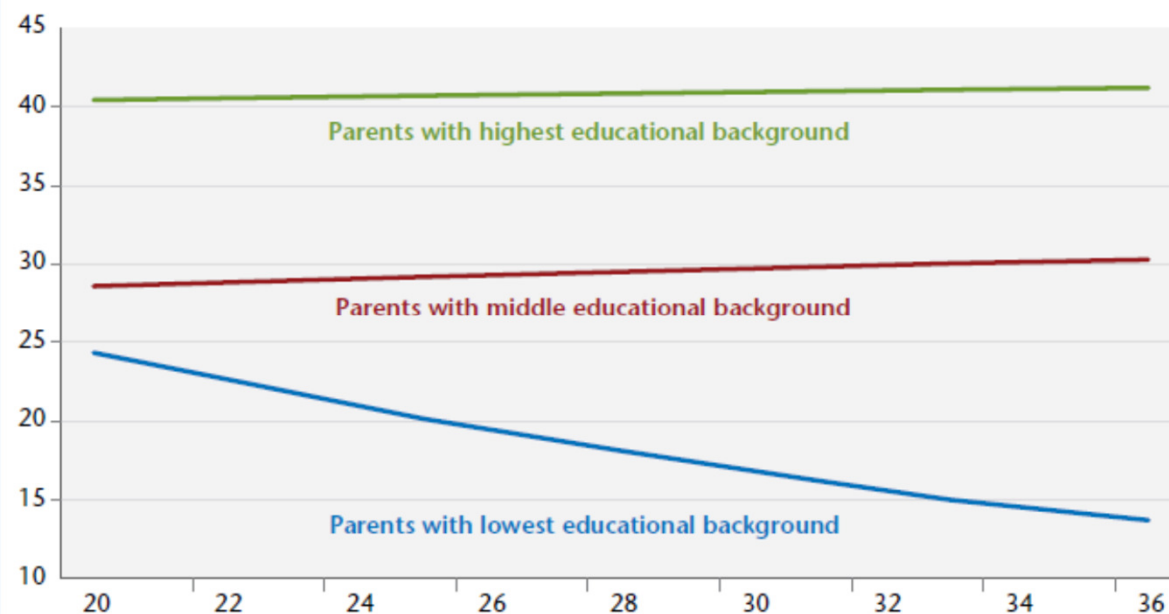
Note: Distribution of competencies measured as the best 95% relative to the worst 5%.

Source: AE on the basis of OECD.

Education

- Chances of obtaining a higher education is falling when GINI is increasing for children with lower educated parents.

Figure 18. The probability of obtaining a higher education distributed on parents' level of education and the inequality of the country measured by the Gini coefficient

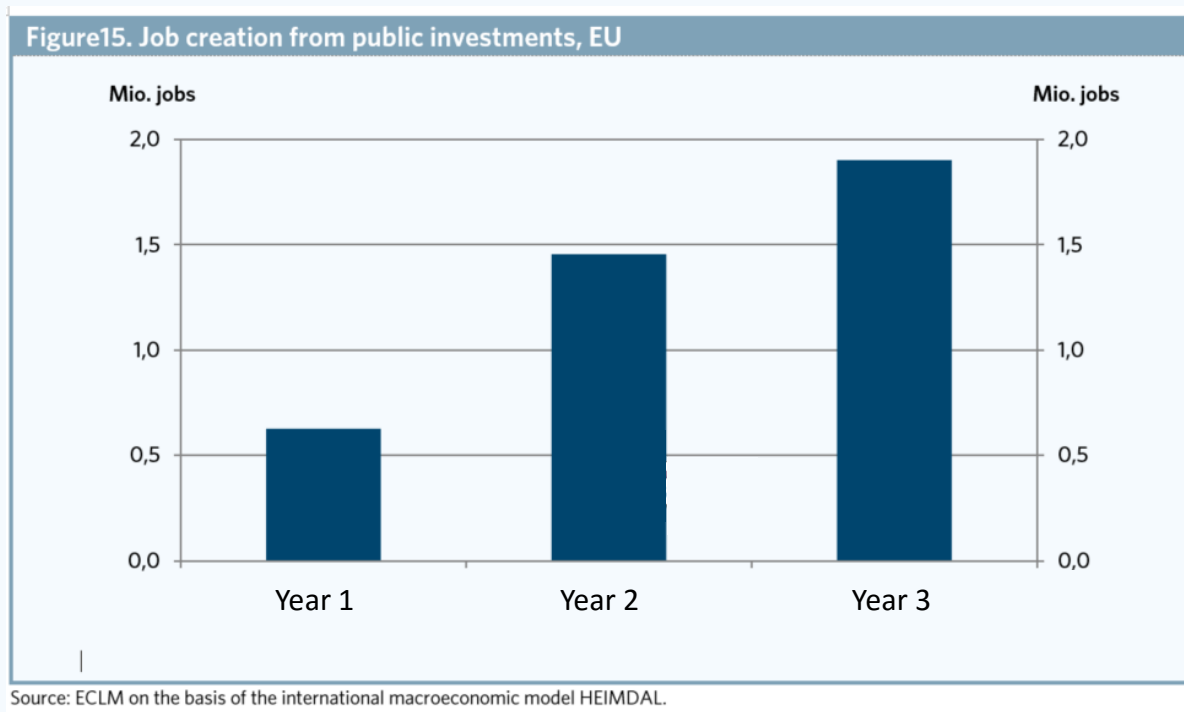


Note: The figure shows the relation between the chance for children of obtaining a higher education distributed on their parents' educational level and the Gini coefficient in the country when the child was around 14 years old.

Source: OECD 2015a.

Example of job creation from public investments

- 7 European countries with limited room to manoeuvre
- Increase public investment with ¼ pct./GDP in “year 1” and additional ¼ pct/GDP in “year 2”, keeping that level in “year 3”



Result:

- Increased GDP level of 1 pct. in the EU in “year 3”
- Nearly 2 mil. Jobs created in the EU in 3 years
- No increase in inequality

The Danish case: Flexicurity (security and flexibility)

The Danish labour market

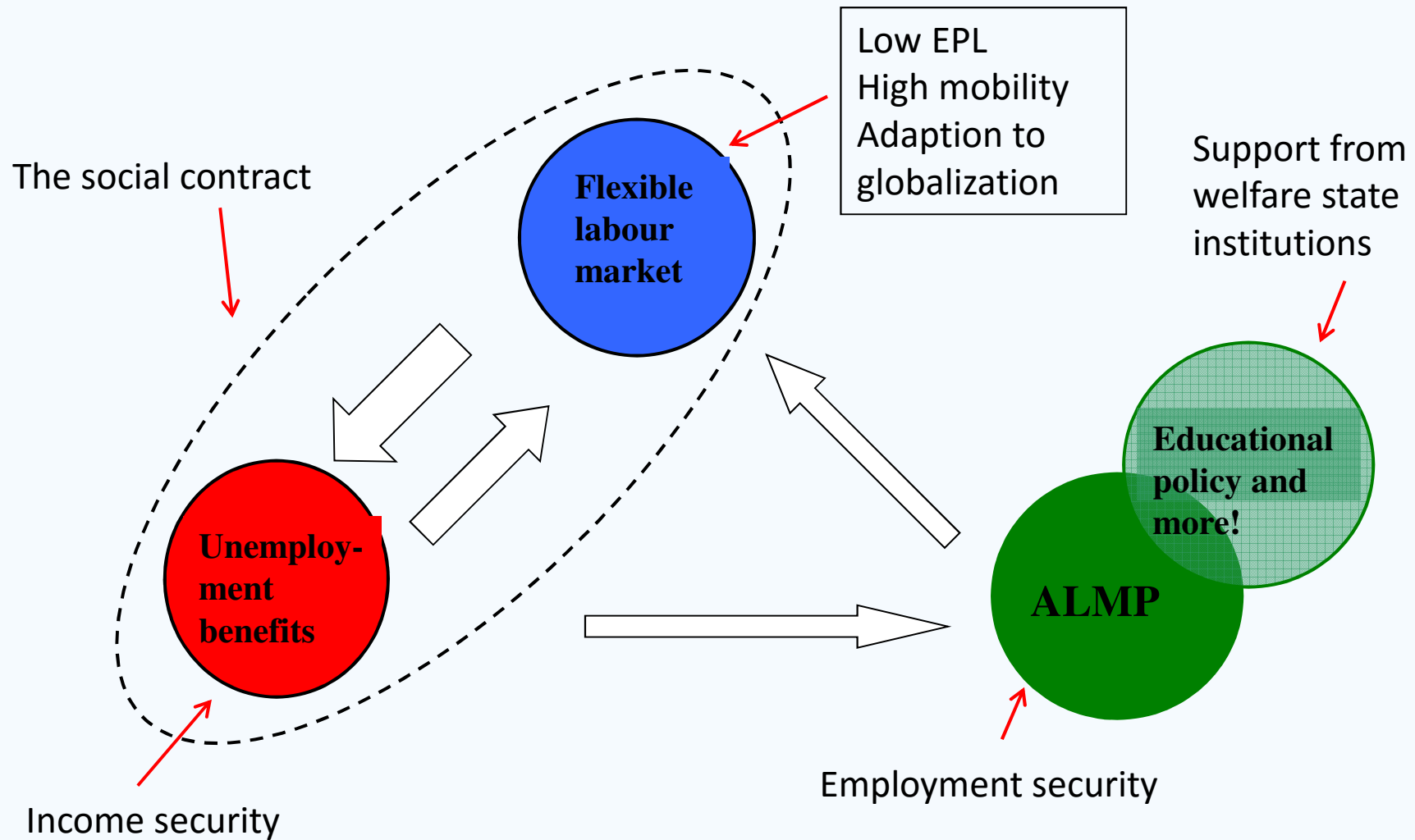
- A low protection of employees on a permanent contract based on a mixture of collective agreements and legal provisions
- A high level of numerical flexibility indicated by a low average tenure
- A rather generous unemployment benefit system
 - Duration of benefits: 2 years (+) [reforms in 2013 and 2016]
 - 85 percent of employees covered by unemployment benefits (including cash benefits)
 - Compensation rate high (Gross rate is 90 percent for low incomes; average net rate for all is 76 percent)

The Danish case: Flexicurity (security and flexibility)

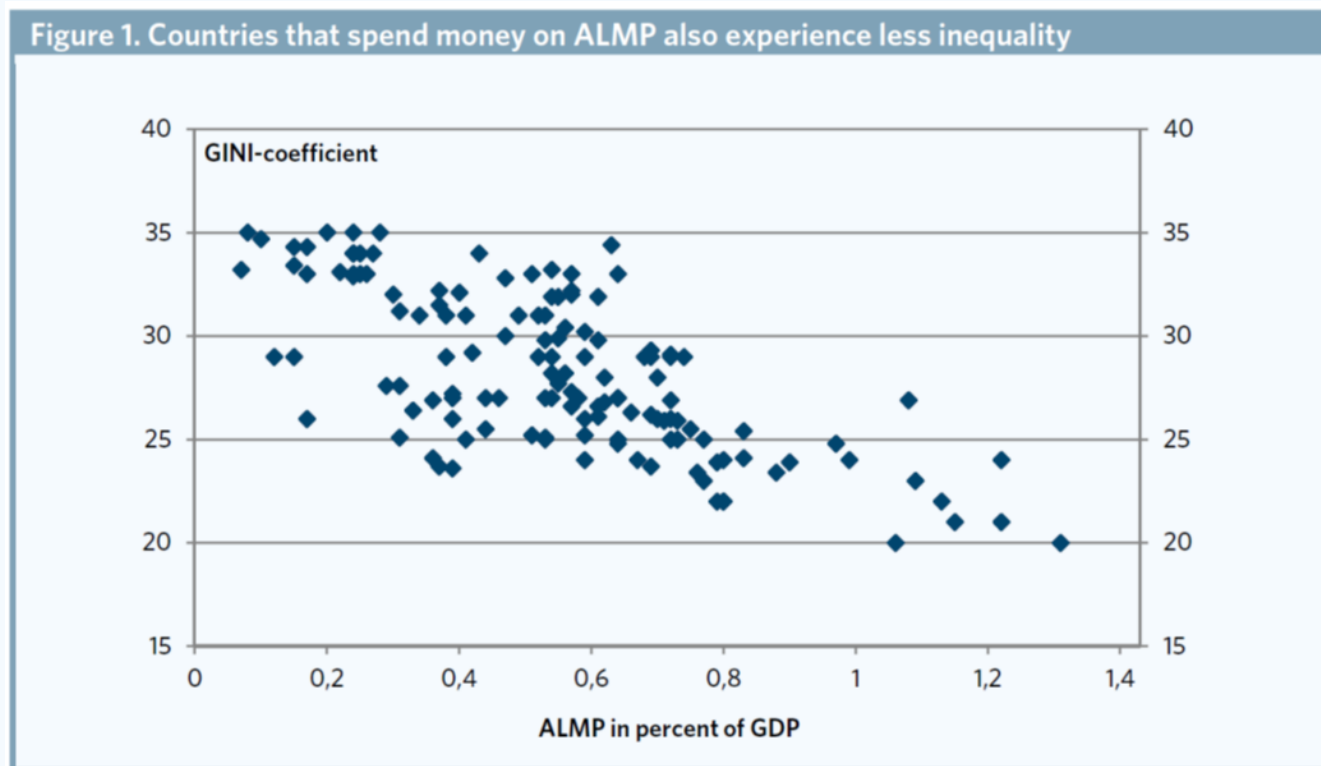
The main characteristics

- Large spending on active labour market policy (1.5 percent of GDP; EU-28 average is 0.5 percent)
- High participation in VET for adults (31 percent during the last four weeks as measured by the LFS; EU-28 average is 11 percent)
- High activity rates for both men and women (81 percent and 76 percent; EU-28: 78 percent and 66 percent)

The Danish case: Flexicurity (security and flexibility)



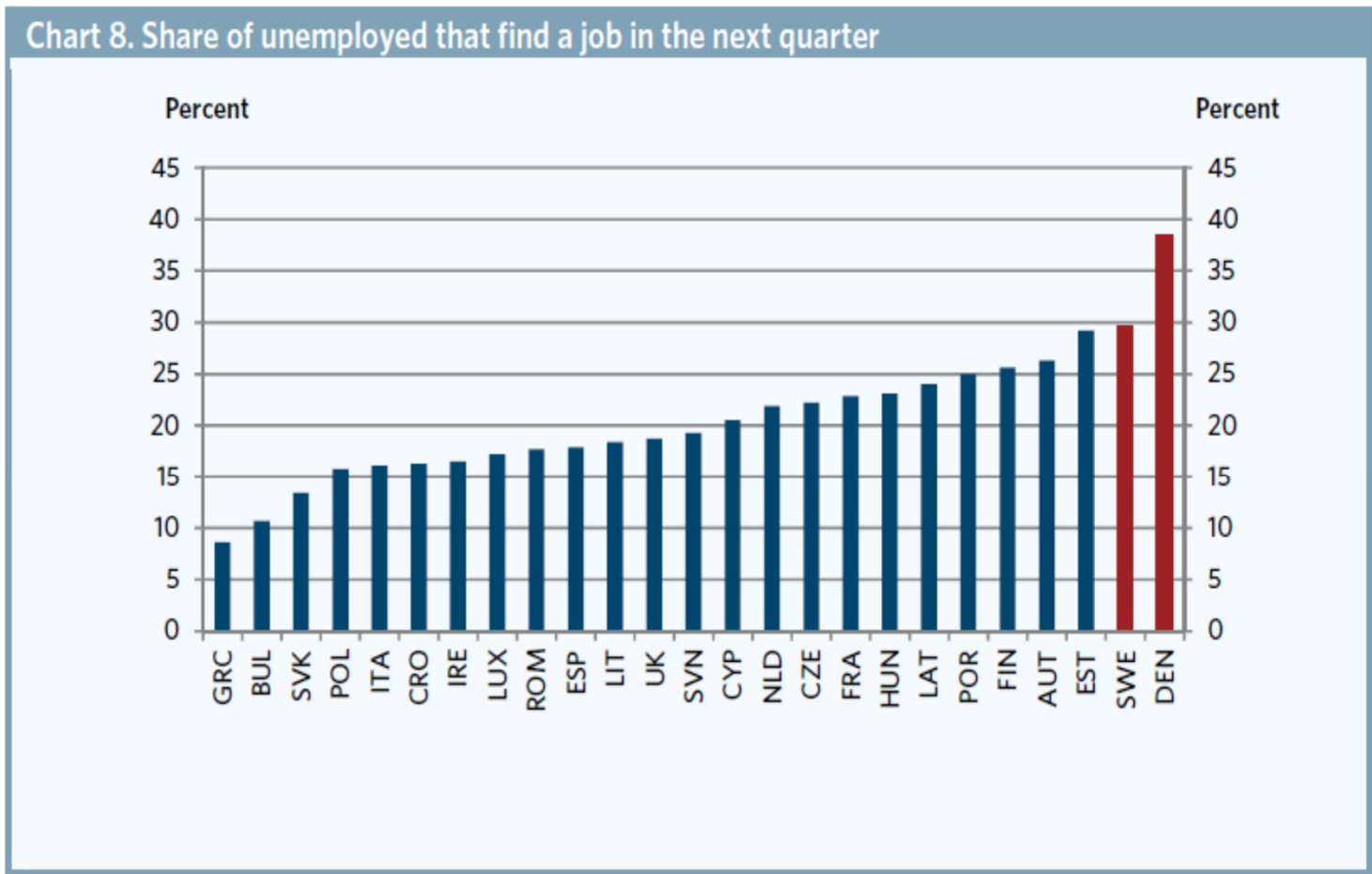
Correlation between inequality and money spend on ALMP



Note: We are looking at yearly data from 1995-2011 for Denmark, Sweden, Finland, Norway, France, Germany, The Netherlands, Italy, Spain and Greece

Source: Own calculations on basis of OECD-data.

In DK is top of the league in terms of getting unemployed back to work



Note: We are looking at the share of unemployed in the first quarter of 2015 that found a job in the next quarter.
 Source: Eurostat.

Due to the flexible rules in terms of hiring and firing there are many newly employed – even during bad times



Source: Eurostat.

Summing up

- **Austerity has harmed the European economy** and has had consequences for inequality, poverty, material deprivation ect.

We need policies that increase growth and reduce inequality

- In the short run we need to boost demand by increasing public investment.
- In the longer run we need to invest in education

The Danish case: Flexicurity

- Flexibility (easy to hire and fire)
- A good safety net (unemployment benefits)
- Investments in ALMP, research and education
- The broadest shoulders carry the greatest burden (progressive tax system)