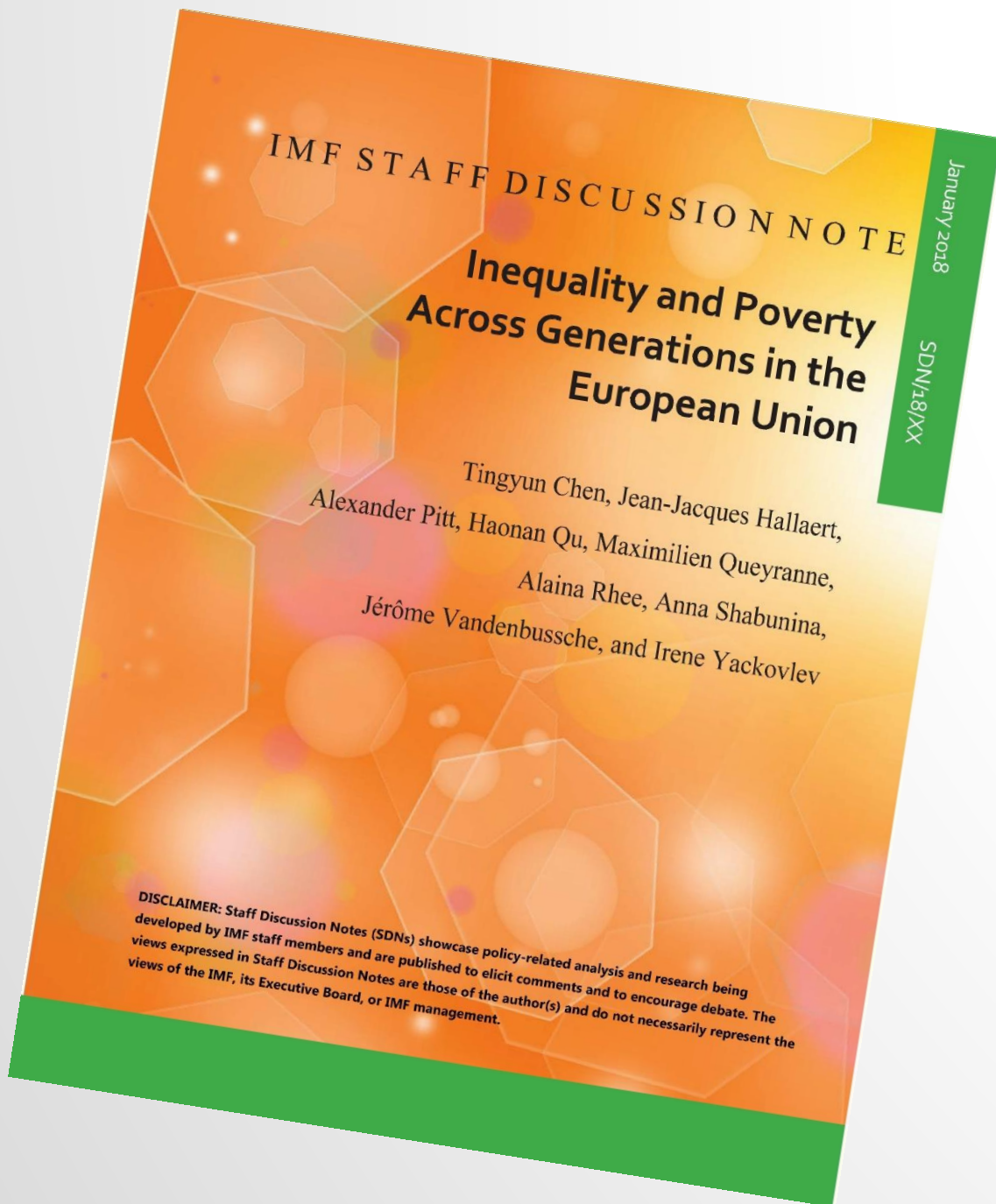




THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON INEQUALITY AND POVERTY ACROSS GENERATIONS IN EUROPE

Jean-Jacques Hallaert

Bocconi University | Milan | October 22, 2018



IMF STAFF DISCUSSION NOTE

Inequality and Poverty Across Generations in the European Union

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Alexander Pitt, Haonan Qu, Maximilien Queyranne,
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Report (SDN/18/01):

<http://www.imf.org/~media/Files/Publications/SDN/2018/sdn1801.ashx>

Blog: <https://blogs.imf.org/2018/01/24/a-dream-deferred-inequality-and-poverty-across-generations-in-europe/>

Video:

<https://www.weforum.org/events/world-economic-forum-annual-meeting-2018/sessions/solving-the-economic-generation-gap#>

MOTIVATION

- 1) **A puzzle.** Inequality is a growing concern in the population but ... no much evidence of that in Europe.
- 2) **Need to be granular.** Looking at inequality and poverty across generations is one way of being more granular.
- 3) **Why looking at intergenerational dimension?**
 - Survey: A majority of the young feel that they "have been marginalized in their country because of the crisis".
 - Social and political consequences
 - Economic policy consequences:
 - Implementation
 - Design.

ROAD MAP



DEFINITIONS OF KEY CONCEPTS

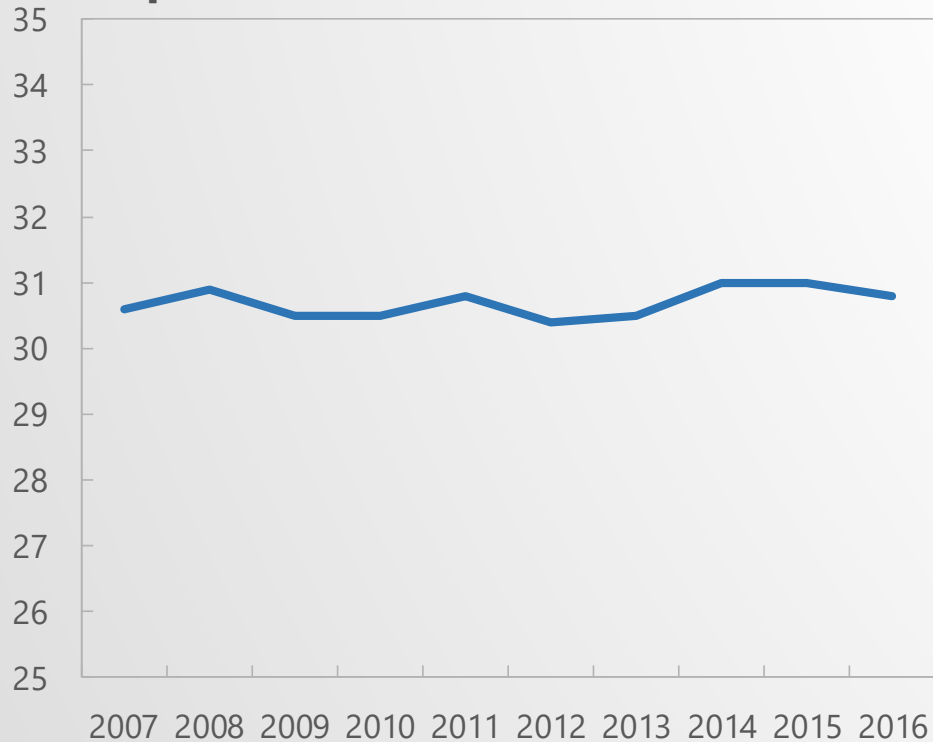
Median equivalized disposable income is the total income of households, after tax, transfers, and other deductions, that is available for spending or saving, divided by the number of household members weighted according to their age.

Gini coefficient of equivalized disposable income measures the extent to which the distribution of equivalized disposable income after social transfers deviates from a perfectly equal distribution. Its value ranges from 0 (complete equality) to 100 (complete inequality).

At-risk-of-poverty rate is the share of people with an equivalized disposable income after social transfers below the at-risk-of-poverty threshold, which is set at 60 percent of the national median.

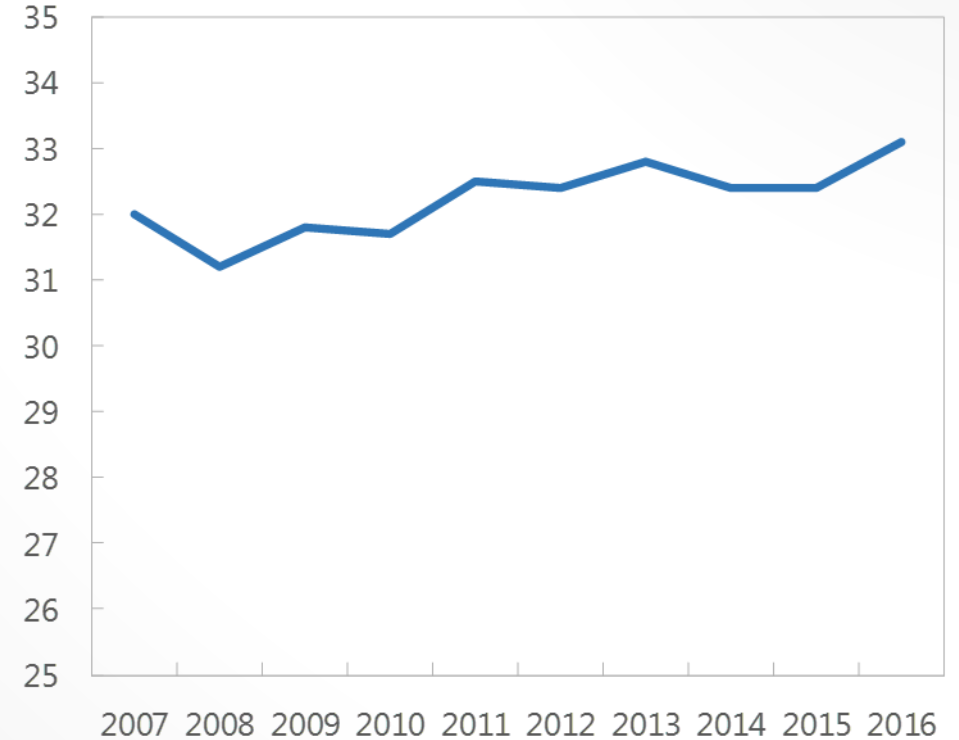
OVERALL INCOME INEQUALITY

EU27: Gini Coefficient of Disposable Income (Index, 0–100)



Broadly stable inequality in the EU during 2007-2016 ...

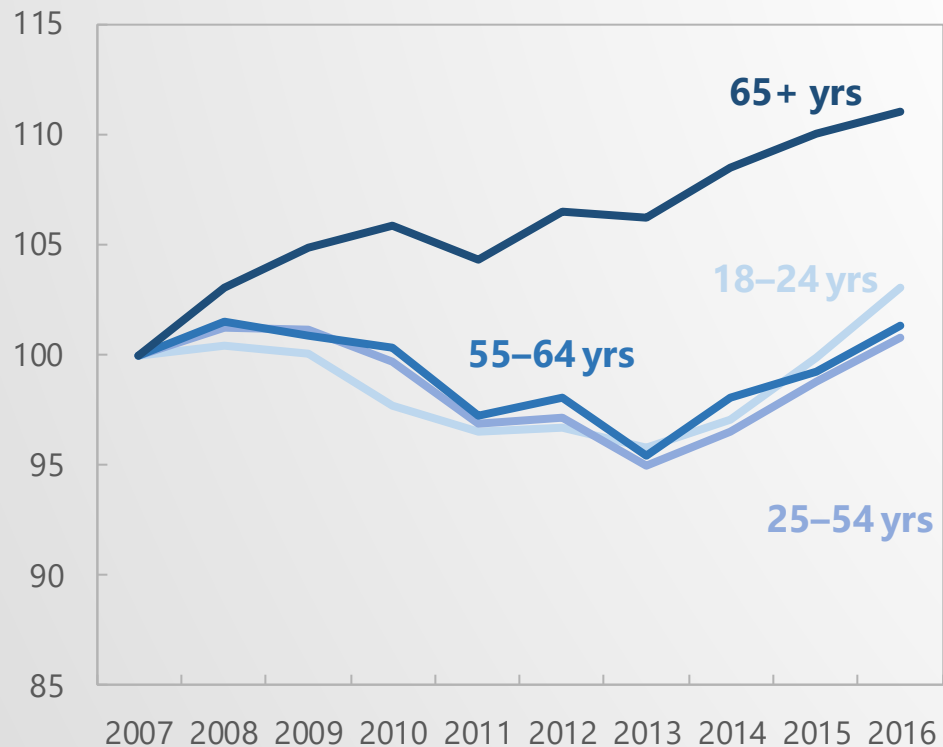
Italy: Gini Coefficient of Disposable Income (Index, 0–100)



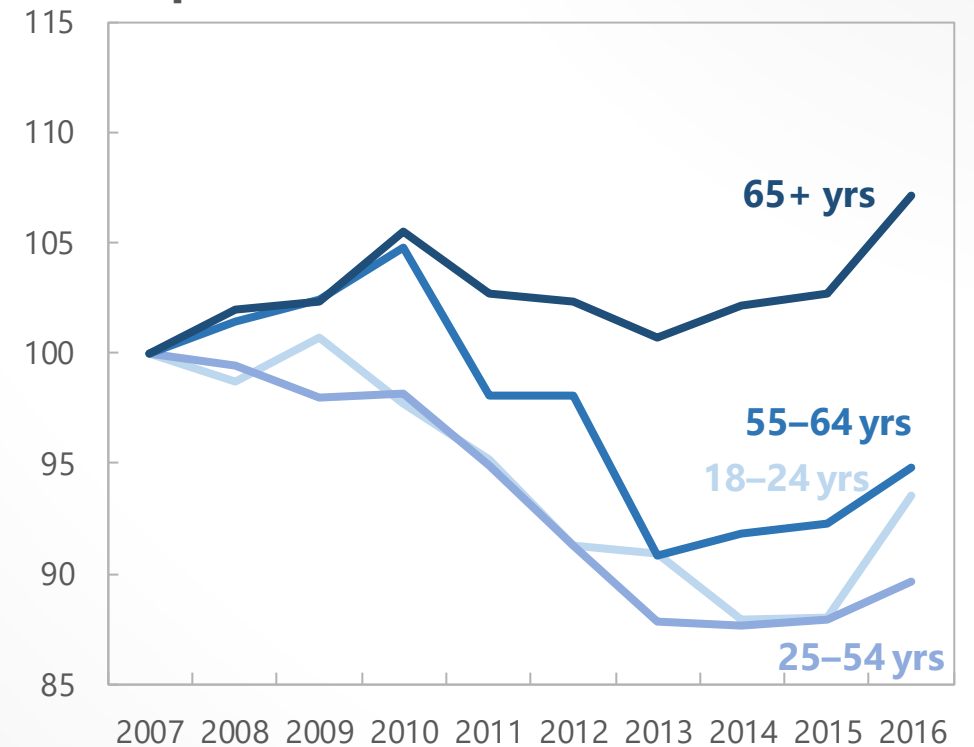
... but increased somewhat in Italy

INCOMES HAVE DIVERGED ACROSS GENERATIONS

EU27: Real Median Equivalized Disposable Income (Index, 2007=100)



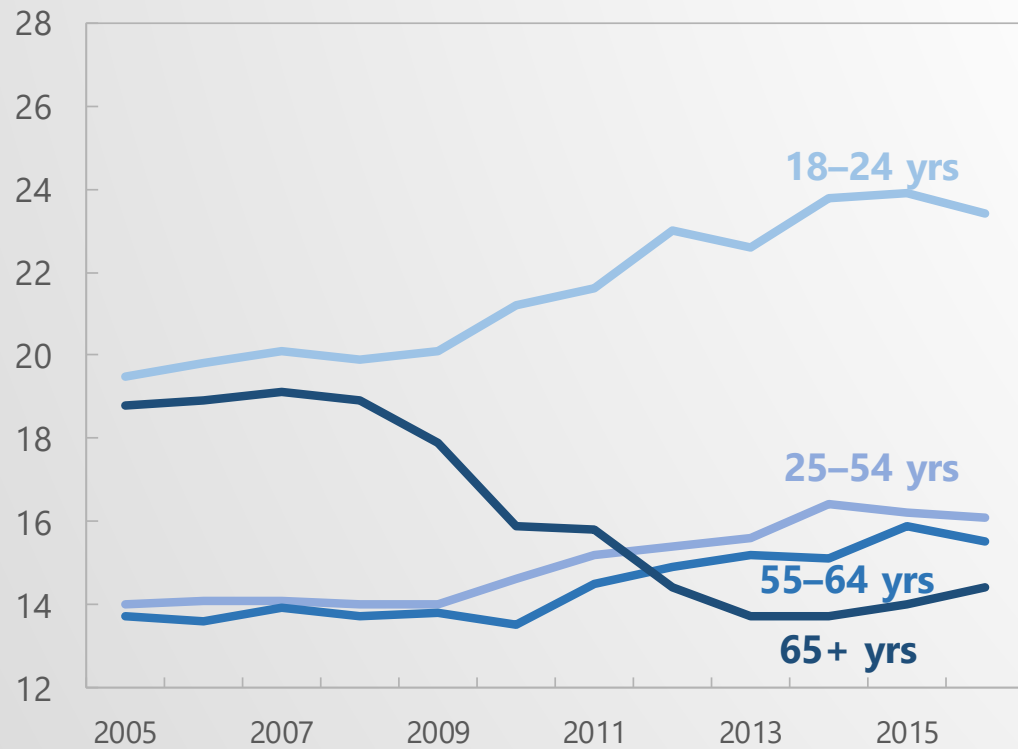
Italy: Real Median Equivalized Disposable Income (Index, 2007=100)



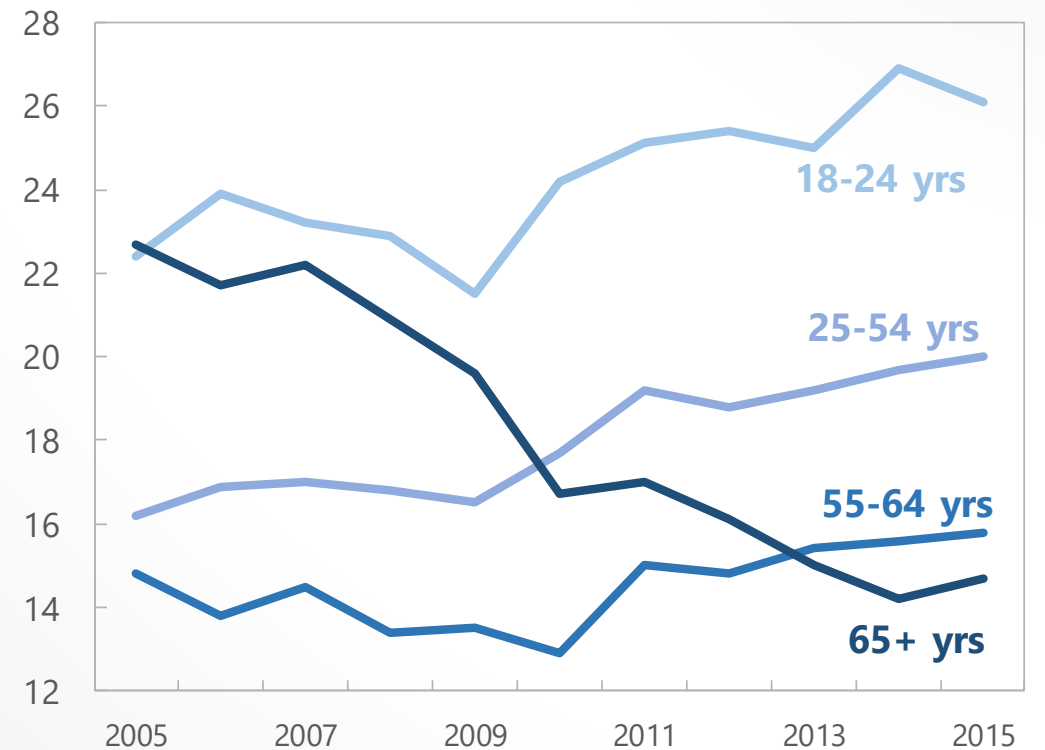
... divergence in income growth between working age population and the elderly

YOUTH POVERTY IS HIGH AND ON THE RISE

EU27: At-Risk-of-Poverty Rate
(Percent of total)



Italy: At-Risk-of-Poverty Rate
(Percent of total)

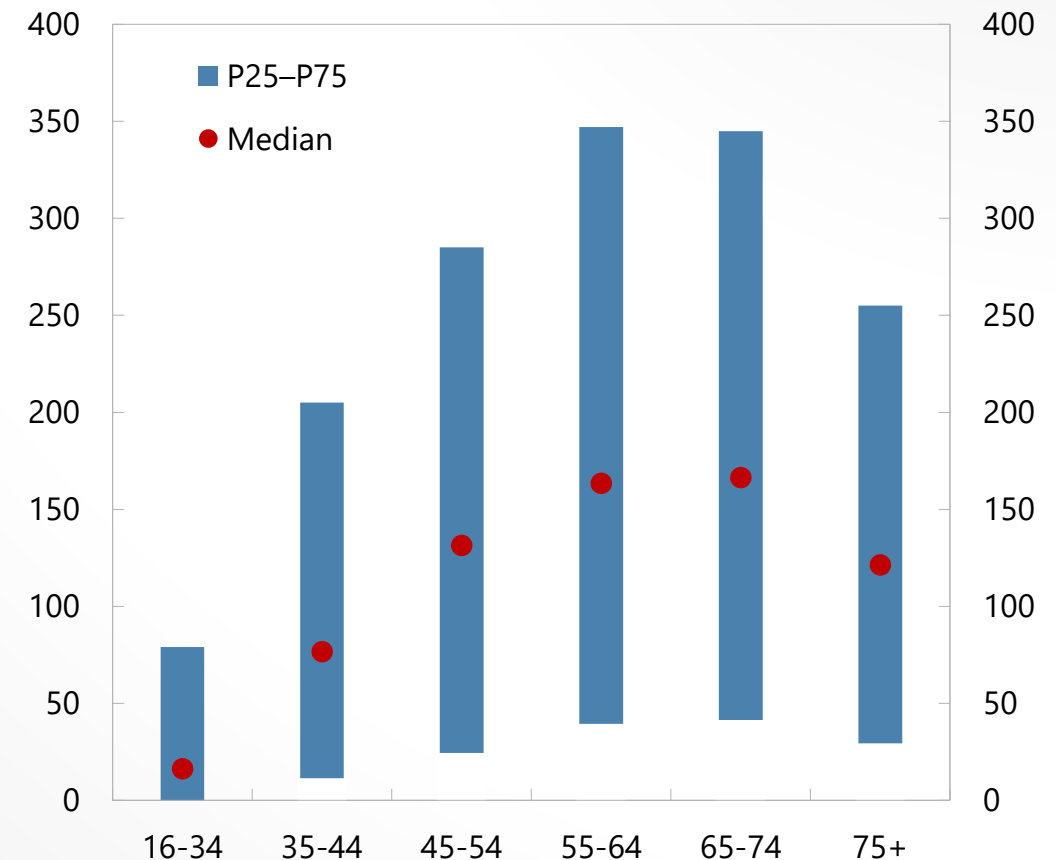


THE YOUNG ARE ALSO MORE VULNERABLE TO INCOME SHOCKS

Younger generations (16-34) hold less than 5 percent of Europe's wealth.

They are also the most indebted age group (49% - debt to assets ratio).

EA: Net Wealth Distribution by Age Group (Thousands of euros)



AND YOUTH POVERTY MAY BE UNDERESTIMATED

At risk of poverty is measured using the **Median equivalized disposable income**.

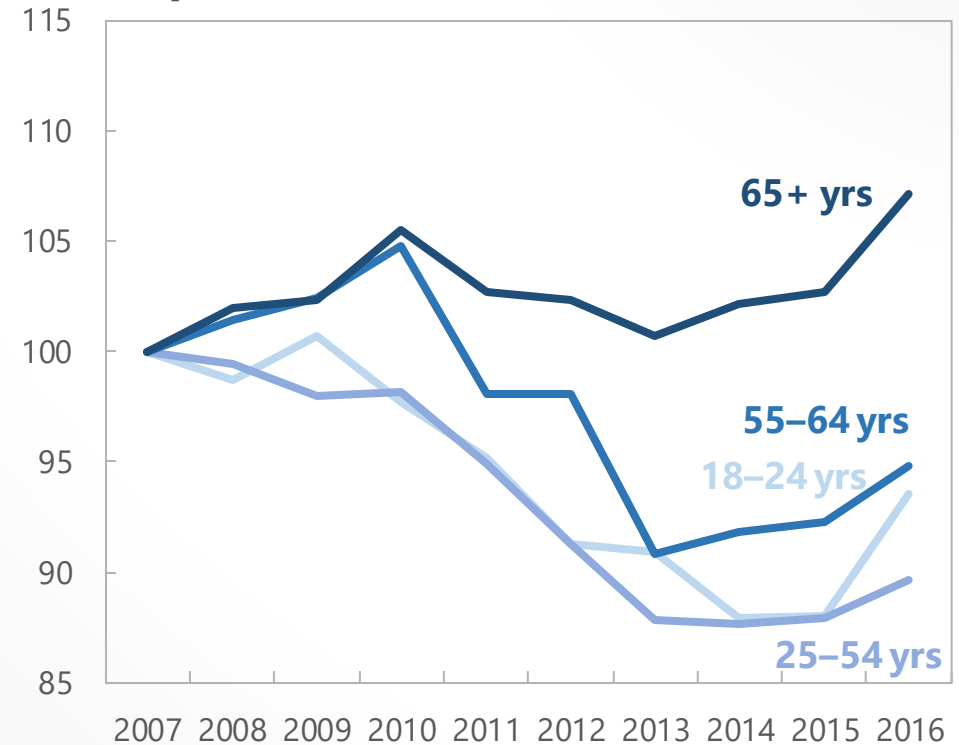
Median equivalized disposable income is the total income of **households** divided by the number of household members.

What does that imply if poverty forces the young to stay longer with their parent?

- Measured disposable income of a young increases
- Measured disposable income of a the parents decreases

=> Reduction in the gap 18-24 and 25-54 or 55-64.

Italy: Real Median Equivalized Disposable Income (Index, 2007=100)



AND YOUTH POVERTY MAY BE UNDERESTIMATED

Alberto Zanardi emphasizes... that this is particularly important for Italy.

ufficio
parlamentare
di bilancio

Flash n. 1 / 7 marzo 2018

*L'impatto della crisi sulle generazioni:
l'Italia è un caso particolare?*

In un suo recente lavoro² il Fondo monetario internazionale (FMI)

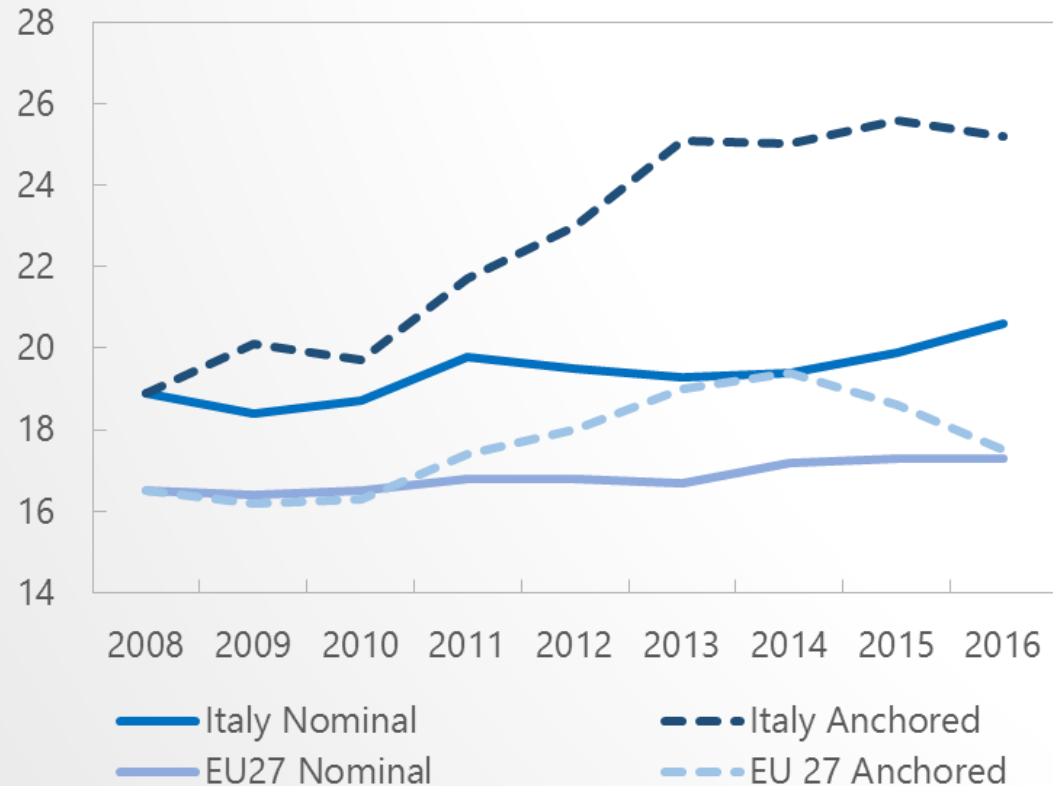
Table 1 – Average age of leaving the household of origin (exit-age)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-16
Croatia	30.7	30.7	30.8	31.0	31.1	31.6	31.9	31.0	31.4	31.5	0.8
Rep. of Macedonia	30.7	30.8	30.9	31.1	31.0	31.5	31.6	32.0	31.7	31.2	0.5
Slovakia	30.2	30.4	30.6	30.6	30.8	30.9	30.7	30.8	30.9	31.0	0.8
Malta	30.0	30.1	30.2	31.0	30.9	30.4	30.1	30.6	31.1	31.8	1.8
Slovenia	30.0	30.0	29.9	29.5	29.2	29.1	28.8	28.6	28.2	28.2	-1.8
Italy	29.8	29.7	29.7	29.7	29.7	29.8	29.9	30.1	30.1	30.1	0.3
Bulgaria	29.2	29.3	29.2	29.9	29.9	29.7	29.1	29.1	28.7	29.4	0.2
Poland	28.6	28.6	28.3	28.2	28.5	28.5	28.2	28.3	28.3	28.0	-0.6
Greece	28.5	28.5	28.2	28.3	28.7	29.0	29.3	29.3	29.4	29.1	0.6
Portugal	28.5	28.8	28.7	28.7	28.7	28.8	29.0	28.8	28.9	29.1	0.6
Spain	28.4	28.4	28.3	28.4	28.5	28.7	28.9	29.1	29.0	29.4	1.0
Lithuania	28.3	26.8	26.7	26.8	26.5	26.0	25.9	26.1	25.6	25.4	-2.9
Romania	28.3	28.4	28.5	28.2	28.4	28.5	28.5	28.5	27.9	28.1	-0.2
Hungary	27.8	27.8	27.8	28.0	27.8	27.9	27.8	27.7	27.5	27.6	-0.2
Czech Republic	27.3	27.3	27.2	27.0	27.2	27.0	26.7	26.7	26.5	26.3	-1.0
Latvia	27.2	27.1	27.8	28.1	27.7	27.9	27.8	28.0	27.5	27.7	0.5
Cyprus	26.7	26.4	26.2	25.8	26.4	26.9	27.8	28.4	28.4	27.1	0.4
Turkey	26.6	26.5	26.6	26.8	27.0	27.2	27.3	27.6	27.3	27.4	0.8
Luxemburg	26.5	26.3	25.9	26.2	25.9	26.2	26.4	26.7	23.1	24.4	-2.1
Euro Area ⁽¹⁾	26.0	26.0	26.0	26.1	26.1	26.1	26.2	26.3	26.3	26.3	0.3
EU28 ⁽¹⁾	26.0	26.0	26.0	26.0	26.0	26.1	26.1	26.2	26.2	26.2	0.2
Ireland	25.6	25.4	24.9	25.1	25.5	25.4	25.6	25.8	26.3	26.4	0.8
Belgium	25.5	25.5	25.4	25.4	25.4	24.9	24.9	25.1	25.0	25.2	-0.3
Austria	25.4	25.5	25.3	25.5	25.4	25.4	25.4	25.4	25.5	25.3	-0.1
Estonia	25.3	24.8	24.6	24.4	24.6	24.6	24.3	24.2	23.6	23.6	-1.7
Germany	23.9	23.9	24.1	24.1	24.0	23.8	23.9	23.8	23.8	23.7	-0.2
United Kingdom	23.6	23.8	23.9	23.9	23.5	23.9	24.1	24.3	24.4	24.3	0.7
France	23.4	23.4	23.3	23.5	23.6	23.5	23.7	23.8	23.9	23.8	0.4
Netherlands	23.2	23.4	23.4	23.3	23.5	23.6	23.5	23.6	23.7	23.7	0.5
Finland	22.0	22.0	22.0	21.9	21.9	21.9	21.9	21.9	21.9	21.9	-0.1
Denmark				21.2	21.0	21.1	21.0	21.2	21.1	21.0	-0.2
Sweden			20.4	20.3	20.3	19.9	19.6	20.8	19.7	20.7	0.3
Italy vs. Euro Area	3.8	3.7	3.7	3.6	3.6	3.7	3.7	3.8	3.8	3.8	0.0
Italy vs. EU28	3.8	3.7	3.7	3.7	3.7	3.7	3.8	3.9	3.9	3.9	0.1

■ Countries and years with an exit-age less than 24 (i.e. less than the upper bound of the youngsters age bracket referred by IMF)

Source: based on Eurostat data.

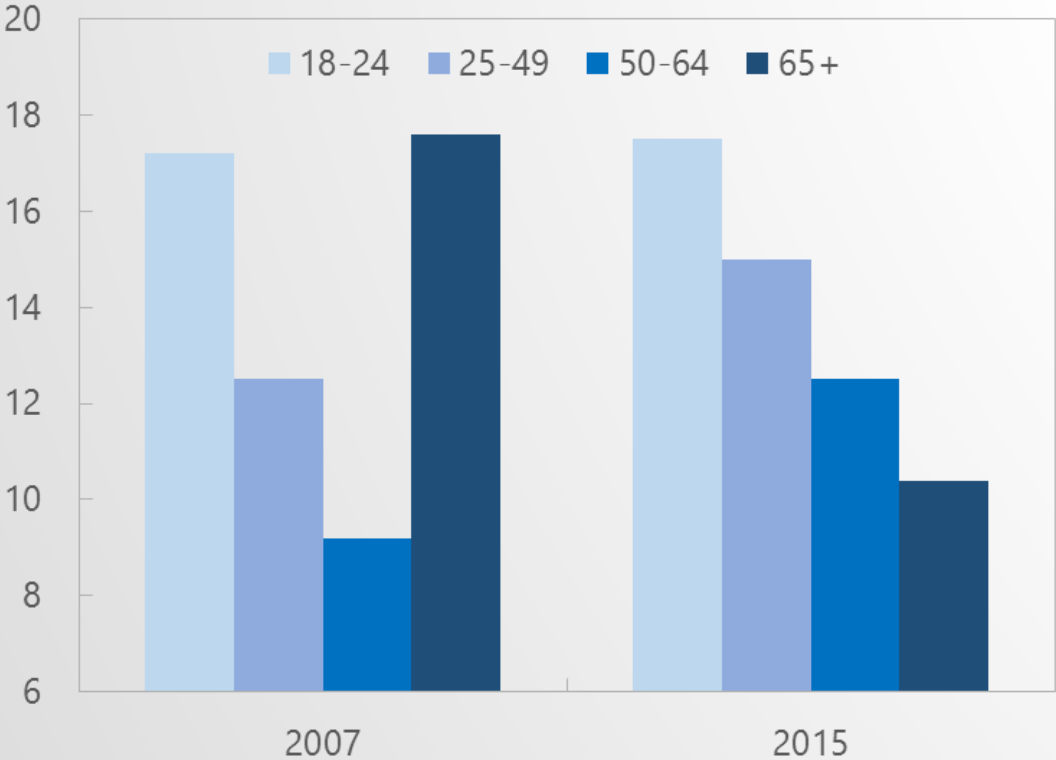
ANCHORED VS. NOMINAL AT-RISK-OF-POVERTY



¹Cut-off point: point: 60 percent of median equivalized income after social transfers. At-risk of poverty threshold anchored in 2008 and adjusted for inflation.

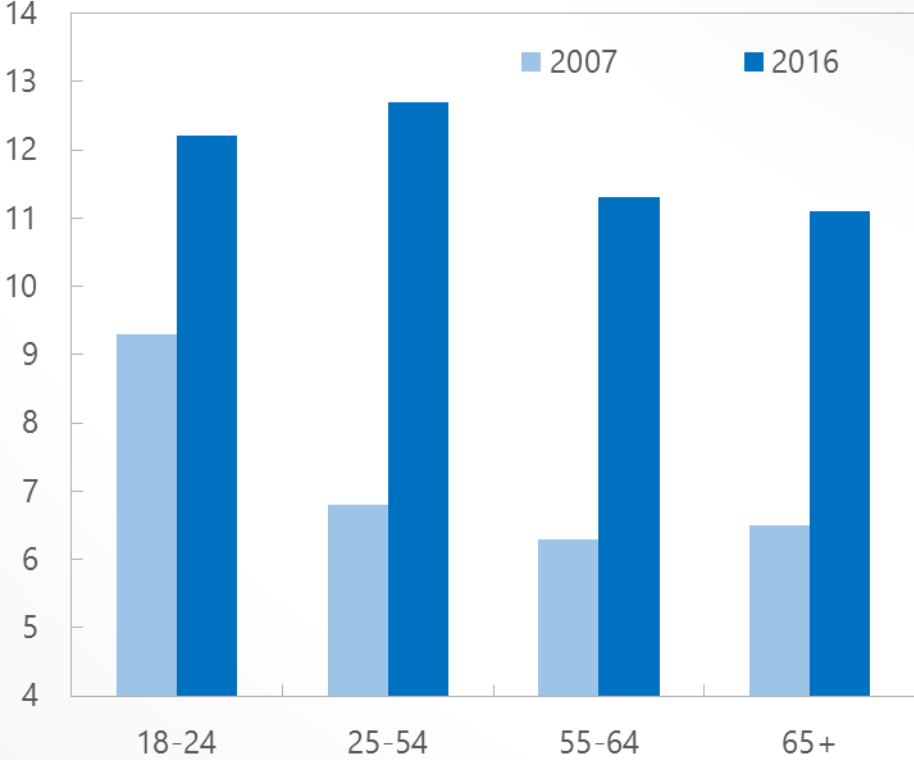
ANOTHER LOOK AT POVERTY

Italy: Persistent-at-risk of Poverty
(Percent of total)



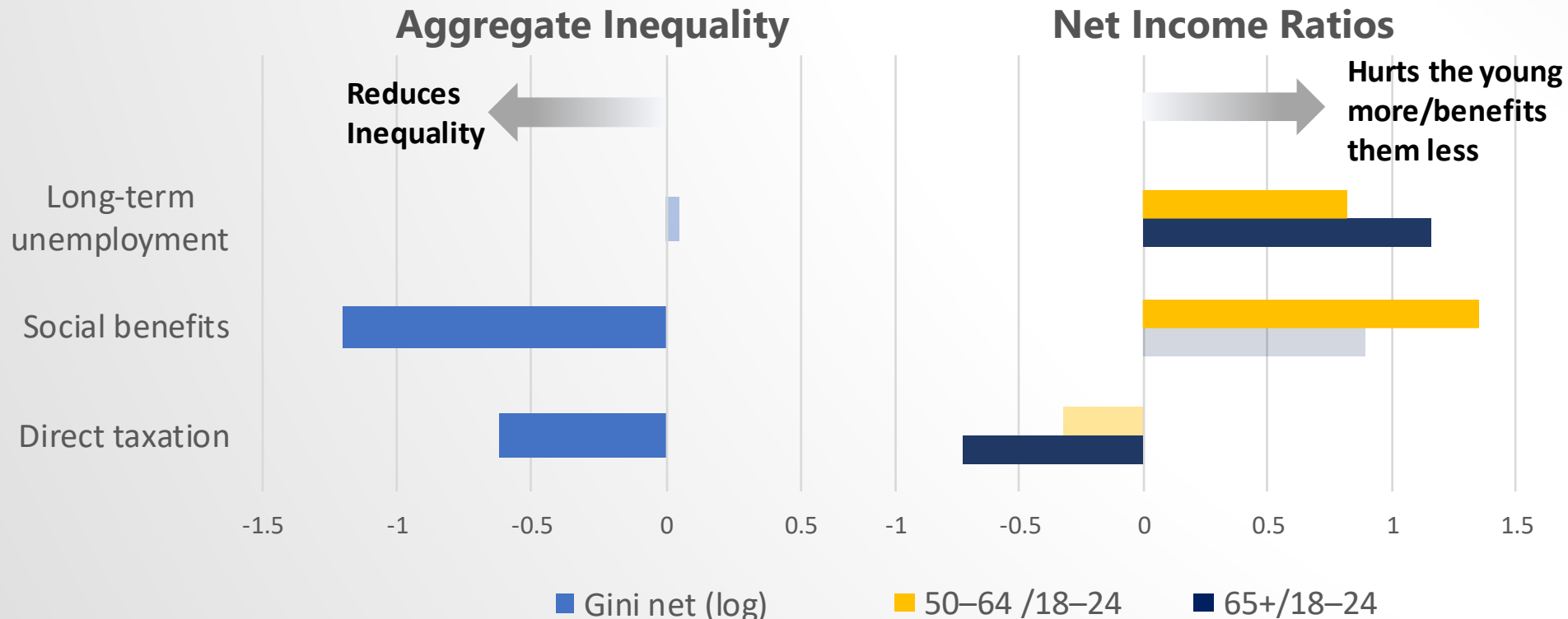
¹Cut-off point: point: 60 percent of median equivalized income after social transfers.

Italy : Severe Material Deprivation Rate
(Percent of total)



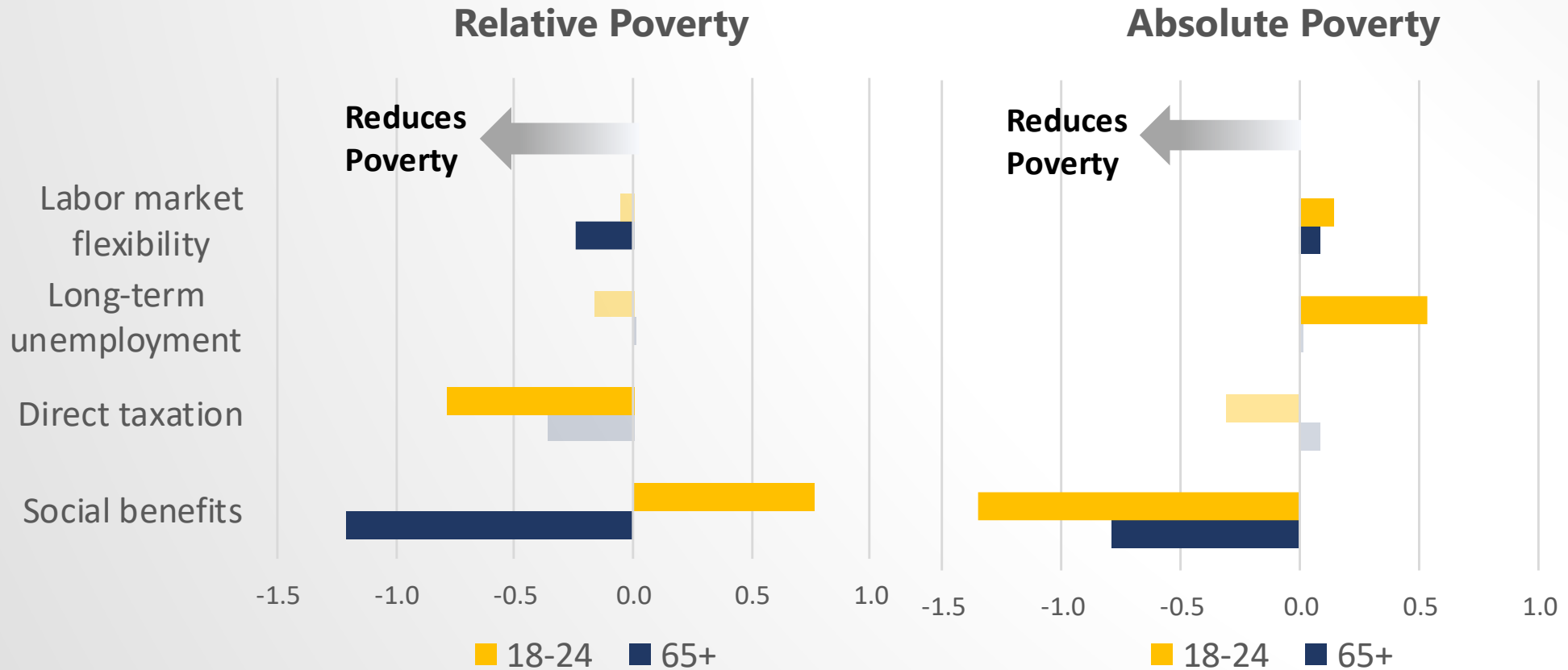
LABOR MARKETS AND FISCAL POLICIES PLAY A KEY ROLE IN INCOME INEQUALITY ACROSS GENERATIONS ...

Effects on aggregate inequality and relative income may differ



Note: Figures show estimated changes in percentage points (ppt) associated with 1 ppt increase of respective variables. Solid color indicates statistical significance.

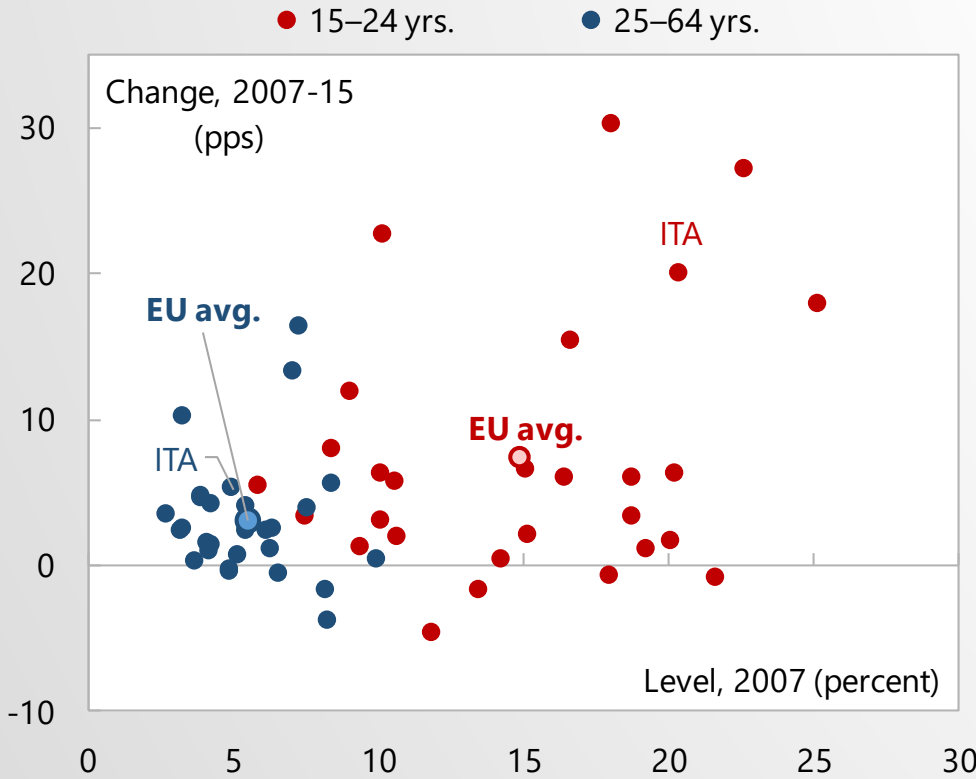
... AND ARE ALSO ASSOCIATED WITH THE INTERGENERATIONAL POVERTY GAP



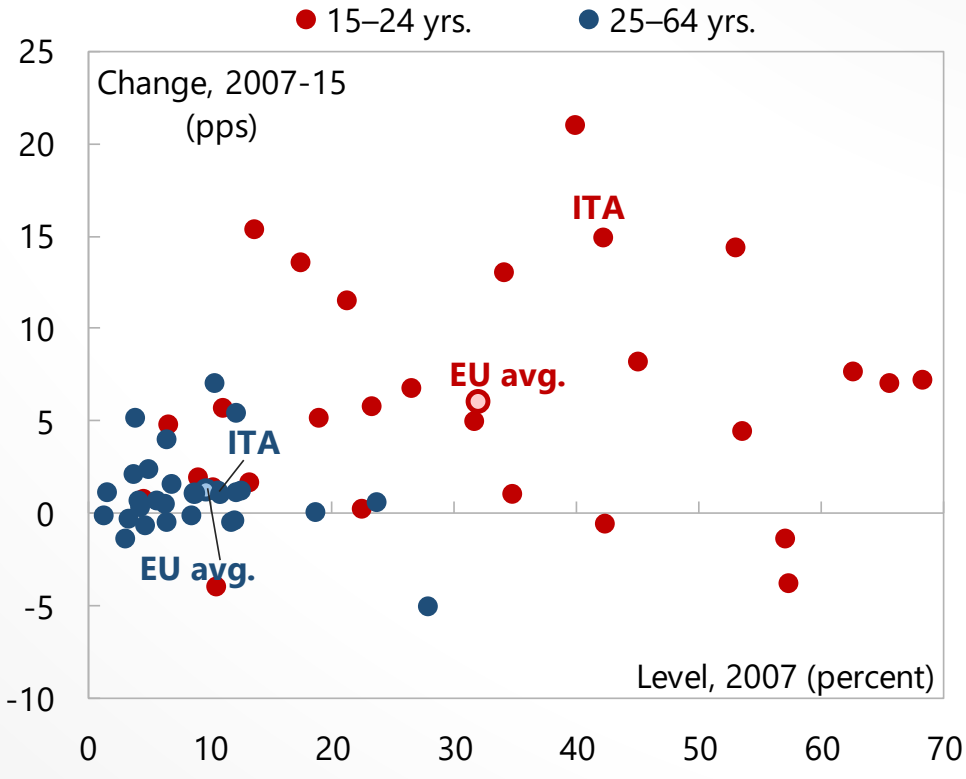
Note: Figures show estimated changes in percentage points (ppt) associated with 1 ppt increase of respective variables. Solid color indicates statistical significance.

LABOR MARKET DEVELOPMENTS DISPROPORTIONALLY AFFECT THE YOUNG

Unemployment Rate (Percent)



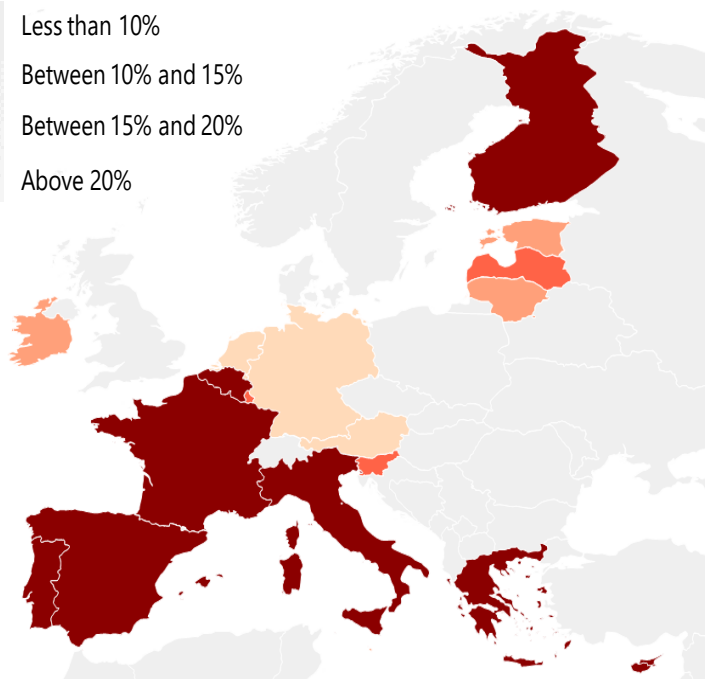
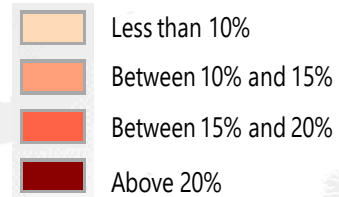
Temporary Employees (Percent of total employment)



LABOR MARKET DEVELOPMENTS DISPROPORTIONALLY AFFECT THE YOUNG.

Youth unemployment rate, 2017

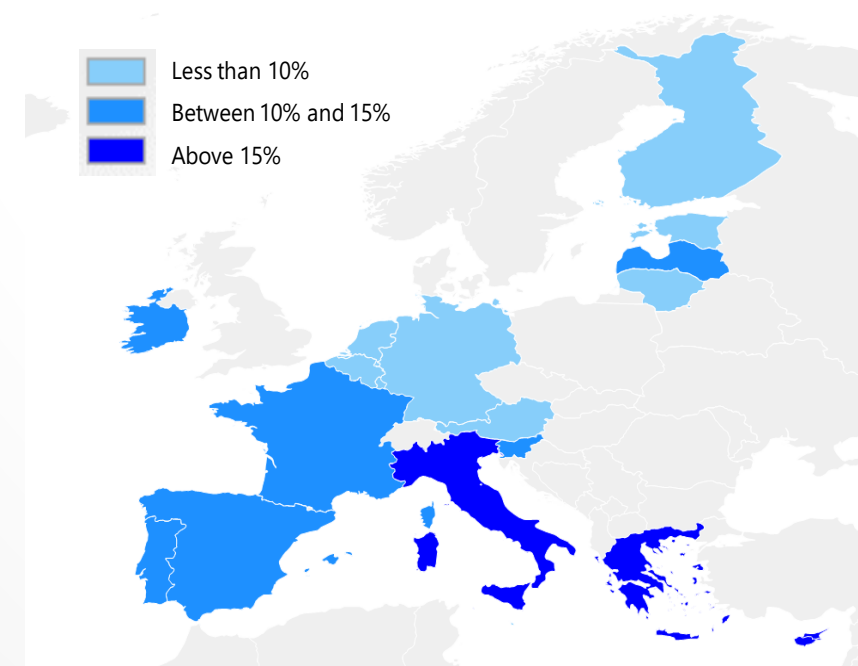
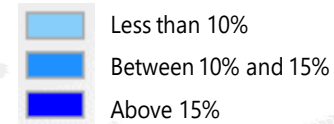
(in percent of active population)



Source: Eurostat.

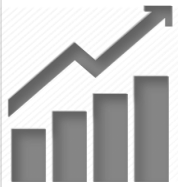
Persons aged 15 - 24 neither in employment nor in education or training, 2016

(in percent of population)



Source: Eurostat.

LABOR MARKET: DRIVERS



Economic Performance

Output gap affects young workers twice as much as older ones.



Taxes

Higher labor tax wedge is associated with higher youth unemployment.

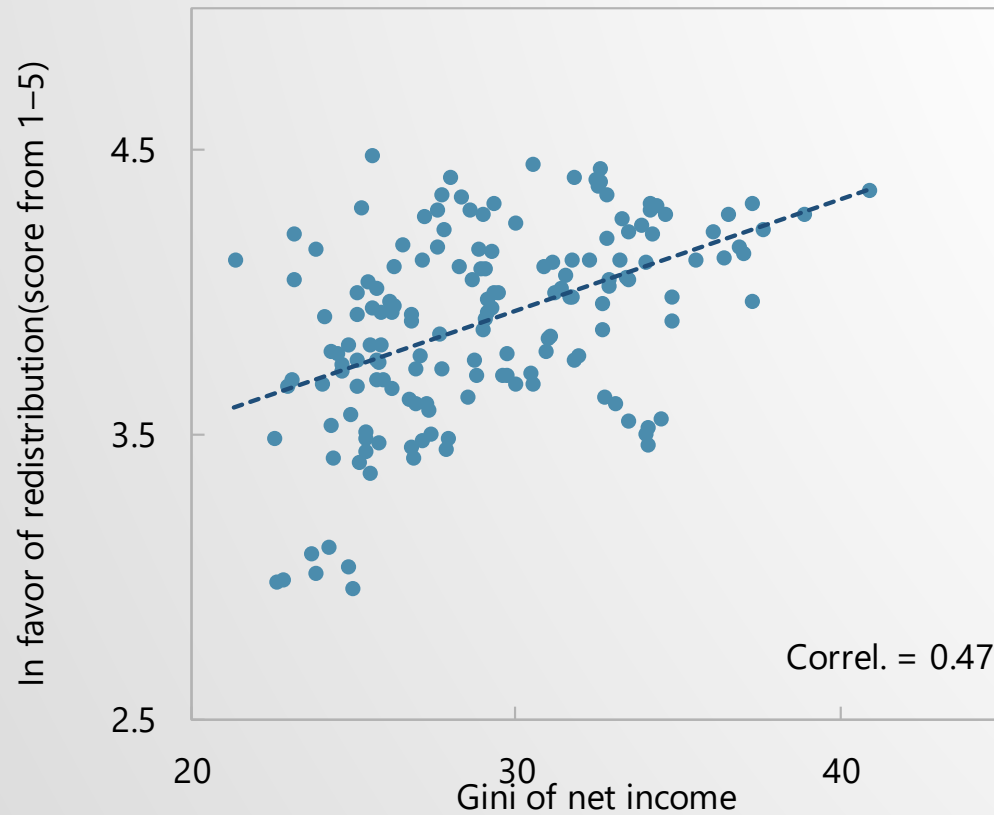


Labor Market Institutions

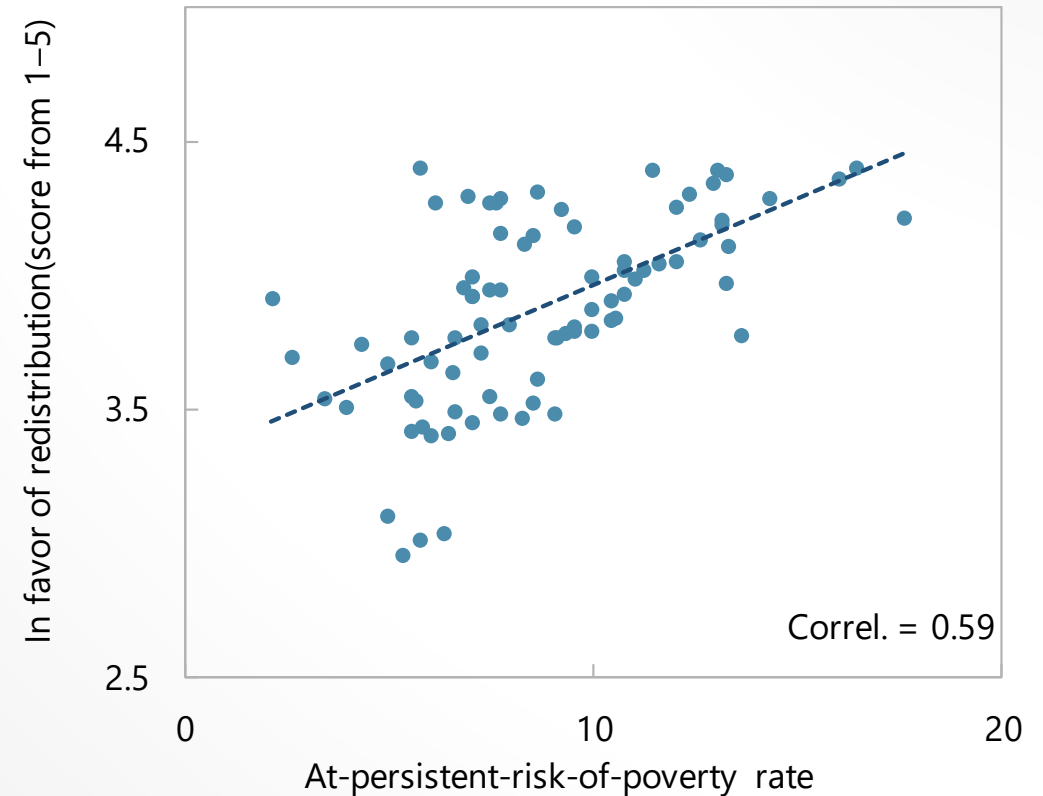
Coordination among social partners, and better training (ALMPs), are linked to lower youth unemployment.

STRONG DEMAND FOR REDISTRIBUTION TO TACKLE BOTH INCOME INEQUALITY AND POVERTY...

Preferences for Redistribution and Gini of Net Income (Total, 2002–2014)

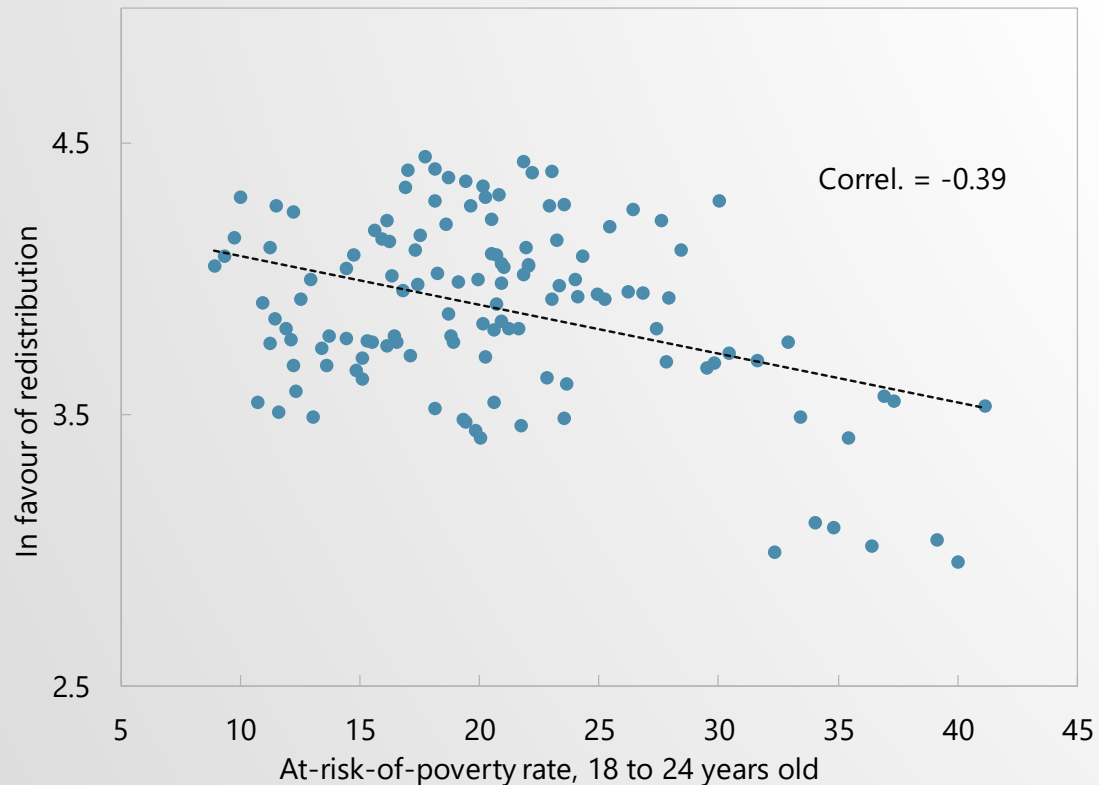


Preferences for Redistribution and At-Persistent-Risk-of-Poverty Rate (Total, 2002–2014)

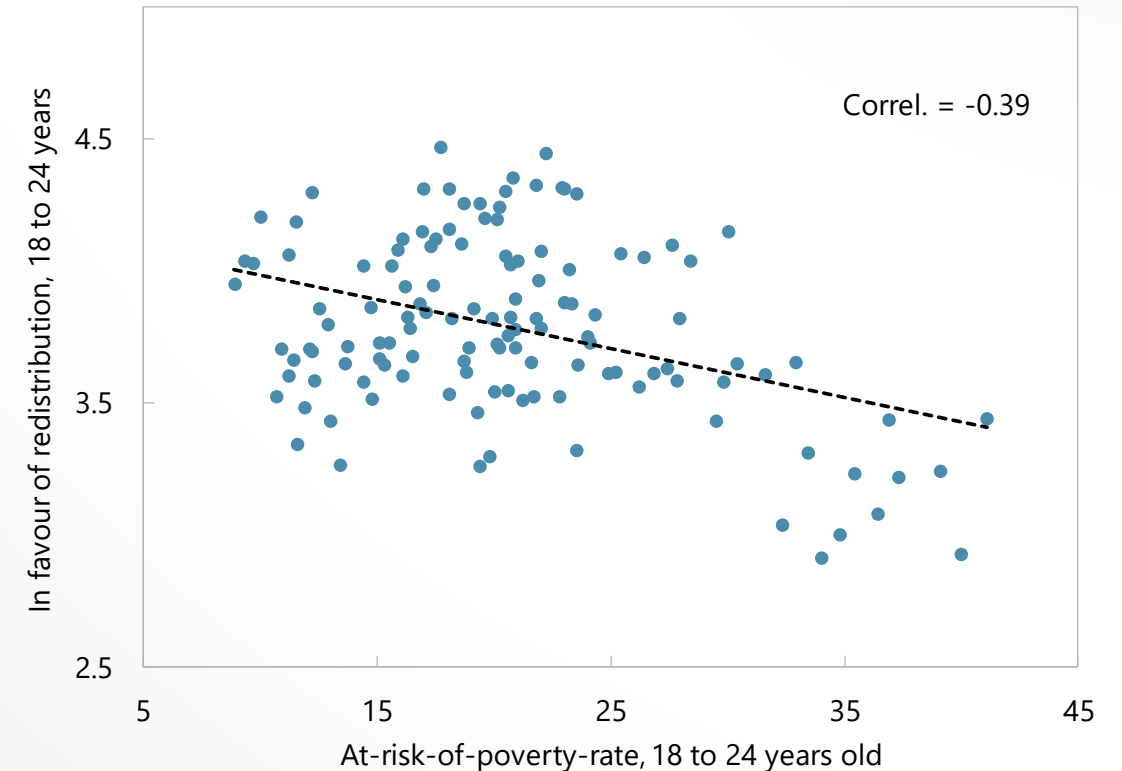


... OF ALL AGE GROUPS EXCEPT THE YOUNG

Preferences for Redistribution of the Whole Population and At-Risk-of-Poverty Rate of the Young (2002–2014)



Preferences for Redistribution of the Young and At-Risk-of-Poverty Rate of the Young (2002–2014)



FISCAL REDISTRIBUTION TARGETS THE ELDERLY

Historically, social protection systems were designed to address old-age risks.

They succeeded. Poverty among the elderly has declined significantly.

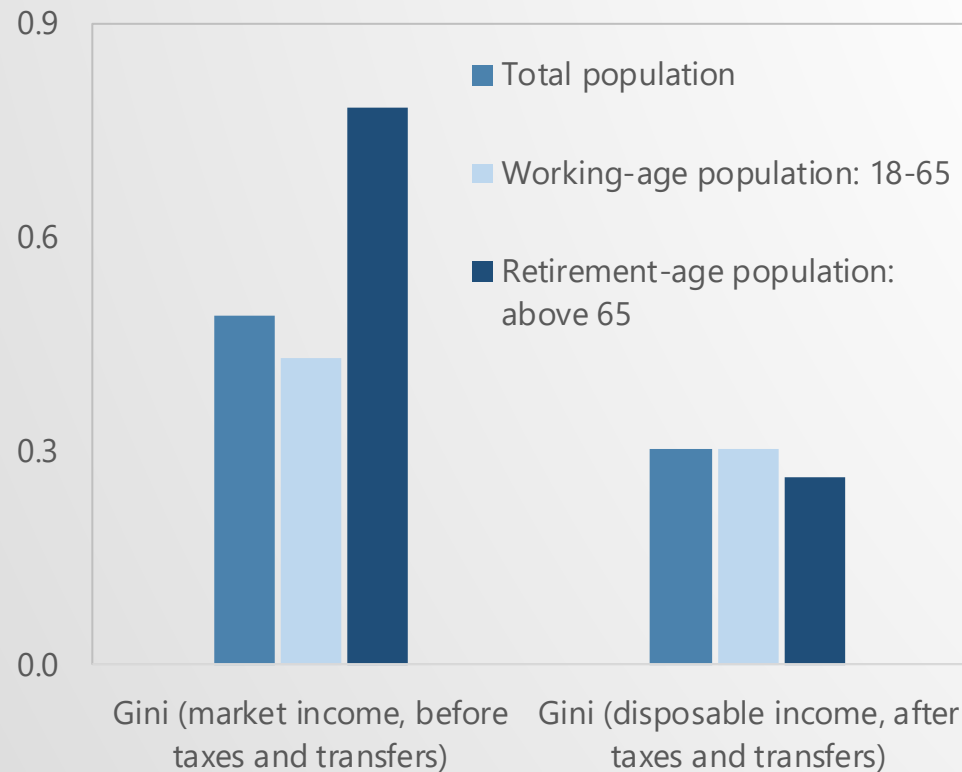
Consequence: The reduction in aggregate inequality is mainly achieved by focusing on the elderly.

OECD EU Average Redistributive Effect, 2014 (Gini score)

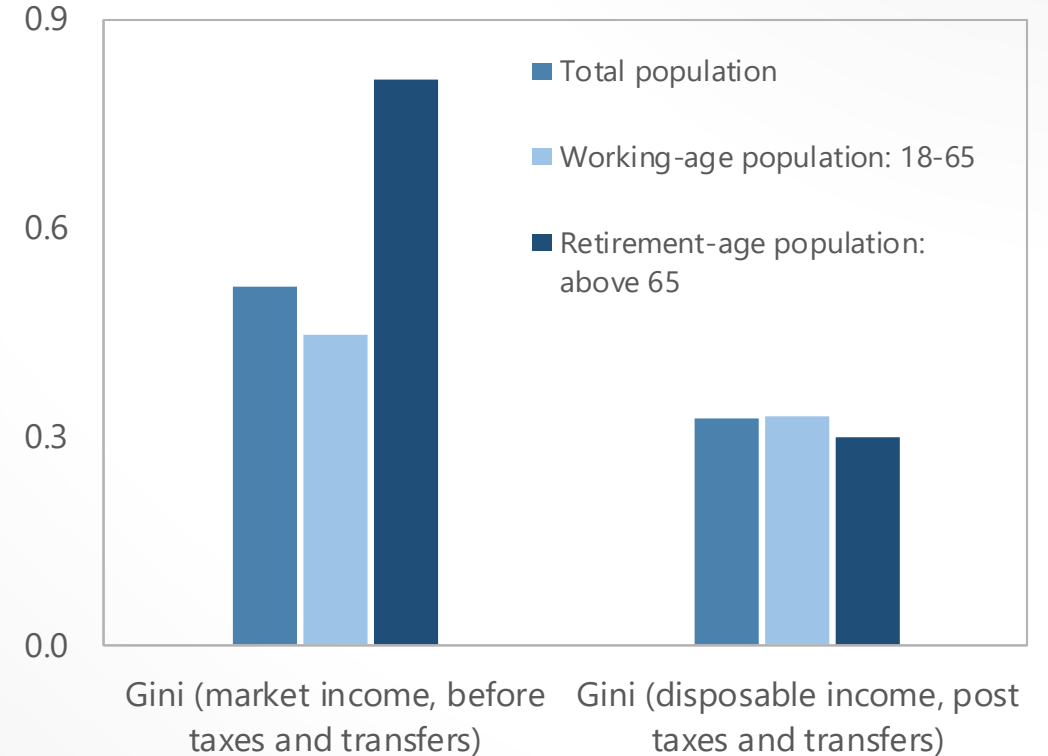


FISCAL REDISTRIBUTION TARGETS THE ELDERLY

OECD EU - Average Redistributive Effect
(Gini score)



Italy - Average Redistributive Effect
(Gini score)



PENSIONS ARE THE MAIN REDISTRIBUTIVE TOOL

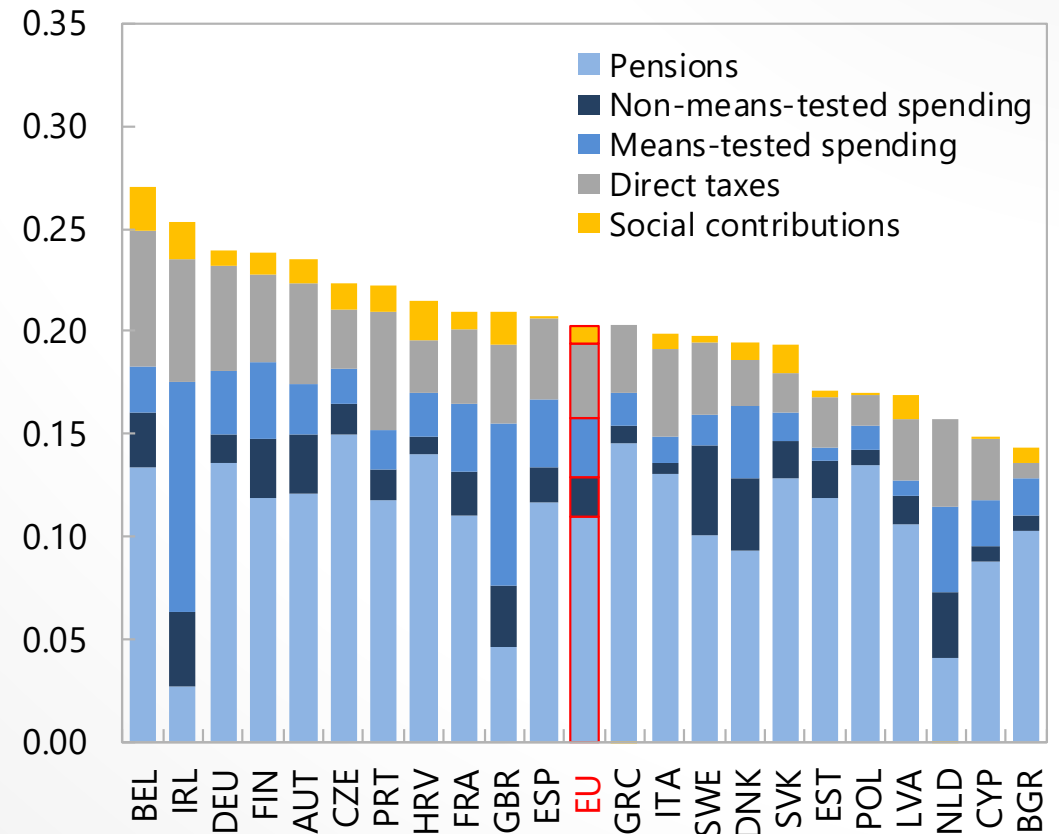
Pensions account for **54%** of the reduction in inequality, which is more than:

- All other transfers combined: **24%**

- Taxation: **22%**

Decomposing Fiscal Redistribution

(Reduction in Gini coefficient achieved by fiscal policy, 2015 or latest)

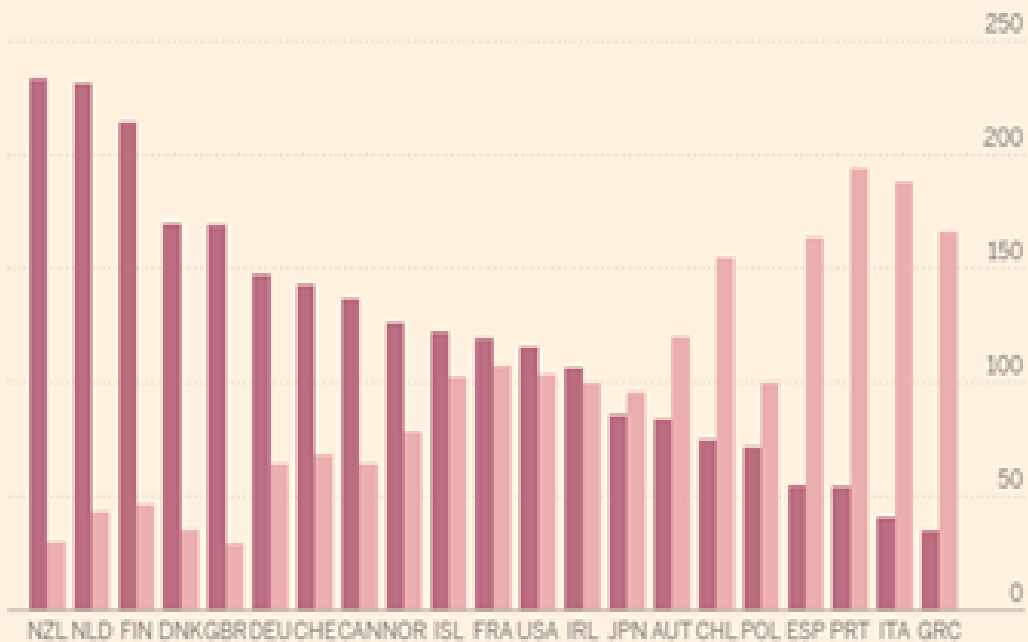


TARGETING AND EFFICIENCY OF SOCIAL SPENDING

Those most in need?

Distribution of welfare benefits, in per cent of the average government transfer payment

to the 20% poorest to the 20% richest



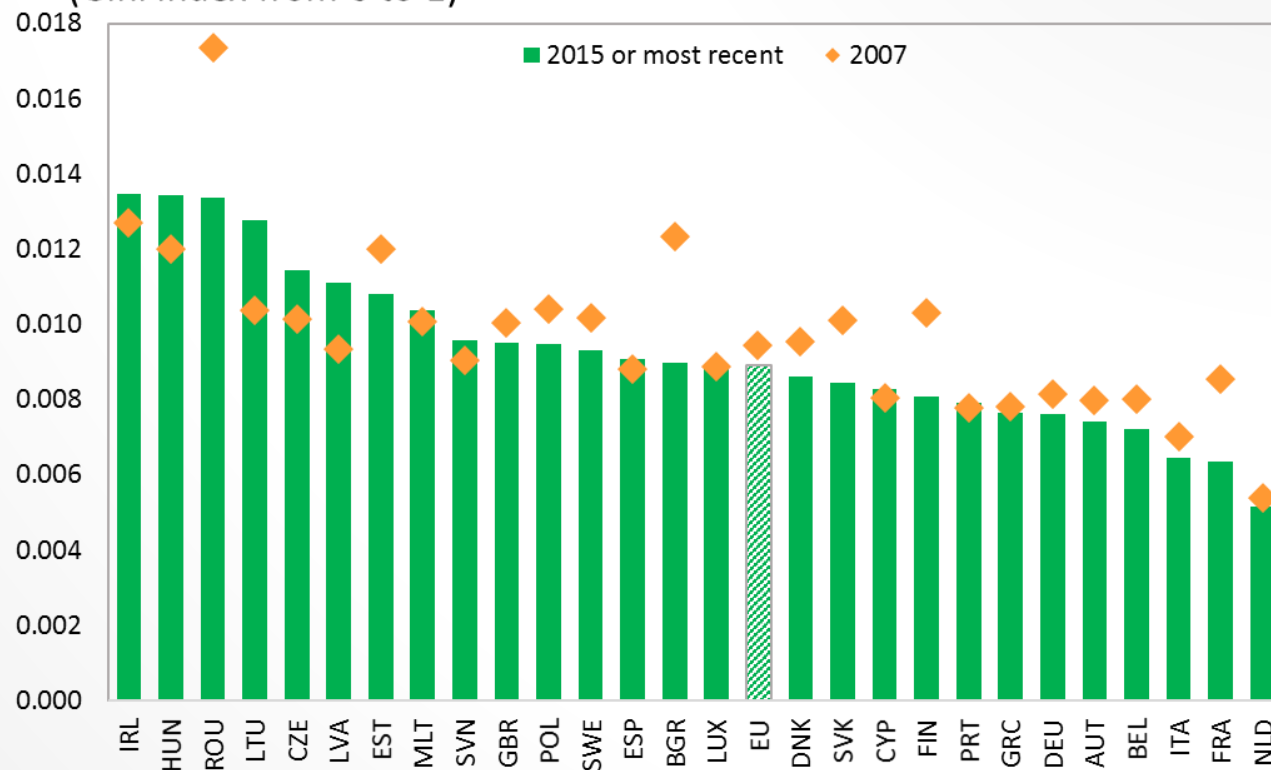
For working-age individuals

Source: OECD

FT

Reduction in Gini achieved with 1 percent of GDP of social spending

(Gini index from 0 to 1)



Sources: Eurostat and Euromod.

POST-CRISES FISCAL CONSOLIDATION FOCUSED ON NON-PENSION BENEFITS

Pensions

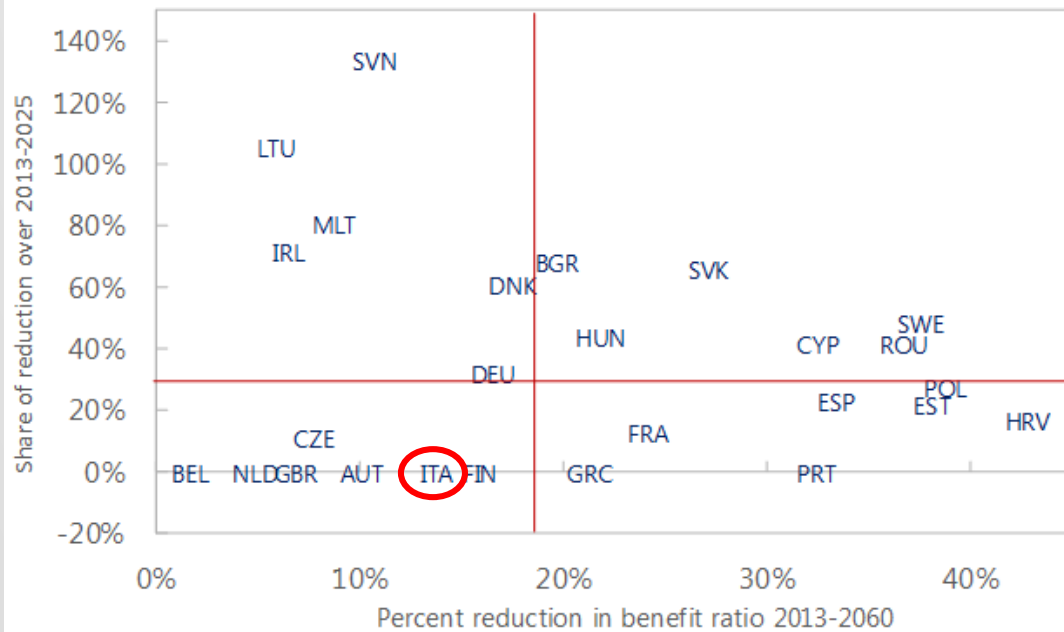
- **Reforms** protected current pensioners in most countries.
- **Limited or temporary cuts** in most countries.
- **Automatic indexation**, though weakened, shielded real income of the elderly.

Non-pension benefits

- **Not systematically indexed.**
- **Cut or curtailed.** Notably family allowances, which play a crucial role in income support of parents, in most cases regardless of their work status.
- **More targeted / means-tested.**

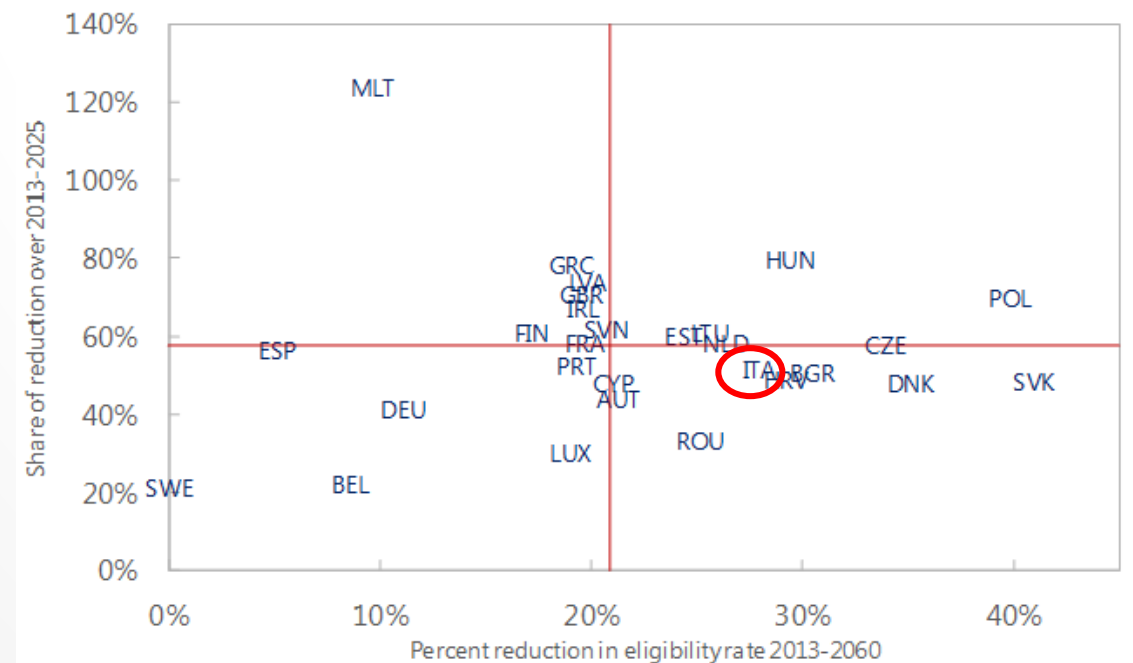
DEFERRED IMPLEMENTATION OF PENSION REFORMS

Projected Reductions in Benefit Ratios (2013-2060) and Share of Reductions Achieved by 2025 (in percent)



Sources: European Commission, 2015 Ageing Report, and IMF staff estimates.

Projected Reductions in Pension Eligibility (2013-2060) and Share of Projected Reductions Achieved by 2025 (in percent)

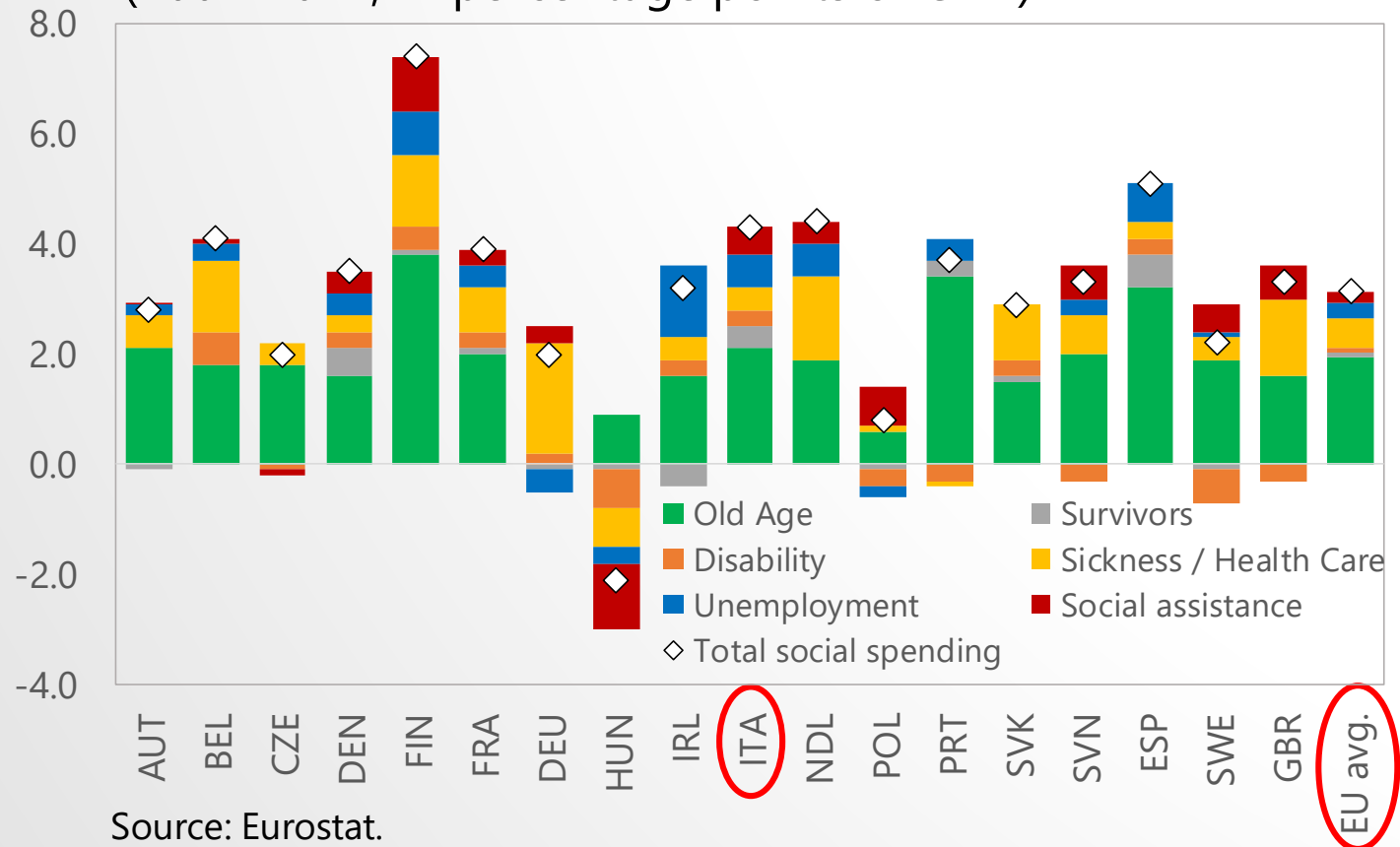


Sources: European Commission, 2015 Ageing Report, and IMF staff estimates.

SOCIAL SPENDING GROWTH DURING FISCAL CONSOLIDATION

Composition of the Changes in Social Spending

(2007-2014, in percentage points of GDP)



Source: Eurostat.

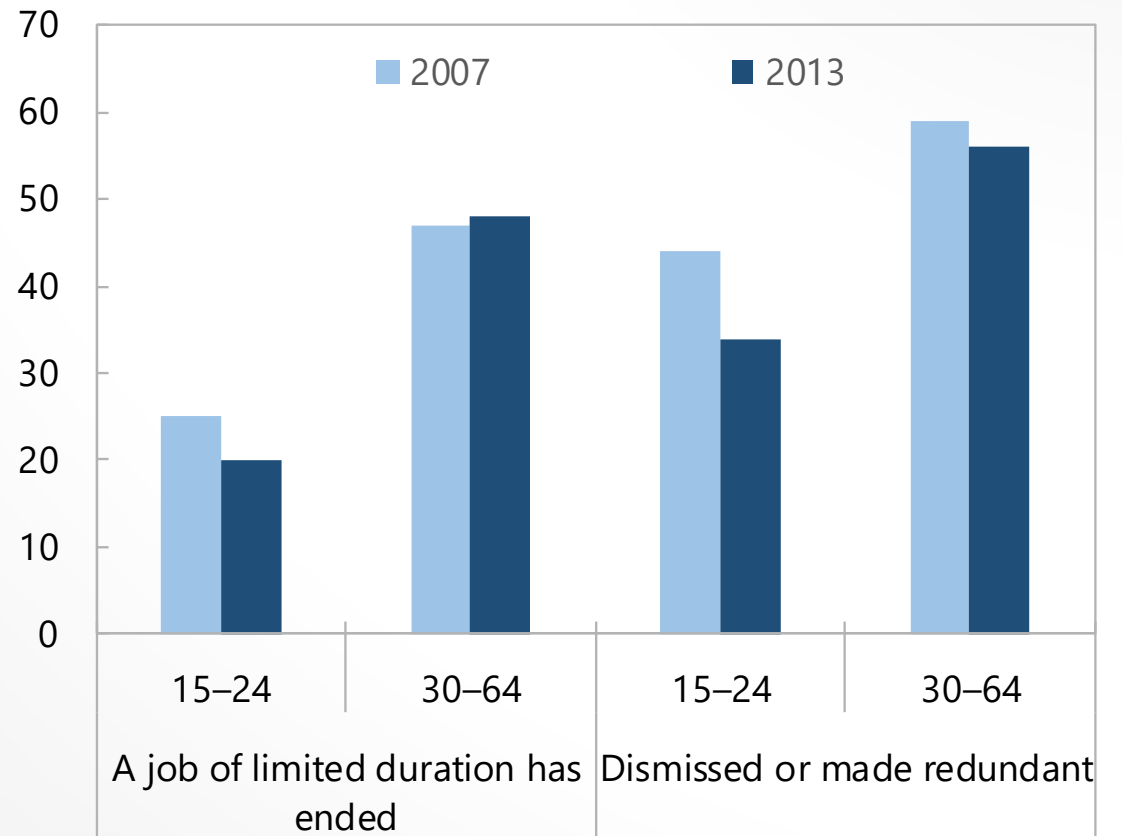
Note: Social assistance covers family/children, social exclusion, and housing.

THE YOUNG ARE LESS COVERED AGAINST UNEMPLOYMENT RISKS THAN OLDER WORKERS

The coverage of the young declined during the crisis.

The gap between the young and older workers widened.

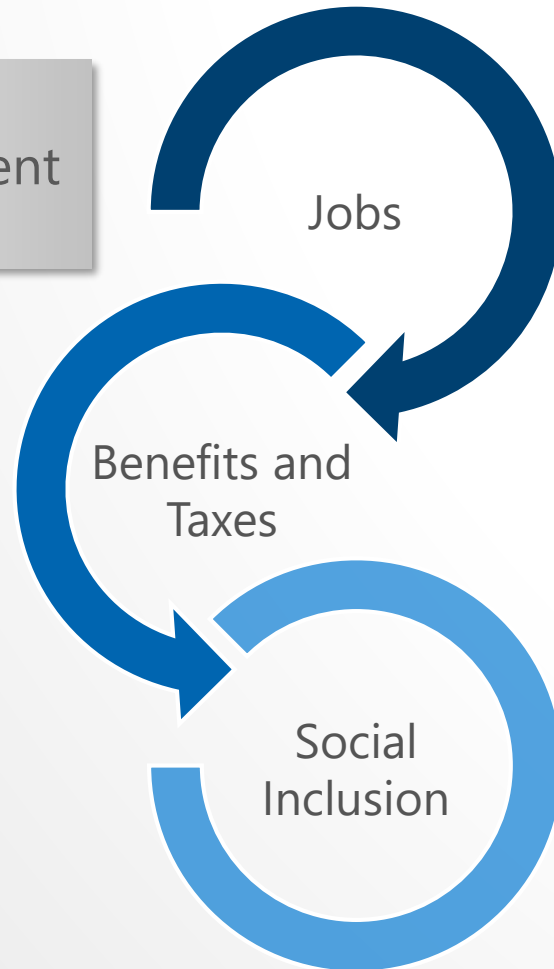
EU: Unemployment Benefit Coverage
(Percent of unemployed)



DESIGN BETTER POLICIES FOR THE YOUNG

Reform labor markets to improve job prospects and access to unemployment benefits

- Reduce tax wedge on low wages.
- Strengthen on-the-job training and apprenticeships.
- Reform unemployment benefits.



Make fiscal redistribution more inclusive

- Consider the distributional impact of reforms across age groups.
- Rebalance fiscal redistribution when fiscal space is limited.
- Revise pension reforms to improve burden-sharing across generations.
- Improve tax progressivity.

EXTRA SLIDES

ADDITIONAL FACTORS TO CONSIDER

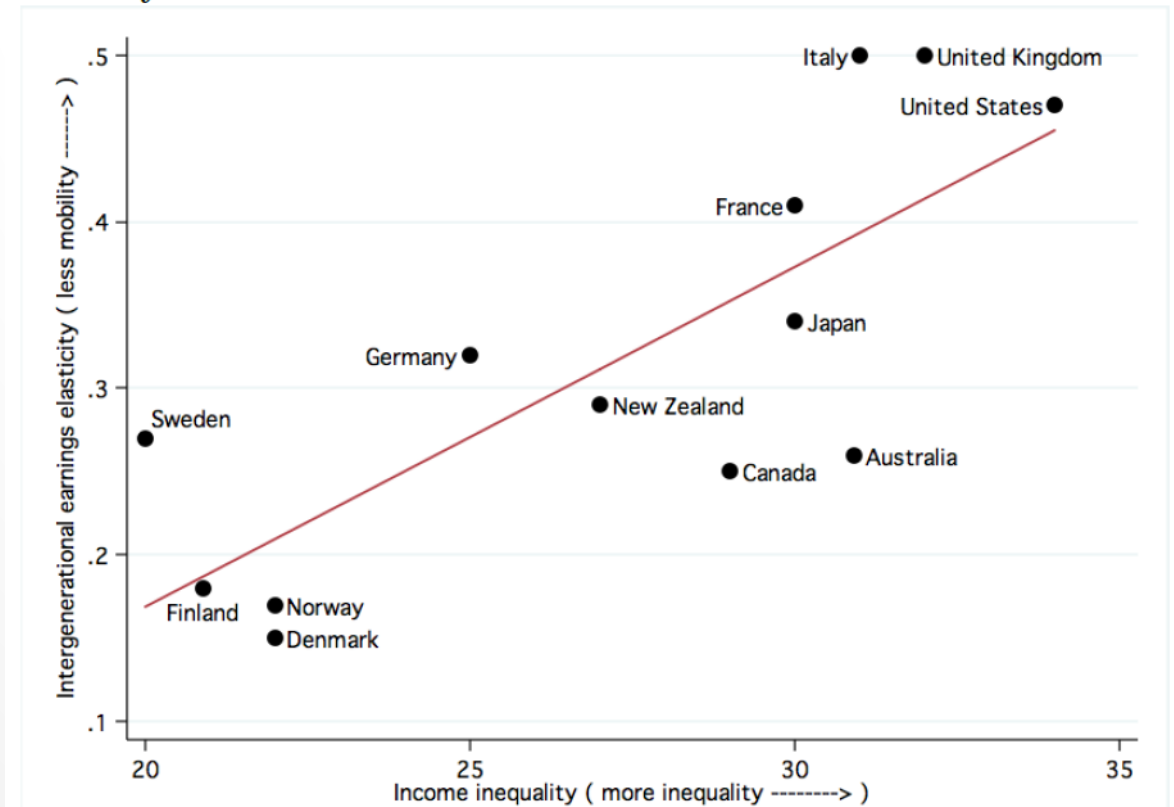
1) Perception of inequality different of reality of inequality

- The SDN goes granular... is it enough?
- Or should we look at other elements such as deteriorating access to
 - Housing
 - Health
 - Education?

2) Social mobility.

3) Geographical dimension.

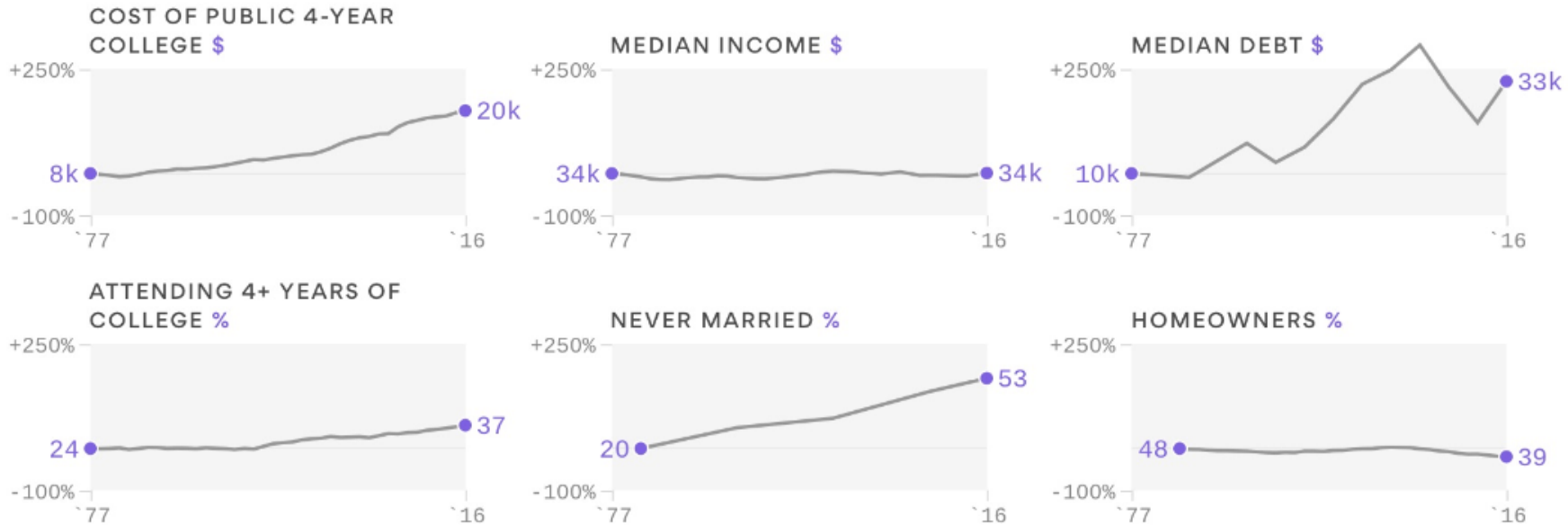
The Great Gatsby Curve: More Inequality is Associated with Less Mobility across the Generations



NOT JUST IN THE EU

How life has changed for Americans aged 25 to 34

1977 to 2016



Data: [College attendance](#), [median income](#), and [home ownership](#) from U.S. Census Bureau; [cost of tuition](#) from CollegeBoard; median debt from "The Great American Debt Boom, 1948-2013" by Alina Bartscher, Moritz Kuhn, Moritz Schularick and Ulrike I. Steins; marriage figures from a Pew Research Center analysis of the 1960-2000 decennial censuses and 2010 and 2016 American Community Survey (IPUMS). Note: All dollars are [inflation-adjusted](#) to 2016. Chart: Harry Stevens/Axios