



# GINI policy conclusions and remaining questions

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## Context within GINI

- If limiting income inequality is desirable, in its own right or as a means to mitigating the potentially negative consequences of inequality, how is it then best done?
- We have looked at direct redistributive policies
- And at policies that seek to affect the income distribution in more indirect ways: employment and social investment
- Education -> talk Daniele



## Direct redistribution

The aim was to address some questions that play large in current debates:

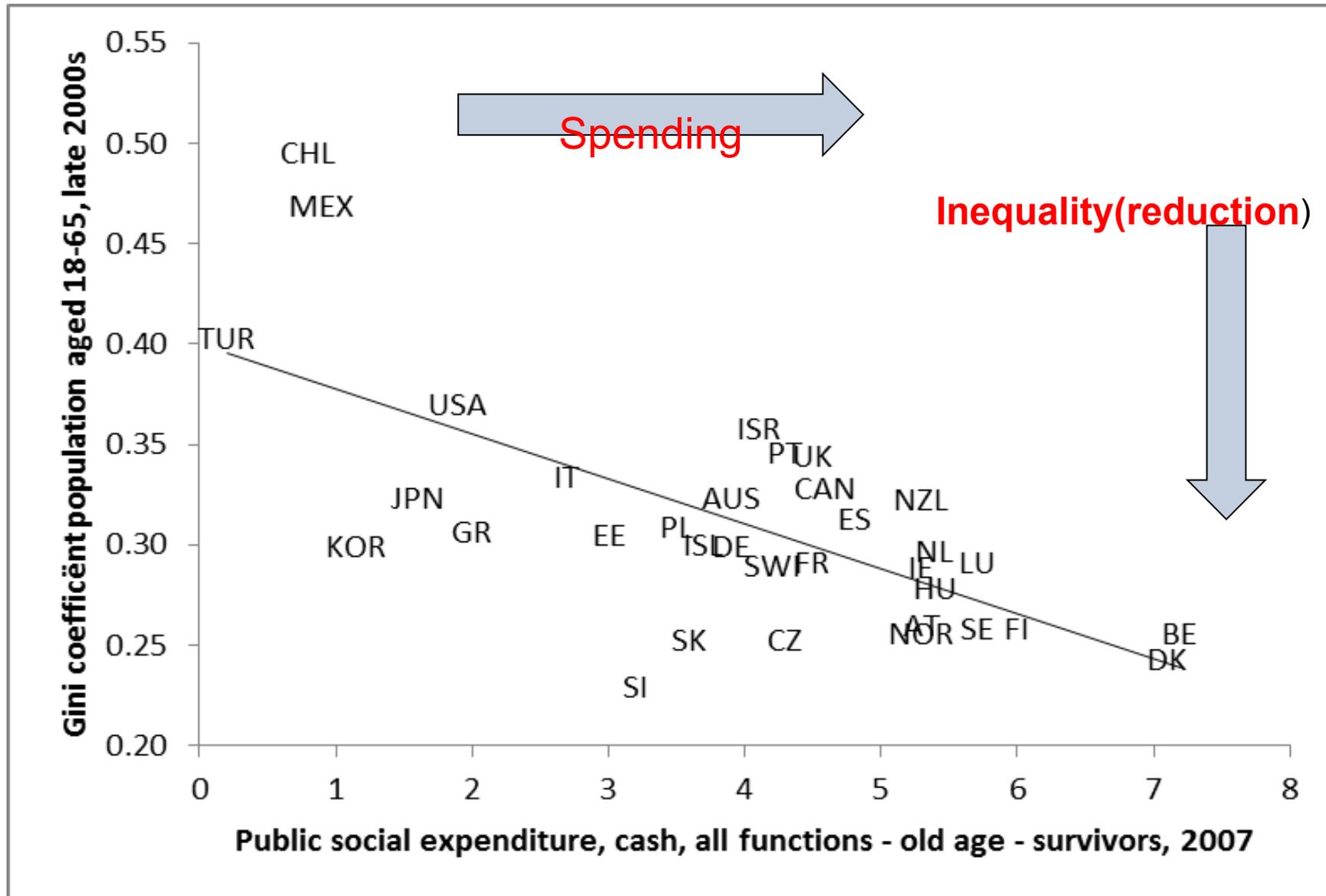
- Does effective redistribution require high levels of social spending and taxation, or can much be done with well-targeted efforts?
- Is adequate minimum income protection achievable?
- Should we strengthen existing redistributive mechanisms (SI, SA; MW) or do we need new models (e.g. EITC) ?
- Should redistribution have to come with more strings attached?



## Some findings and remaining questions



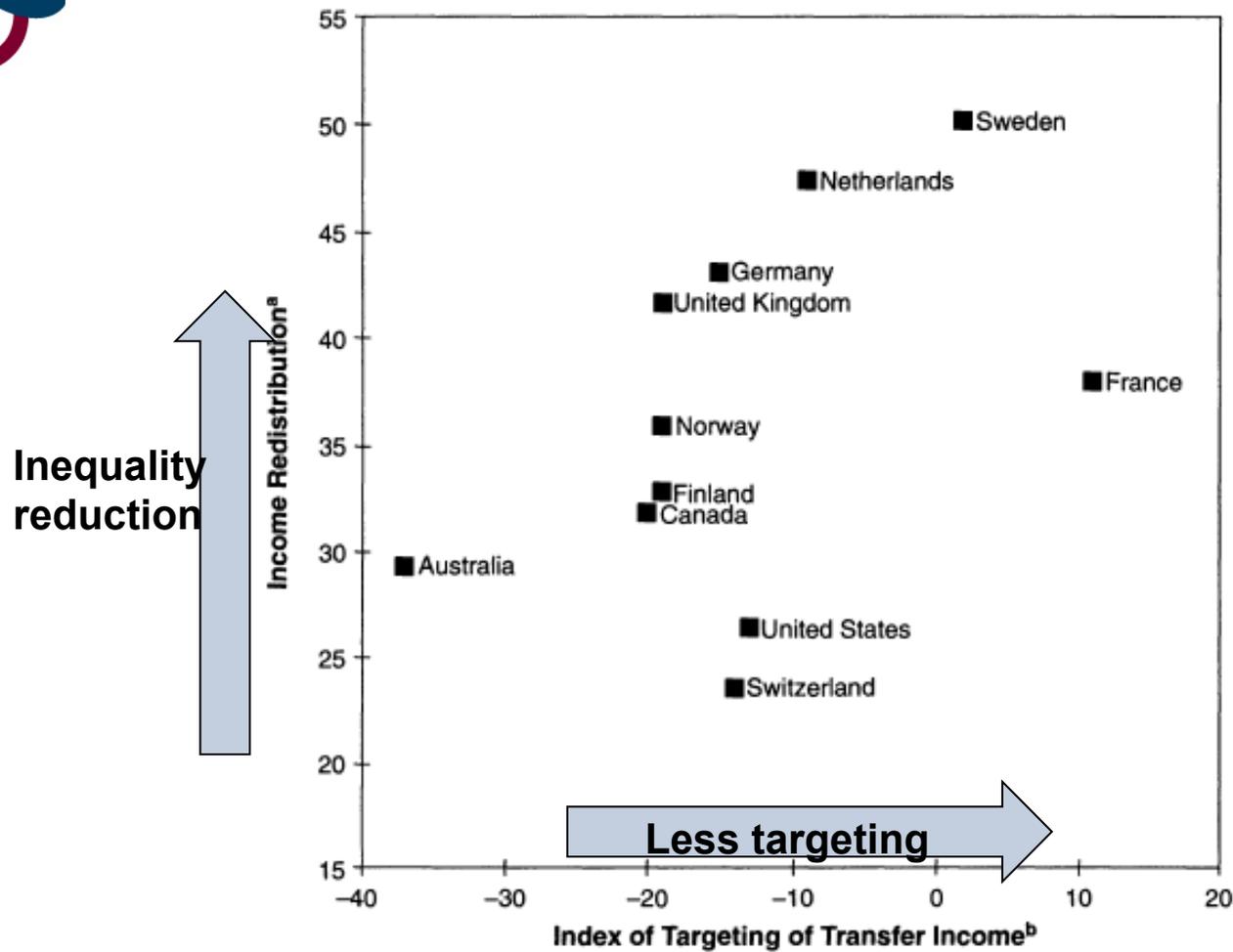
There remains a strong relationship between overall effort and observed outcomes, but it is less consistent now ...





## Can more be done with less? the continuing controversy over targeting...

- “Targeting is good”, e.g. Goodin and Le Grand : “the more the non-poor benefit, the less redistributive the impact of the welfare state will be.”
- “Targeting is bad”: Administrative cost; stigma; non take-up; work and family formation disincentives,...weaker middle class support: : “the more we target benefits to the poor...the less likely we are to reduce poverty and inequality” (Korpi and Palme)
- Very relevant in the context of current policy discourse and need for budget austerity



Korpi and Palme,  
ASR, 1998

Figure 3. Index of Targeting of Transfer Income and Income Redistribution: 11 OECD Countries

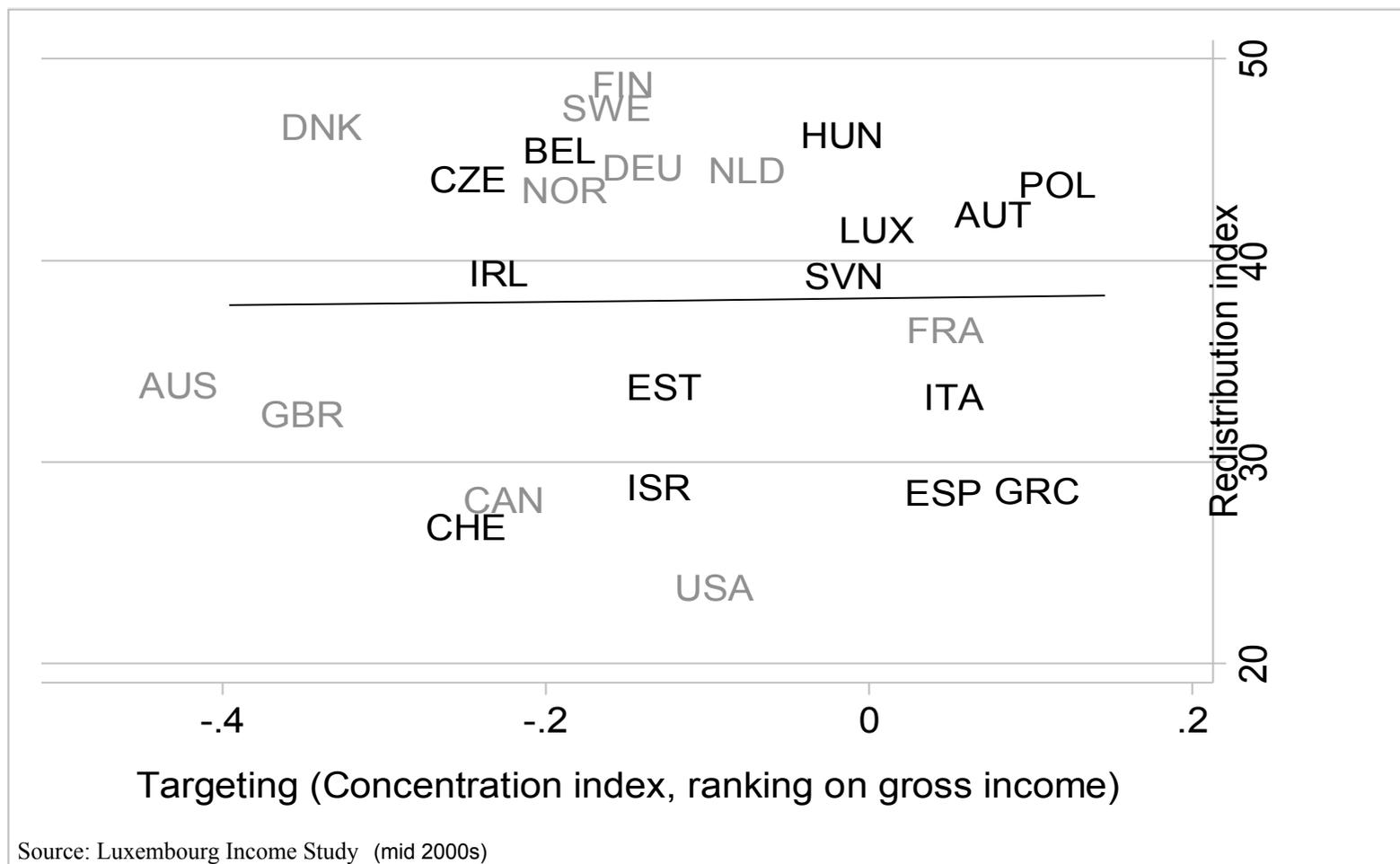
Source: Luxembourg Income Study.

<sup>a</sup> Income redistribution equals the reduction in the Gini coefficient from market income to disposable income expressed as a percentage of the Gini for market income.

<sup>b</sup> Negative values indicate low-income targeting for transfer income; positive values indicate the targeting of transfer income to residents who are economically better-off.



## Korpi and Palme replicated, LIS, mid 2000s





## Making sense of the disappearing paradox

- What are we capturing with our measure of targeting?
- In what ways are the newly included countries different?
  - Southern European countries drive much of changed relationship
  - Post-communist countries take very diverse positions
- Is targeting different today?
  - Past political vulnerability of strongly targeted programmes perhaps less due to small electoral base but also to (perceived) work incentives
  - Work incentives in MIPs have been drastically remodelled and some targeted systems are now integrated systems of support for the non-employed and low-paid workers alike (US: AFDC => TANF + EITC; France: RMI => RSA)

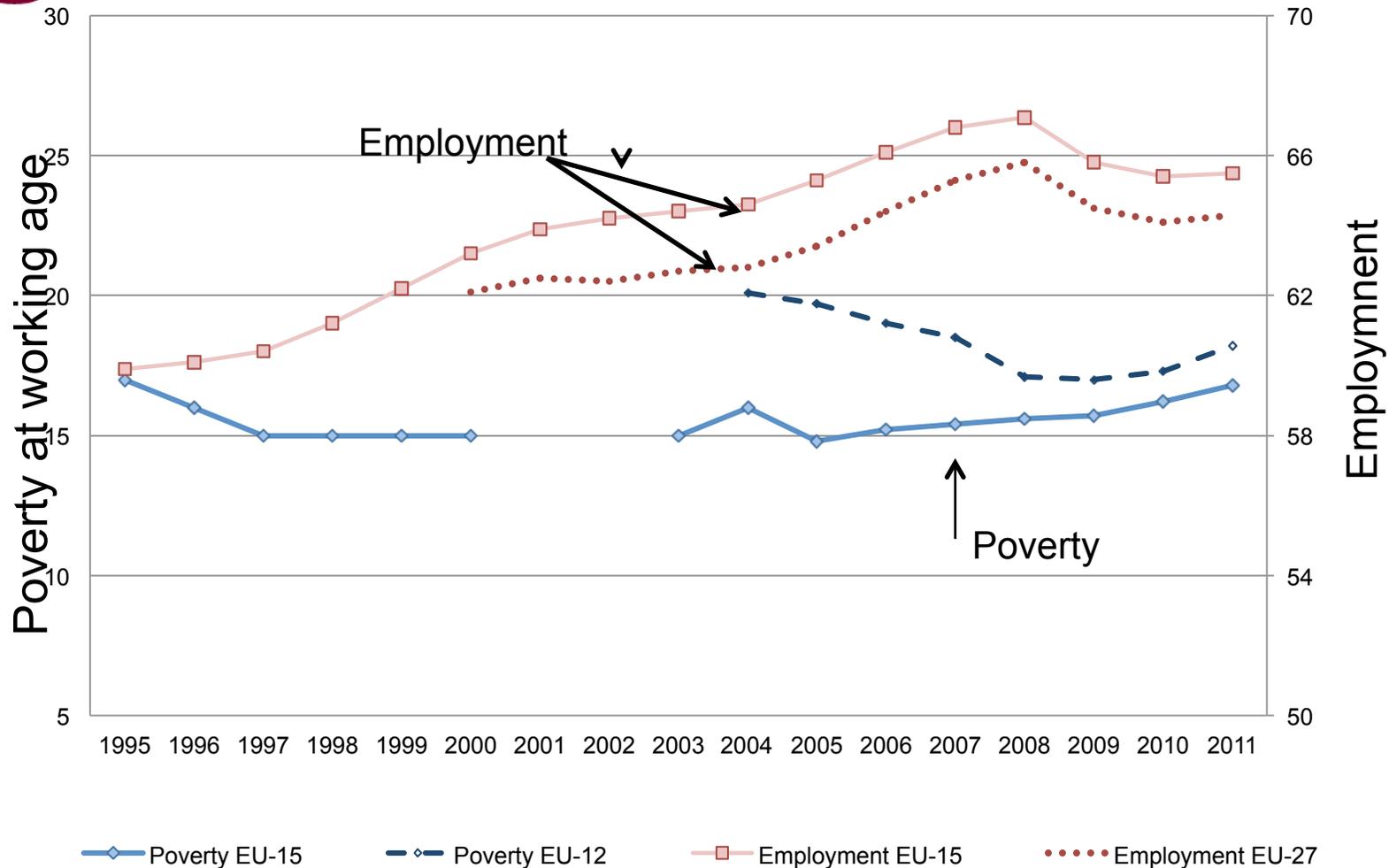


## Work and poverty

- Employment growth seen as key to lower poverty and better social inclusion
- And “a job is the best protection against poverty” remains central to policy in many countries today, including at the EU level, e.g. Europe 2020 75 per cent employment target



But we know that job growth has not brought lower poverty or inequality in the past...





## Why has inequality/poverty been so unresponsive to employment growth?

- The poor have not been the first beneficiaries from job growth (in fact it often resulted in polarisation between work-rich and work-poor households)
- At the same time the adequacy of 'passive' income protection declined
- Having/getting a job does not always mean a life free from the risk of financial poverty: in-work poverty
- Lots of other factors.....



## Some among many remaining questions

- Why is low household work intensity/joblessness so persistent even in the context of strong labour demand and low overall unemployment?
  - Socio-demographic mechanisms (rise single person/single parents,..) ?
  - Sociological mechanisms (educational homogamy, weak joint networks, preferences, aptitudes,..)
  - Economic mechanisms (joint tax/benefit incentives, local labour market conditions...)

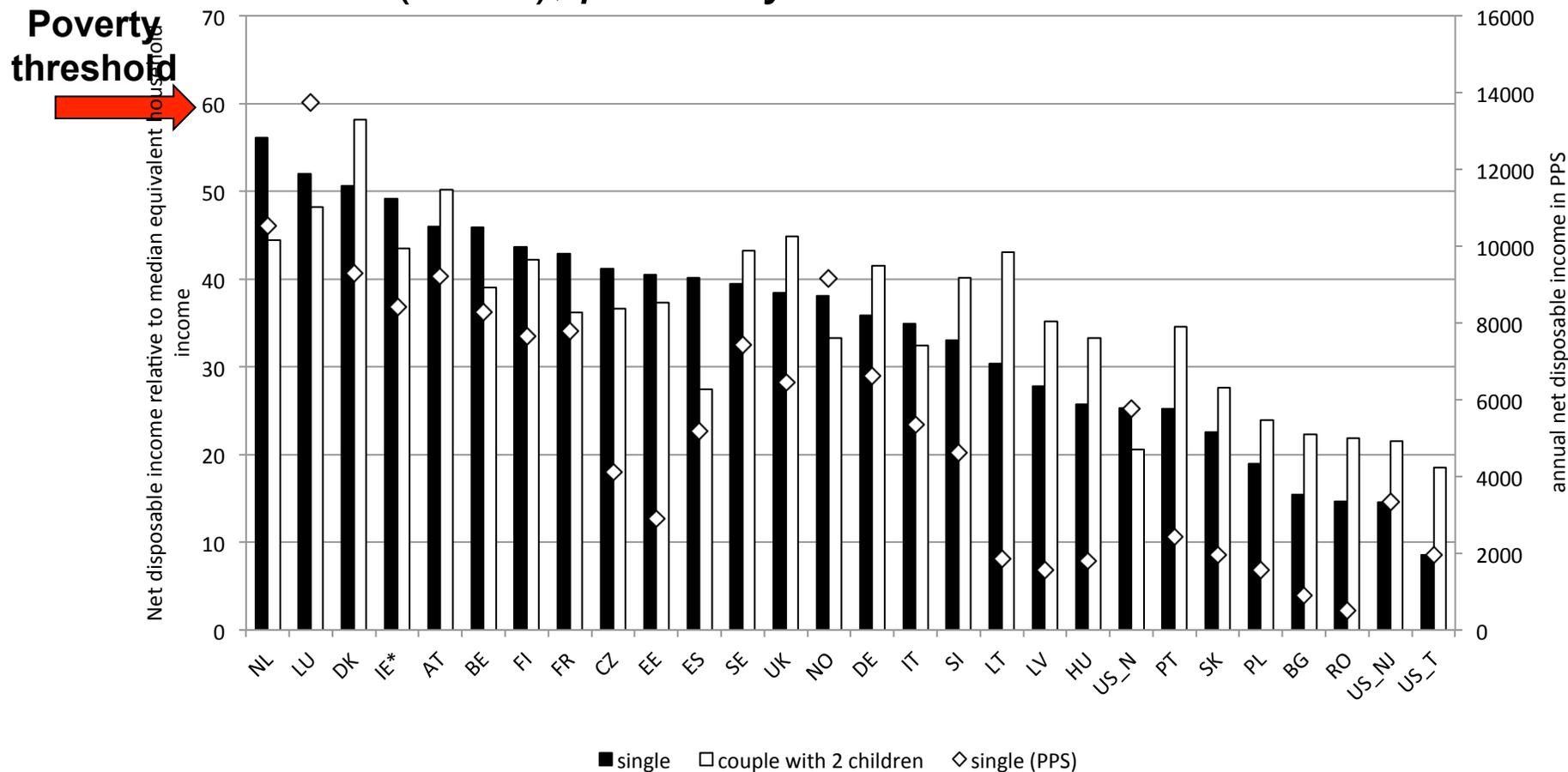


## The decline of income protection

- While employment growth did not benefit those most in need of a job to a sufficient degree, the adequacy of income protection declined
- This was true of social insurance provisions (including child benefits) and it was true of final safety net provisions
- But *why*? Only because of lack of political will?



After decades of erosion minimum income provisions fall *well* short of poverty thresholds in the EU (2012); *probably for reasons...*



Source: CSB-MIPI database



## Innovative approaches to income support

- Tax-channeled income supplements for low (earned) income families have come to the fore
- E.g. EITC in US, WTC in UK
- Wider implementation strongly advocated by some, and seen as a way out of the limits of incrementalism
- Elsewhere in the EU similar schemes contemplated or implemented but scale remains (very) modest



## EITC-type schemes: the way forward ?

- Lots of empirical evidence on EITC and similar schemes
  - Increased employment, reduced poverty among prime target groups;
  - But also unknowns: take-up, wage erosion effects, mobility traps, ...
- Context matters hugely for outcomes and cost:
  - socio-demographic composition, earnings dispersion, level of social insurance/social assistance benefits, ...
- Micro-simulations suggest that EITC type schemes do not offer a model for wholesale emulation because of these vast contextual differences, but much work remains to be done here...



## Social investment

- Europe 2020 Integrated Guidelines: “efforts should concentrate[...]on access for all to high quality, affordable, and sustainable services, especially in the social field”...”empowering people[...] will help fight social exclusion”
- Commission’s “Social Investment Package”
- Some leading voices have called for ‘a radical **shift** from cash to social investment spending (education & training, child care, early childhood education, ALMPs,..)



Service spending is in some cases be *far* less pro poor than cash spending despite design intentions; example of child care in Flanders

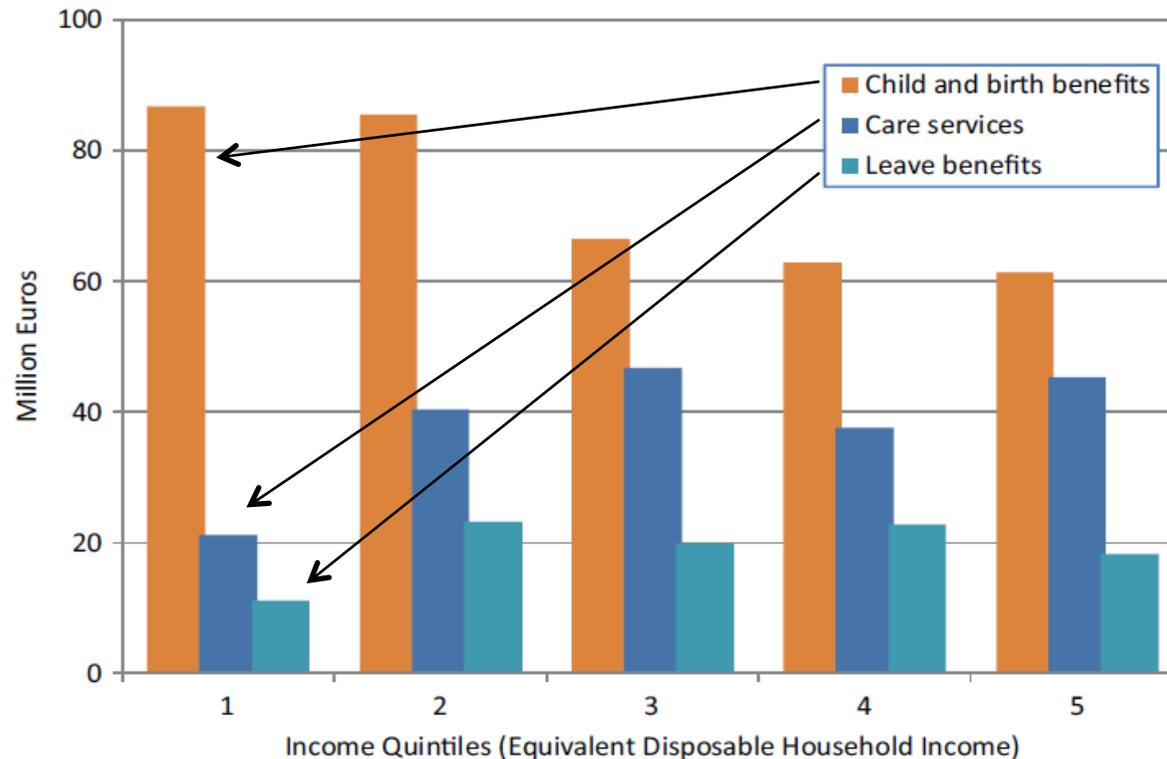


Figure 3 The social distribution of public funds for childcare services, child benefits and parental leave in Flanders, households with a child <3 years old, 2005.

Source: FFCS, authors' calculations.

Van Lancker and Ghysels, GINI DP#10 (J. Eur. Soc. Pol., 2011)



## Remaining questions

- What is driving social gradients in effective use/take-up ?
  - Design features of policies ?
  - Contextual drivers, e.g. low demand for less skilled people ?
- What does this mean for longer term 'returns'?
- Are there social gradients in returns for other reasons (quality) ?
- How important is direct income redistribution as a supporting pillar for social investment?



## Overall

- *By and large, the best performers among the rich countries in terms of economic, employment, social cohesion and equality outcomes have one thing in common: a large welfare state that does several things at the same time, investing in people, stimulating and supporting them to be active and also adequately protecting them and their children when everything else fails...*