

Economic Policy #09

Redistribution, social policy and
welfare state

Redistribution, social policy and welfare state

- Distribution and justice
 - theoretical approaches
 - issues in distribution
 - recent trends in income inequalities
- The welfare state
 - the concept of welfare state
 - worlds of welfare states
 - recent challenges to welfare state

Distribution and justice

- Distribution of income and wealth has been a major concern throughout the history of economics.
- Positive and normative economics is difficult to separate in this area.

Two main views of justice in distribution:

- ***commutative justice***: each person should receive income in proportion to his contribution to the productive process
- ***distributive justice***: implies approximate equality in income distribution

Issues in distribution

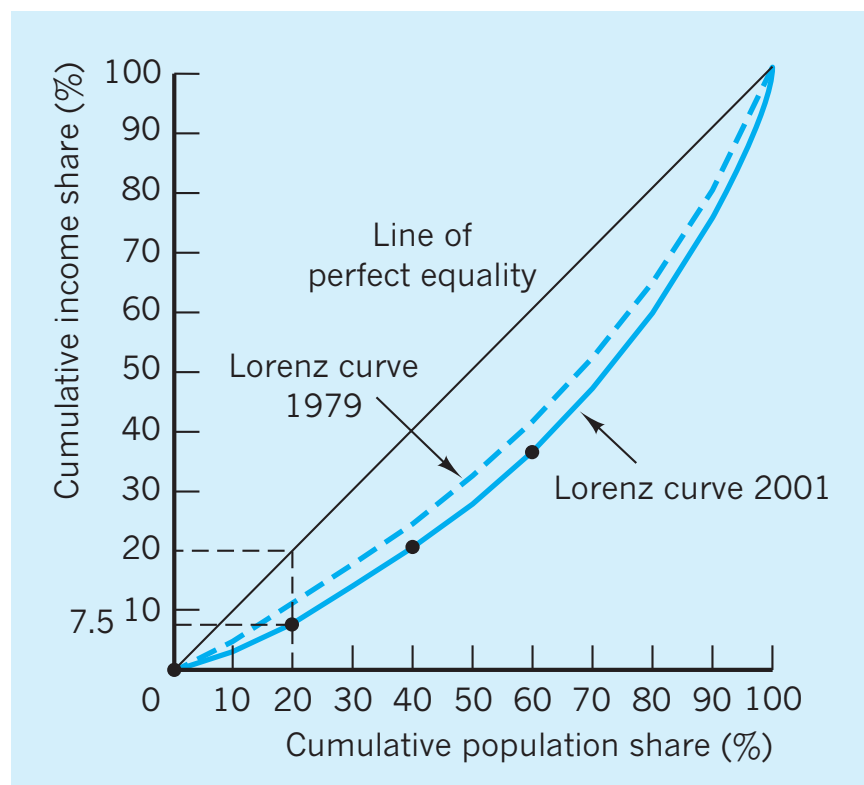
There are several specific areas of concern in the debate about distribution:

- the distribution of income between persons irrespective of the source of income
- the distribution of income between factors of production, in particular between labor and capital
- the distribution of earnings between different types of labor
- the distribution of wealth
- poverty

Income distribution between people

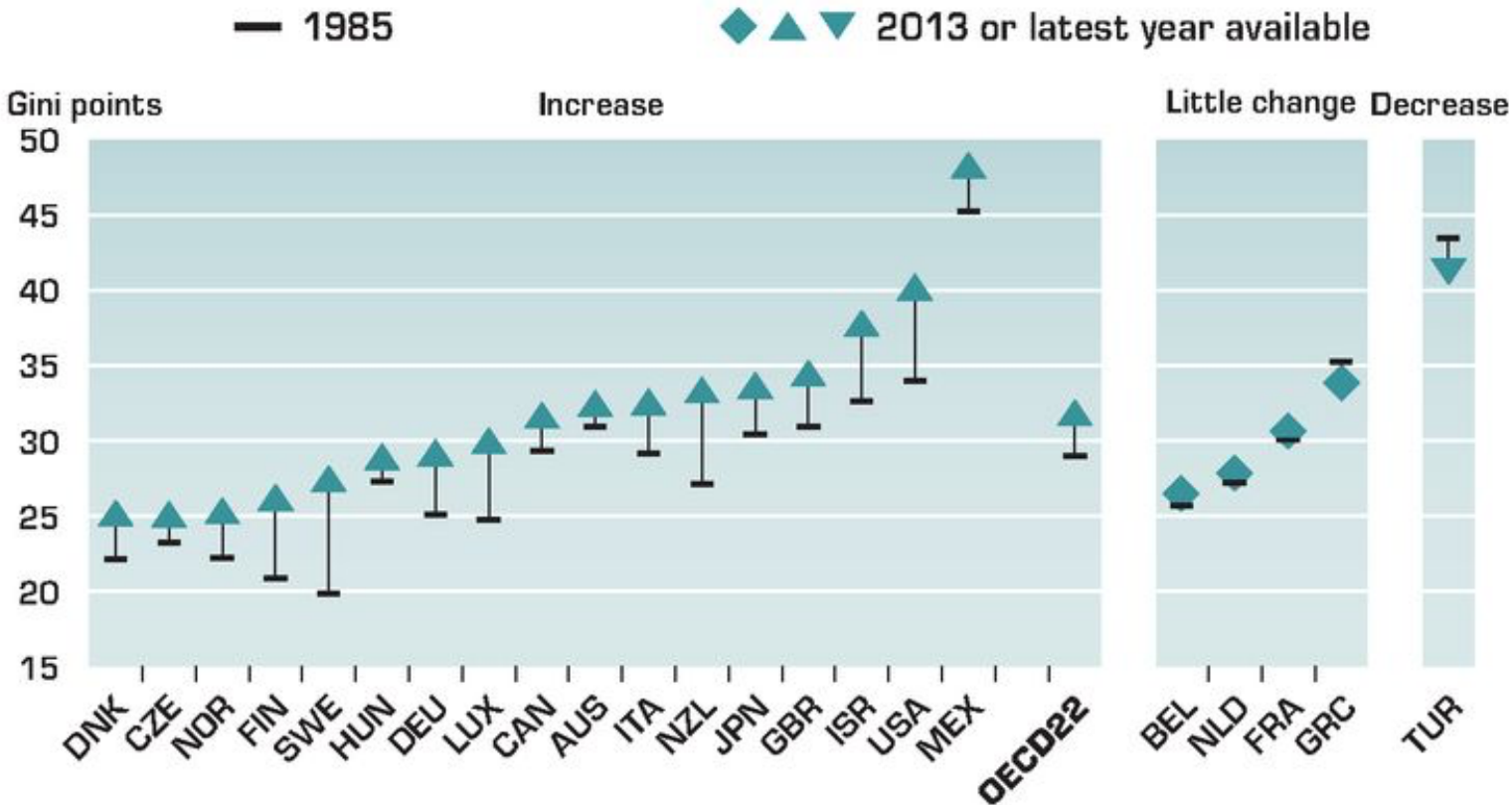
The conventional means of illustrating income distribution are the ***Lorenz curve***..

Fig. Lorenz curve in UK



Income distribution between people

.. and the **Gini coefficient**.



Source: OECD (2015), *In It Together: Why Less Inequality Benefits All*, <http://dx.doi.org/10.1787/888933207711>.

Income distribution between factors of production

Table: Factor shares as a percentage of gross value added at factor costs (UK)

	1973	1989	2009
Compensation of employees	66.4	63.8	62.2
Gross operating surplus	24.5	27.1	25.2
Non-financial companies			
Private corporations	17.8	23.1	19.0
Public corporations	3.2	1.5	0.8
Financial corporations	3.5	2.5	5.4
Other income	9.1	9.1	12.6
Total	100.0	100.0	100.0

Source: Griffiths&Wall (2012)

The earnings distribution

Table: Relative earnings by occupational groups

Occupational group	Median gross weekly wage (all occupations = 100)
Managers and senior officials	146
Professional occupations	142
Associate professional and technical occupations	113
Administrative and secretarial occupations	76
Skilled trades occupations	93
Personal service occupations	67
Sales and customer service occupations	61
Process, plant and machines operatives	85
Elementary occupations	66
All occupations	100

Source: Griffiths&Wall (2012) EP#09: Redistribution, social policy and welfare state

The earnings distribution (cont.)

Table: Relative earnings by sex, 2009 (UK)

Occupational group	Median gross weekly wage (female/male) ratio
Managers and senior officials	72 (78)
Professional occupations	83 (89)
Associate professional and technical occupations	80 (89)
Administrative and secretarial occupations	79 (89)
Skilled trades occupations	92 (81)
Personal service occupations	68 (92)
Sales and customer service occupations	67 (71)
Process, plant and machines operatives	67 (71)
Elementary occupations	44 (79)
All occupations	63 (80)

Source: Griffiths&Wall (2012) EP#09: Redistribution, social policy and welfare state

The distribution of wealth

Table: Ownership of marketable wealth (UK)

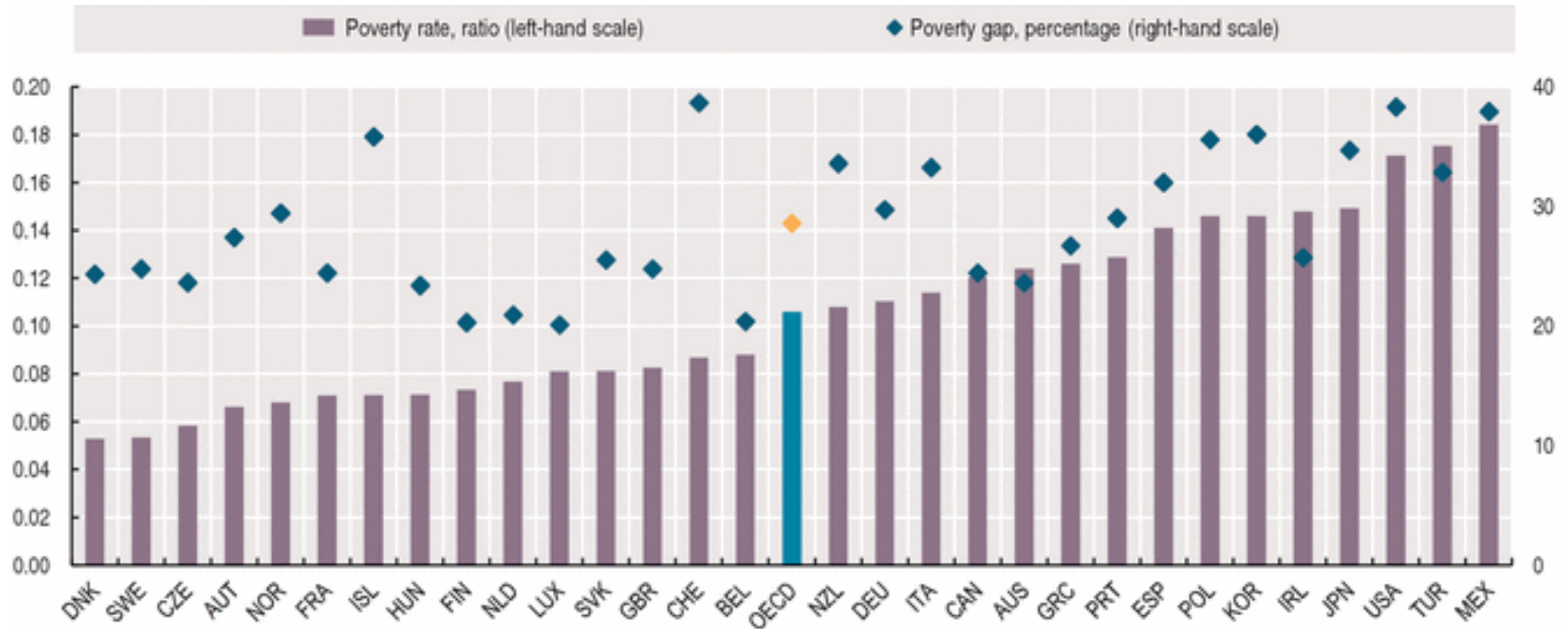
Percentage of wealth owned by:	1971	1986	2006
Most wealthy 1 % of population	31	18	21
Most wealthy 5 % of population	52	36	40
Most wealthy 10 % of population	65	50	54
Most wealthy 25 % of population	87	73	77
Most wealthy 50 % of population	97	90	94

Source: Griffiths&Wall (2012)

Poverty

Poverty can be described in *absolute* or *relative* terms.

Fig.: Poverty rates and gaps (mid 2000s)

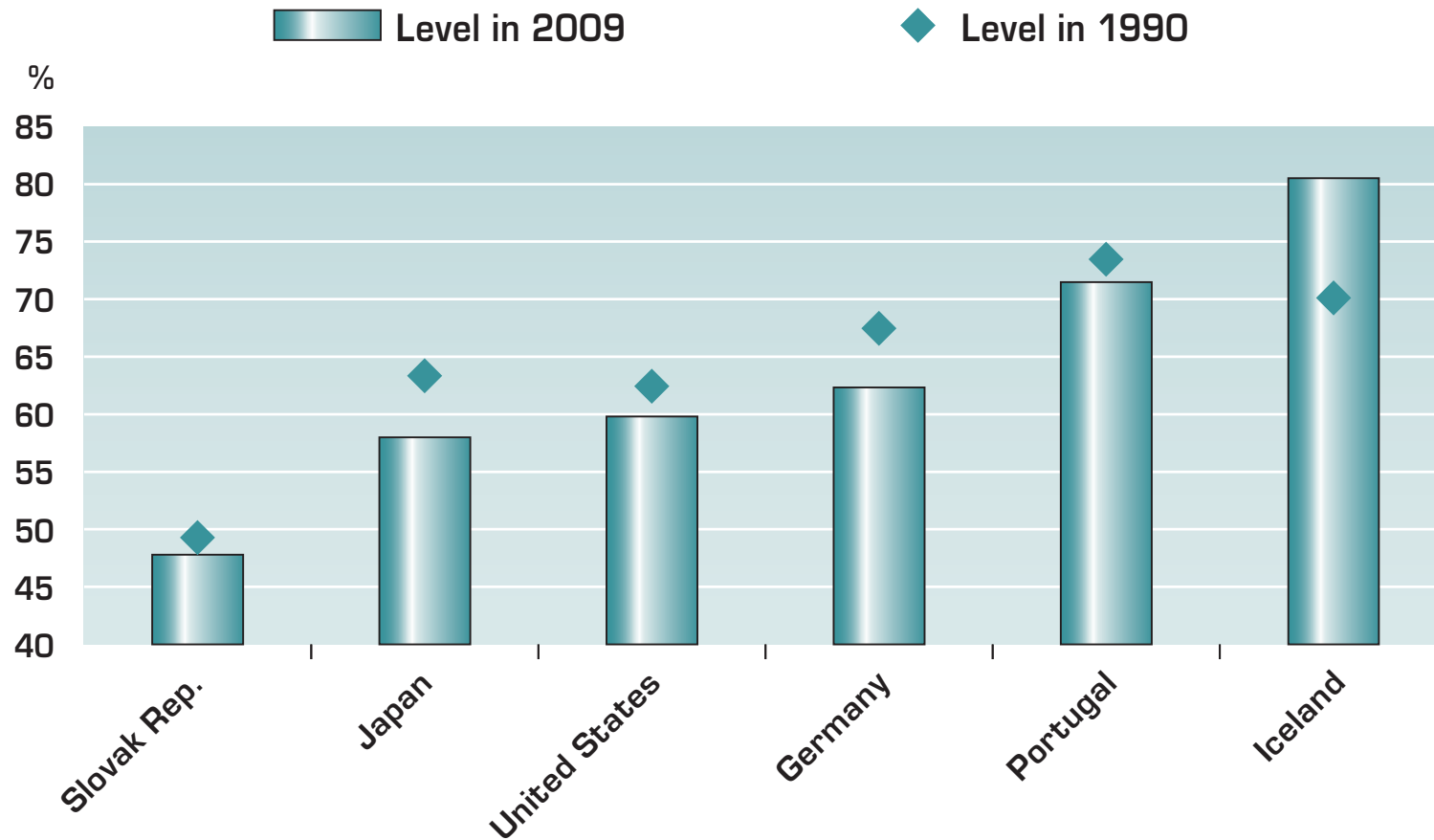


Source: OECD

Why is income inequality rising?

- Globalisation: a key role for technology
- Labor vs. capital: a shifting balance
- The workplace: traditional jobs are declining
- Societies: love, life and inequality
- The state's role: less regulation, less redistribution

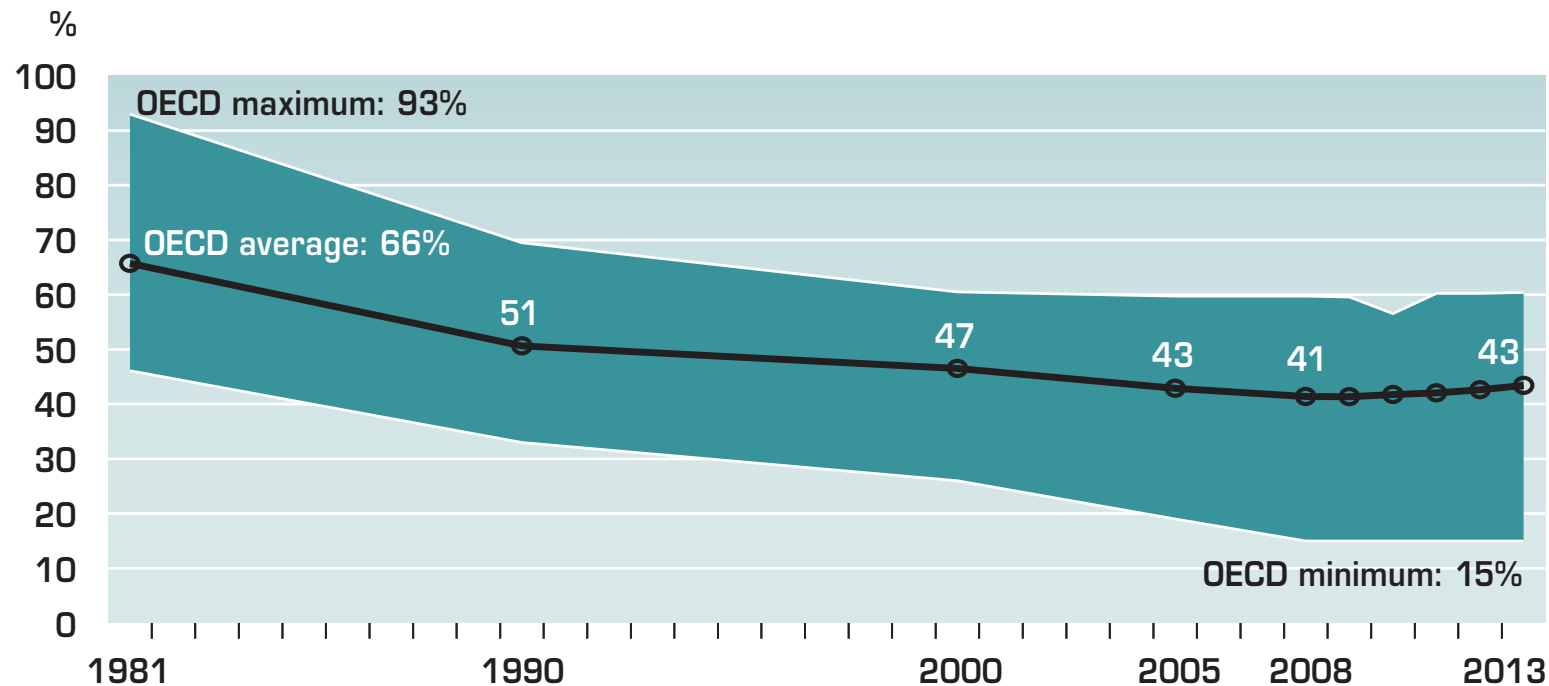
Labour share of national income in OECD countries, 1990 and 2009



Source: OECD (2012), *OECD Employment Outlook 2012*, <http://dx.doi.org/10.1787/888932651503>.

Data: Tax rates on top incomes fell substantially between the 1980s and the financial crisis.

Maximum, minimum and average statutory tax rates on top incomes in OECD countries, 1981-2013 (or latest)

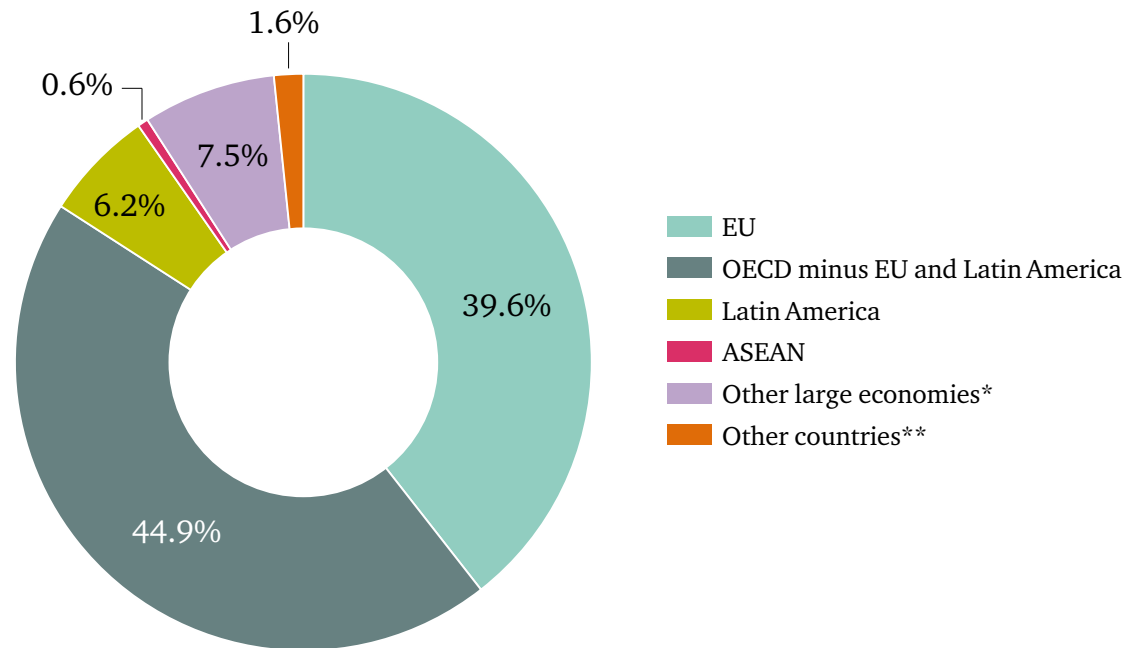


Source: OECD (2014), "Focus on Top Incomes and Taxation in OECD Countries: Was the crisis a game changer?", <http://dx.doi.org/10.1787/888932965953>.

Welfare state (WS)

- There are various definitions..
- The WS is a concept of government in which the state plays a key role in the protection and promotion of the social and economic well-being of its citizens
- WS is funded through taxes and provides cash or in-kind transfers.

Global social protection expenditure, 2012 or latest (% of total)

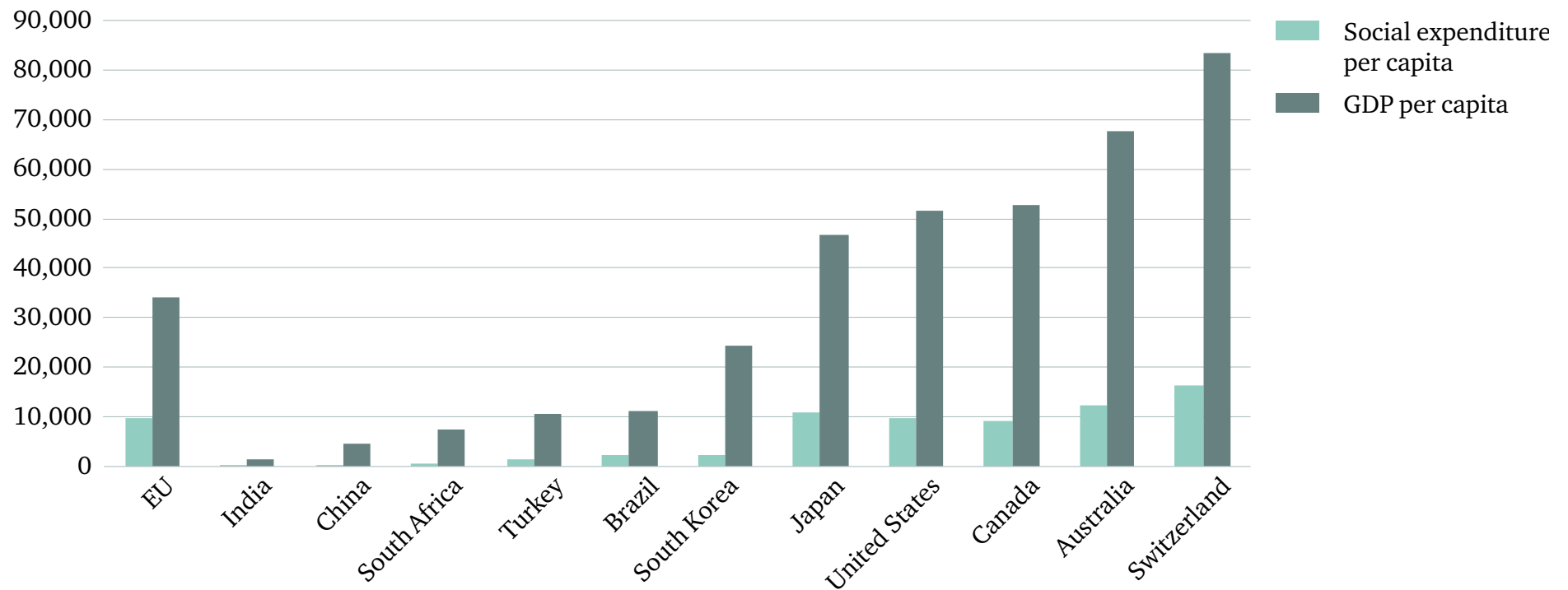


* Large economies are China, Egypt, India, Nigeria, Russia, Saudi Arabia, South Africa, United Arab Emirates.

** Other countries exclude American Samoa, Andorra, Bermuda, Cabo Verde, Cayman Islands, Channel Islands, Comoros, Curacao, Djibouti, Faeroe Islands, French Polynesia, Gabon, Greenland, Guam, Haiti, Isle of Man, North Korea, Kosovo, Liberia, Liechtenstein, Macau, Malawi, Micronesia, Monaco, Montenegro, New Caledonia, Northern Mariana Islands, Palau, Puerto Rico, Republic of the Congo, Romania, San Marino, Serbia, Sierra Leone, St Martin (Dutch and French parts), Somalia, South Sudan, Suriname, Syria, Taiwan, Timor-Leste, Tonga, Turkmenistan, Turks and Caicos Islands, Tuvalu, Virgin Islands (US), West Bank and Gaza.

Sources: EUROSTAT (for social expenditure in EU member states); OECD SOCX database (for social expenditure in non-EU OECD countries); ILOSTAT (for social expenditure in non-EU non-OECD countries); World Bank Data (for GDP and population data).

Social protection expenditure and GDP per capita in EU and selected countries, US\$, 2012 or latest



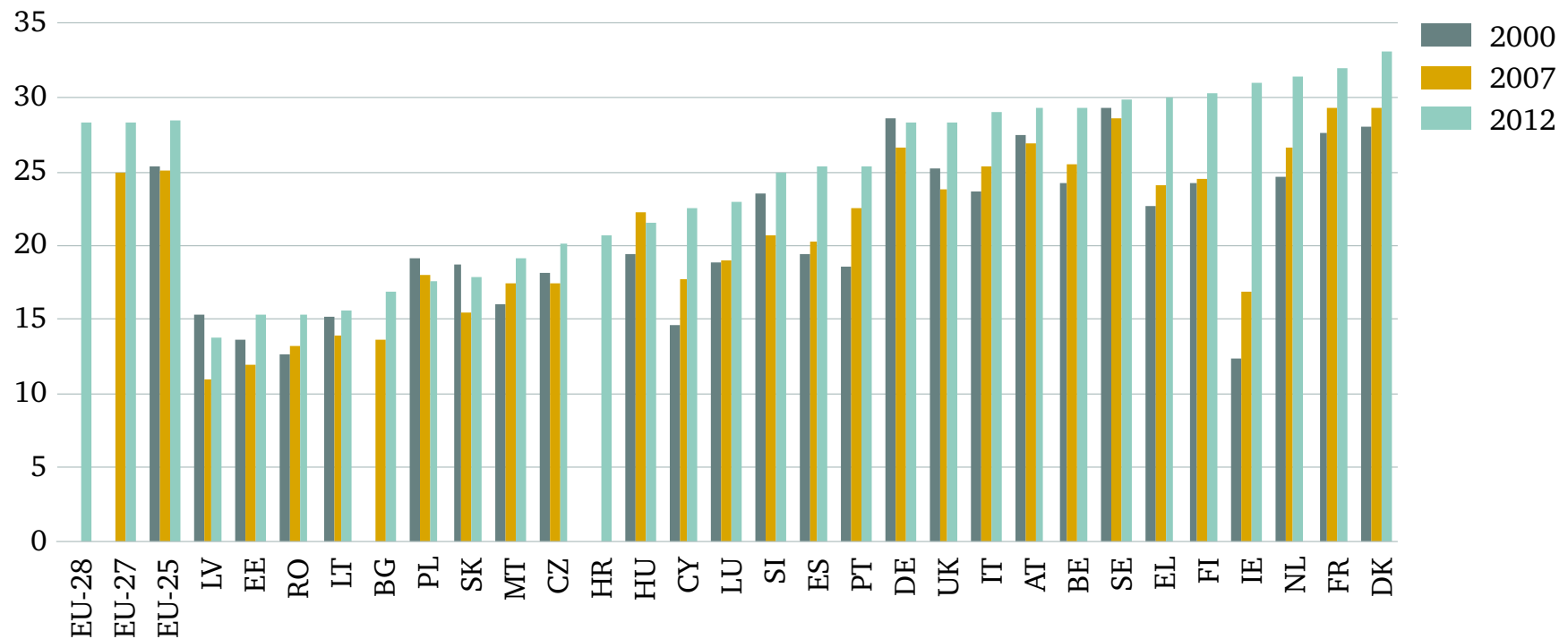
Sources: EUROSTAT (for social expenditure in EU member states); OECD SOCX database (for social expenditure in non-EU OECD countries); ILOSTAT (for social expenditure in non-EU non-OECD countries); World Bank Data (for GDP and population data).

Welfare state functions

- The WS fulfils three distinctive functions:
- *The 'Robin Hood' function*: redistributing in various ways from better-off members of society to those faced with material or other deprivation or subject to higher social risks
- *The 'piggy bank' function*: the WS enables citizens to insure themselves against social hardship
- *The social investment function*: enables the state to invest in the nation's human and social capital.

Welfare spending in Europe #1

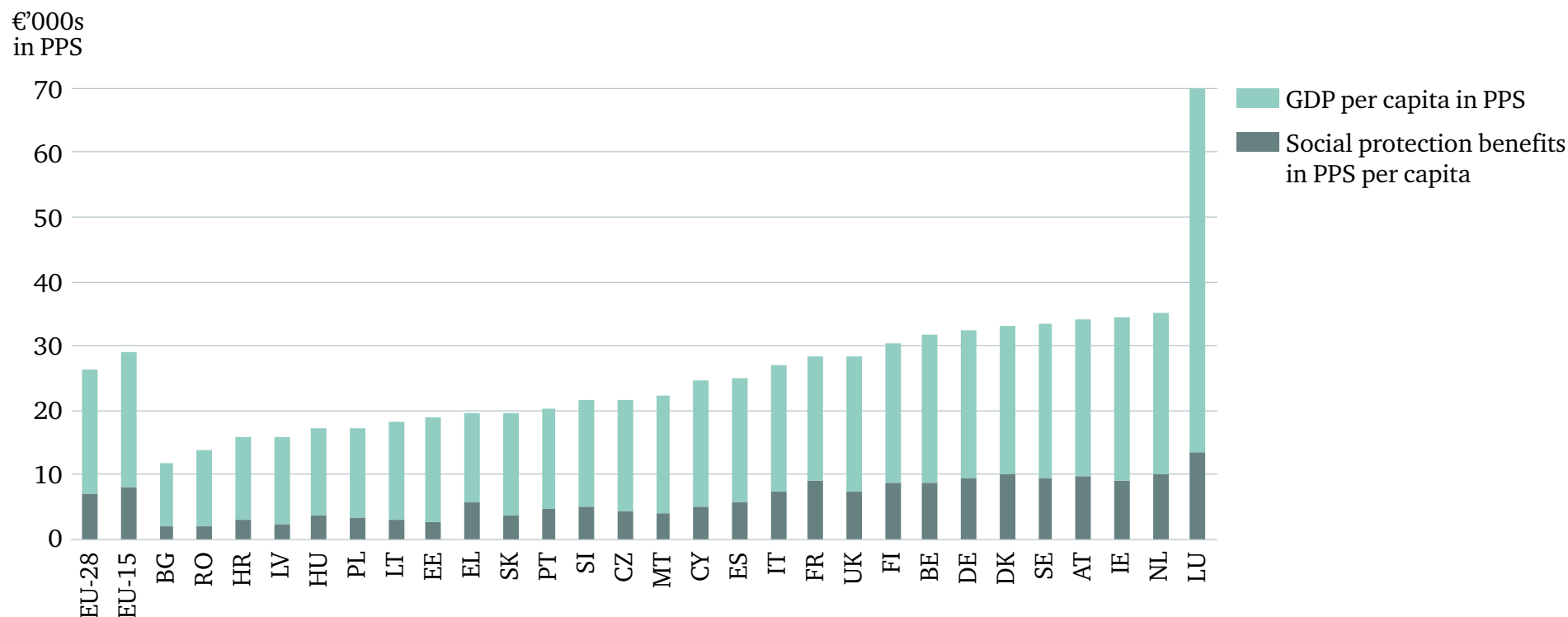
Fig.: Social protection benefits – all functions (expenditures as % GDP)



Source: EUROSTAT.

Welfare spending in Europe #2

Fig.: Expenditures on social protection benefits - all functions
(PPS basis per capita, relative to GDP per capita, 2012)

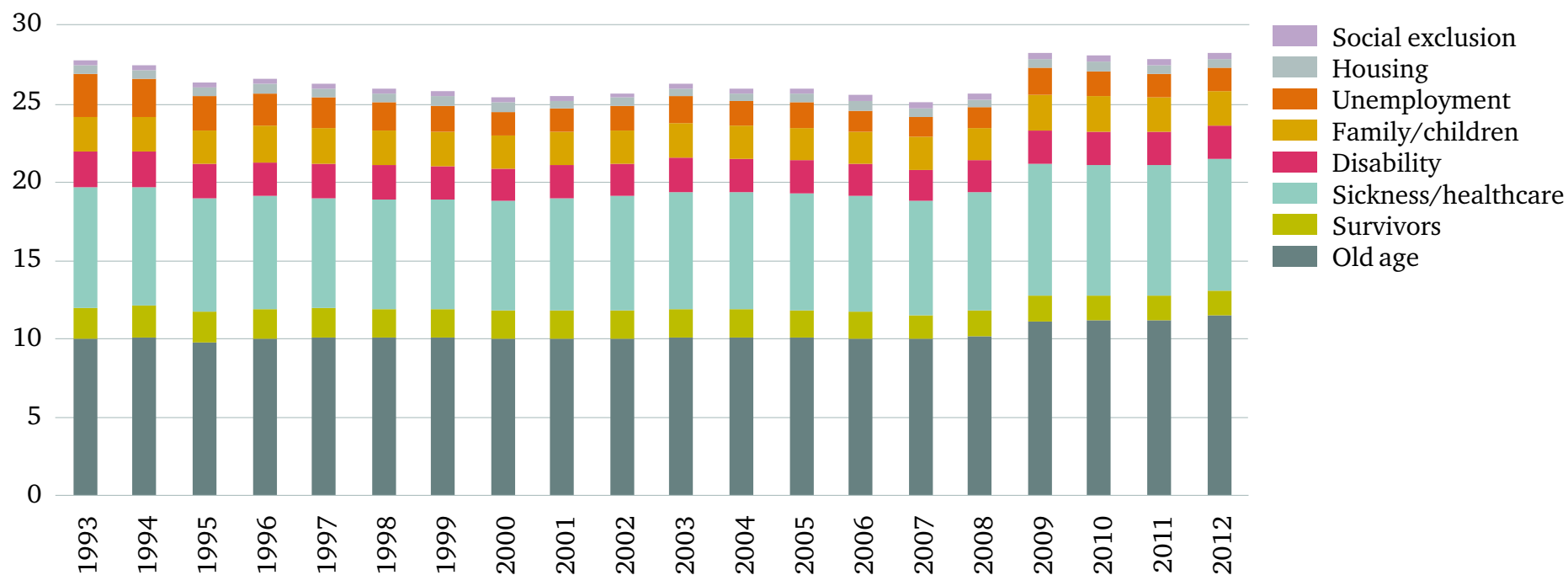


* Purchasing power standard.

Source: EUROSTAT.

Welfare spending in Europe #3

Fig.: Expenditure on social protection benefits – by function (as % GDP in EU, 1993-2012)

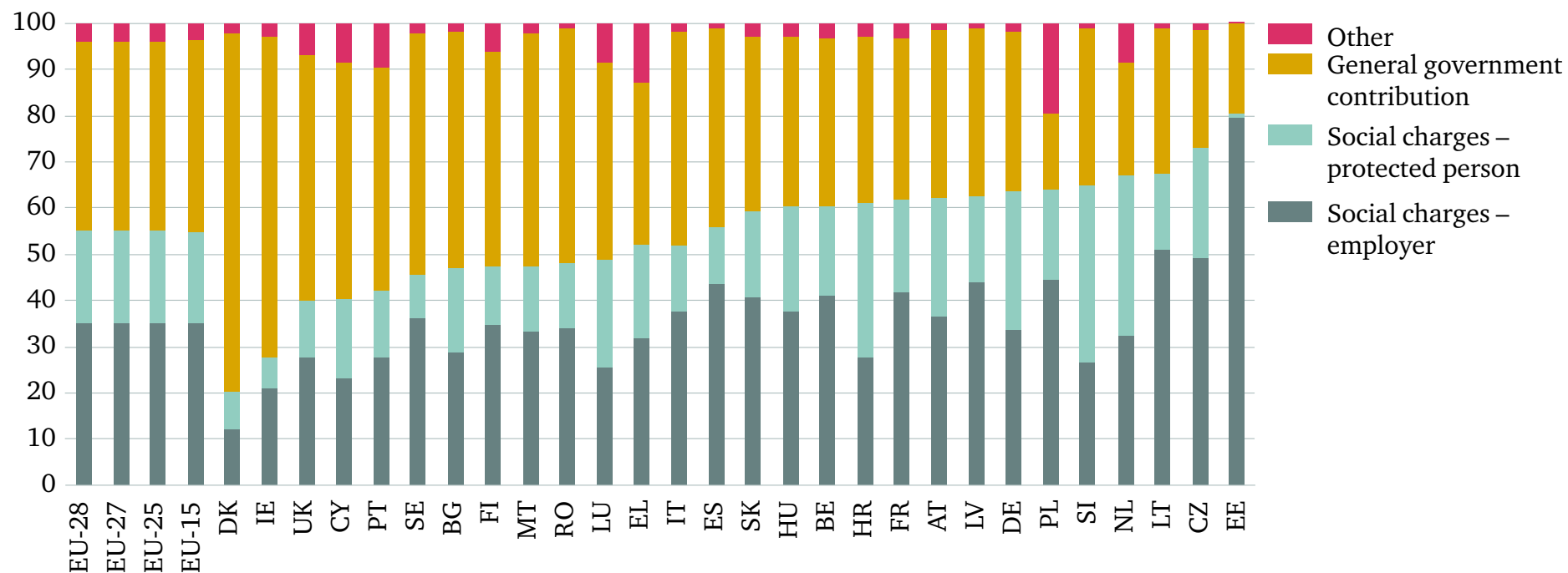


* EU is taken as EU-15 for 1993–99, EU-25 for 2000–04, EU-27 for 2005–07, EU-28 for 2008–12.

Source: EUROSTAT.

Welfare spending in Europe #4

Fig.: Social protection receipts – by type (% of total receipts in 2012)



Source: EUROSTAT.

Diversity of welfare states

- Differing welfare models evolved after WWII.
- These models can be categorized in various ways
 - E.g.. G. Esping-Andersen (*The Three Worlds of Welfare Capitalism, 1990*) identified models of welfare state according to levels of *decommodification, stratification* and the different providers of welfare.

Social-democratic (scandinavian) model

- prevalent in Denmark, Sweden
- generous replacement of market earnings through the state
- stratification of universal social citizenship/social welfare as a universal right
- state as main provider of social welfare
- characterized by high social expenditure, active labour market policies and increased public-sector employment

Corporatist (continental) model

- northern-central Europe, typified by Germany and France
- varying degrees of decommodification and stratification, preserving the status of workers
- main provider of welfare is the family, but contributory principle ties many benefits to employment history
- basic security supplemented with contributory benefits (pensions, unemployment, etc.)
- opening up jobs through earlier retirement.

Liberal (Anglo-Saxon) model

- United Kingdom, Ireland
- minimal decommodification; stigmatizing stratification
- seeks to increase demand for labor through liberalization and wage flexibility
- mostly private forms of insurance
- benefits comparatively low and linked to means-testing
- poverty relief through minimum wages, but less of a focus on equality.

Southern model

- Spain, Italy, Greece, Portugal
- insider-based entitlements
- extended family as core unit
- income maintenance
- strong jobs protection – favouring, for example, full-time over temporary workers.

Challenges for welfare states

- demographic change: population aging and living longer increases financial burden
- globalization: reducing governments' ability to sustain or reform welfare institutions
- changes in the family structure (societal change): e.g. increase the participation rate of women, the shift away from the male-breadwinner model affects certain aspects of the welfare model
- problem of welfare state and efficiency: especially administrative costs and the disincentive effects on the labor supply
- new technologies and the changing mix of jobs