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Economic Policy

Redistribution, social policy and welfare state

Content

- Distribution and justice
 - theoretical approaches
 - issues in distribution
- 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

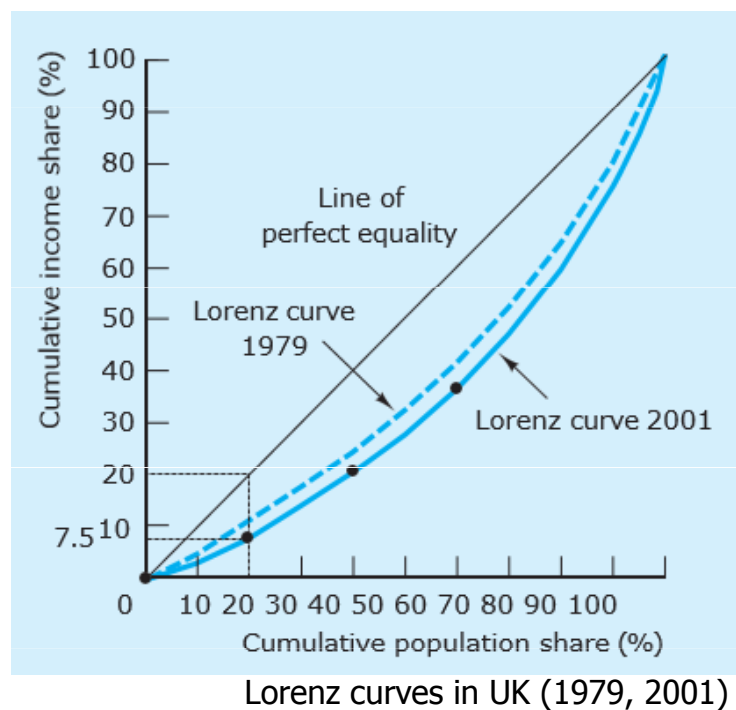
Issues in distribution

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 labour and capital
- the distribution of earnings between different types of labour
- the distribution of wealth
- poverty

Income distribution between people

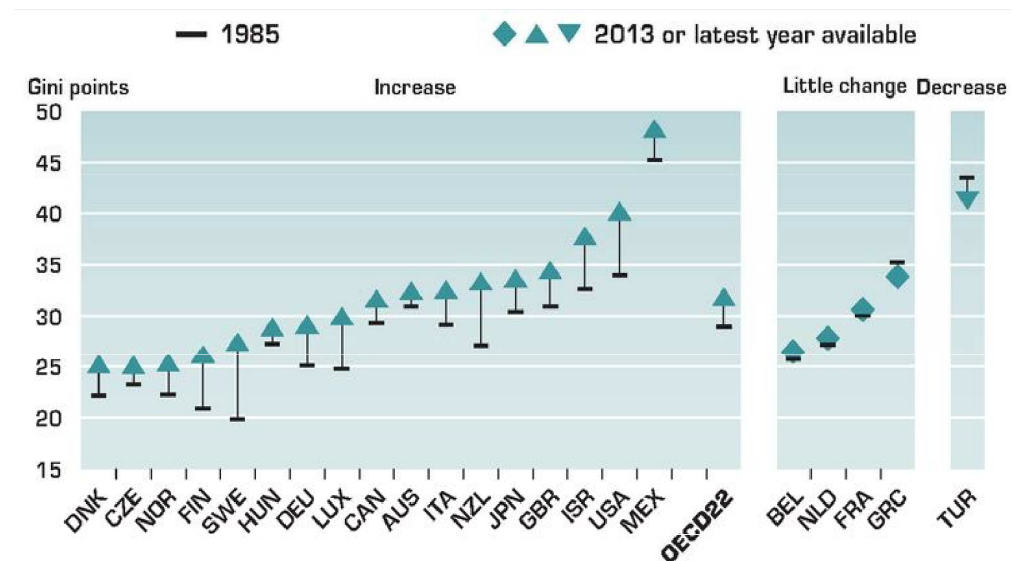
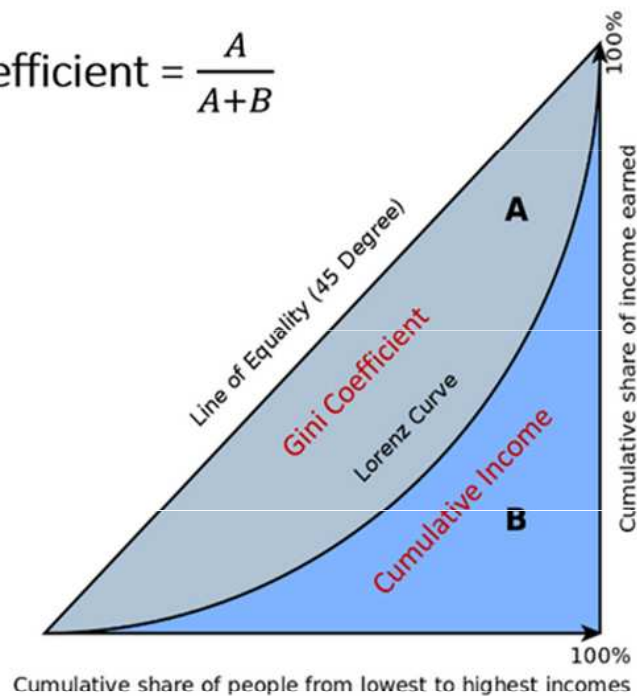
- The conventional mean of illustrating income distribution is the Lorenz curve



Income distribution between people

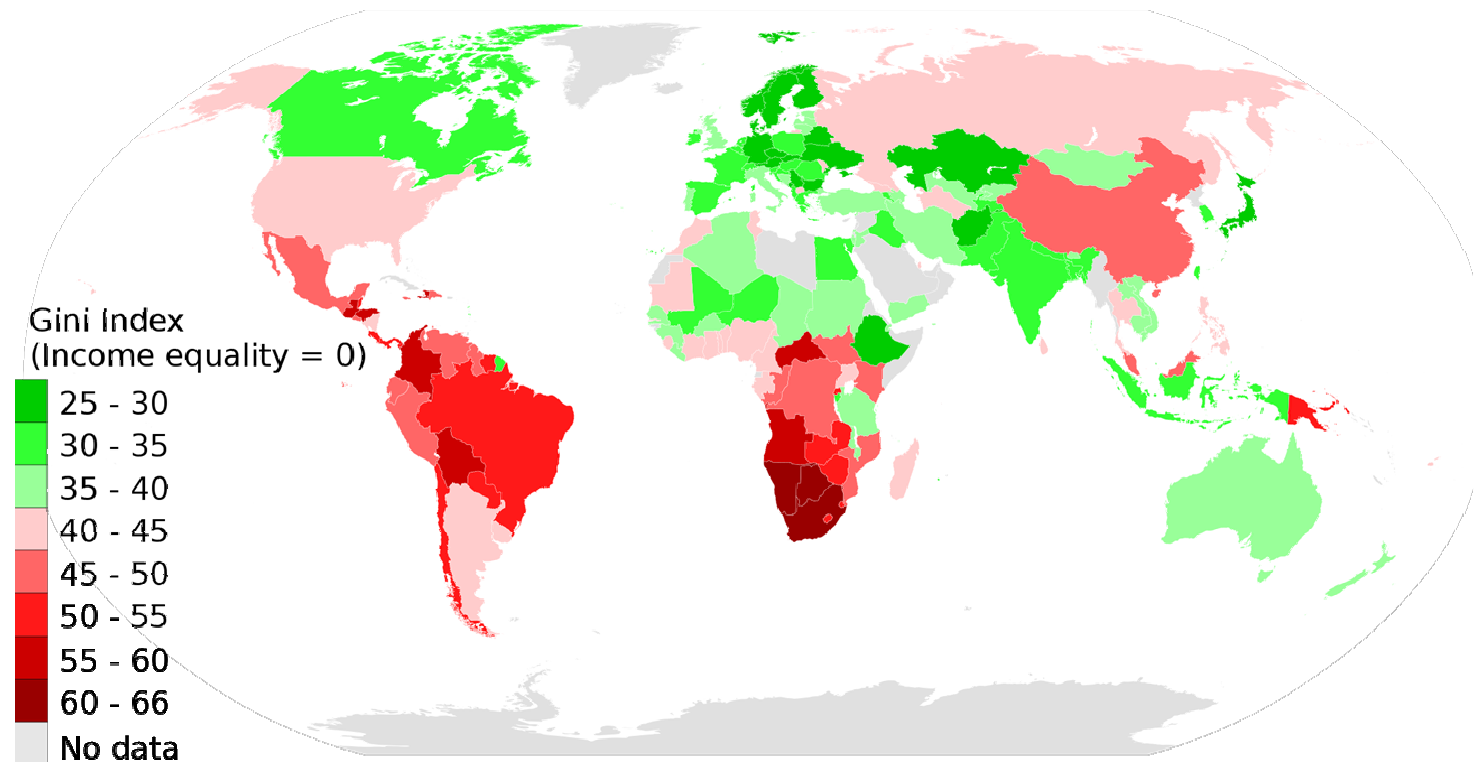
– and the Gini coefficient.

$$\text{Gini Coefficient} = \frac{A}{A+B}$$



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

Gini coefficient



The distribution of wealth

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

Table: Ownership of marketable wealth (UK)

Poverty

Helping hand

Poverty rate* before and after taxes and transfers

Selected OECD countries, 2016, %



Source: OECD

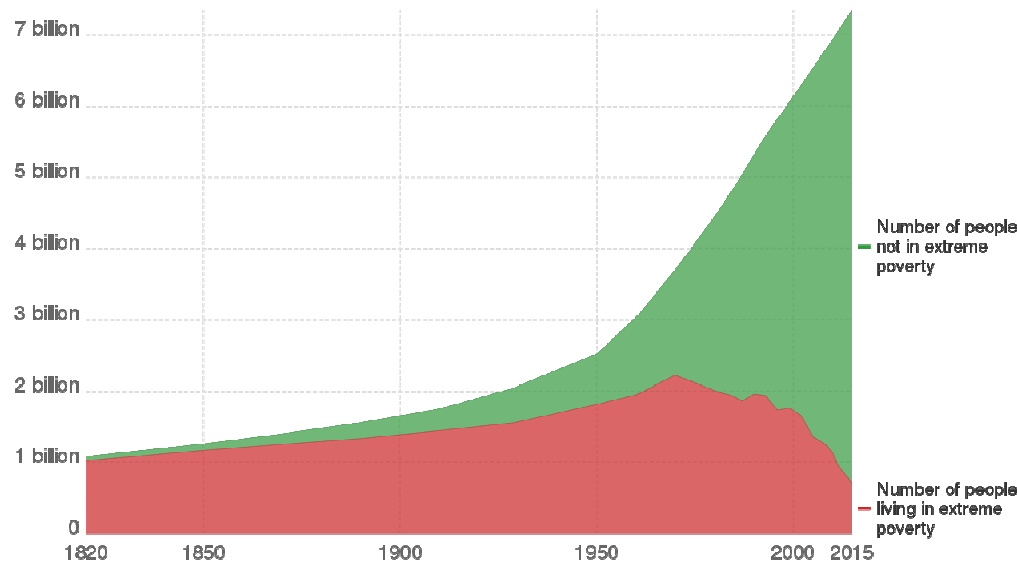
*Less than 50% of median income

Extreme poverty (people living on less than \$1.90 a day)

World population living in extreme poverty, 1820-2015

Extreme poverty is defined as living at a consumption (or income) level below 1.90 "international \$" per day. International \$ are adjusted for price differences between countries and for price changes over time (inflation).

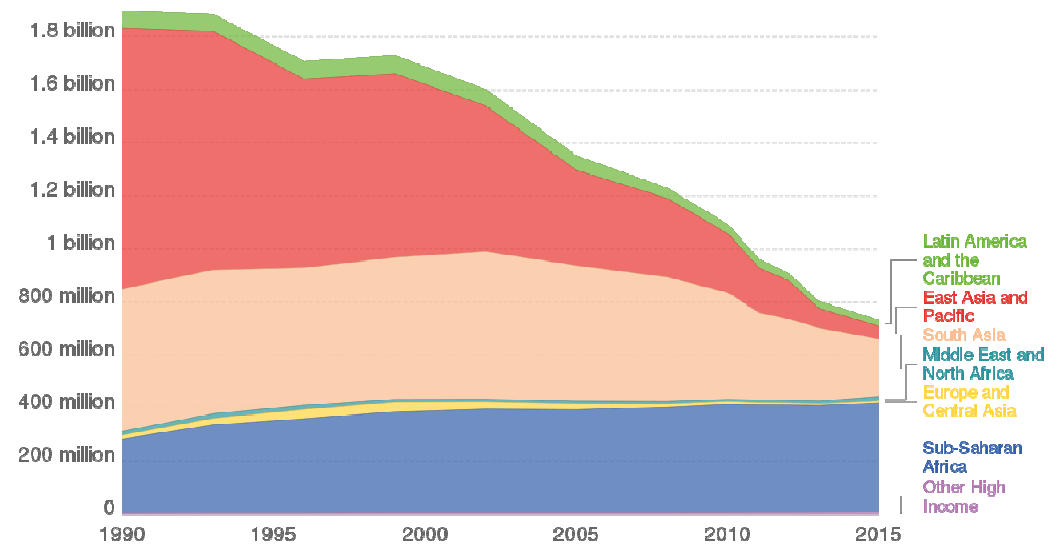
Our World
in Data



Source: World Poverty in absolute numbers - OWID based on World Bank (2016) and Bourguignon and Morrisson (2002)

Total population living in extreme poverty, by world region

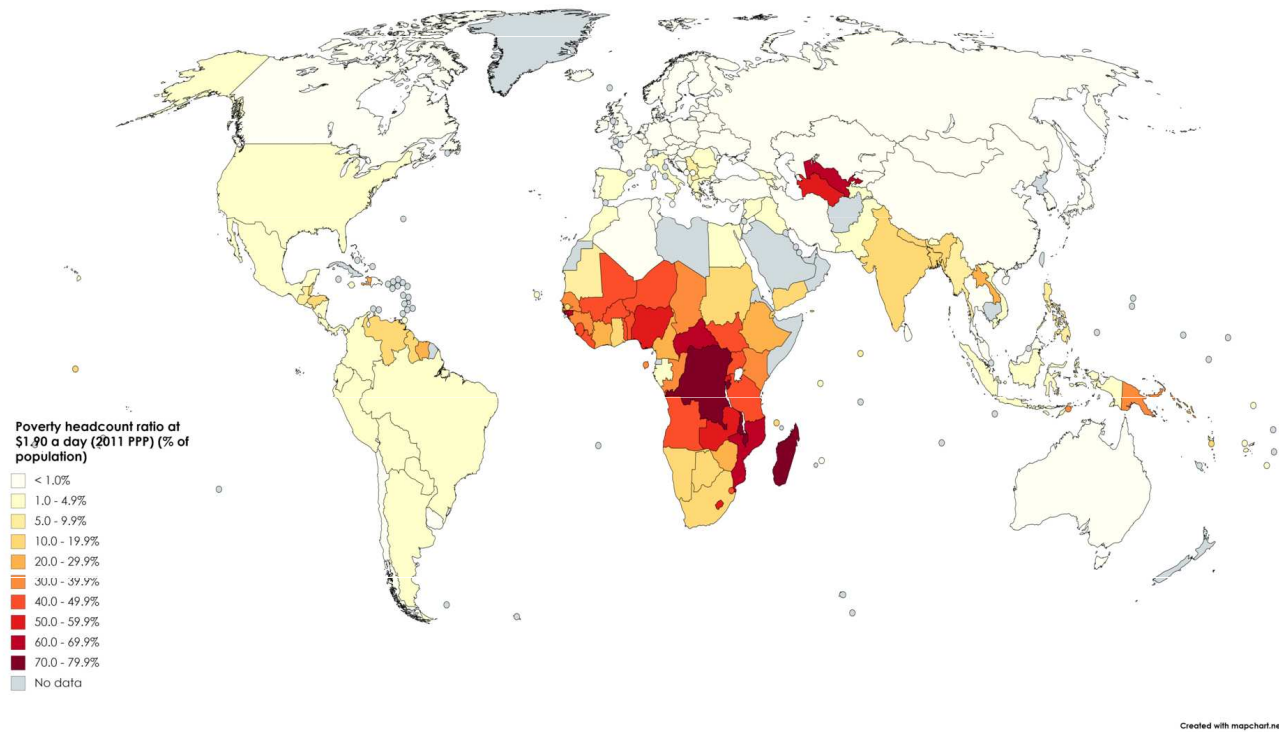
Numbers are in millions of people. Extreme poverty is defined as living with per capita household consumption below 1.90 international dollars per day (in 2011 PPP prices). International dollars are adjusted for inflation and for price differences across countries.



Source: PovcalNet (World Bank)

Note: Consumption per capita is the preferred welfare indicator for the World Bank's analysis of global poverty. However, for about 25% of the countries, estimates correspond to income, rather than consumption.

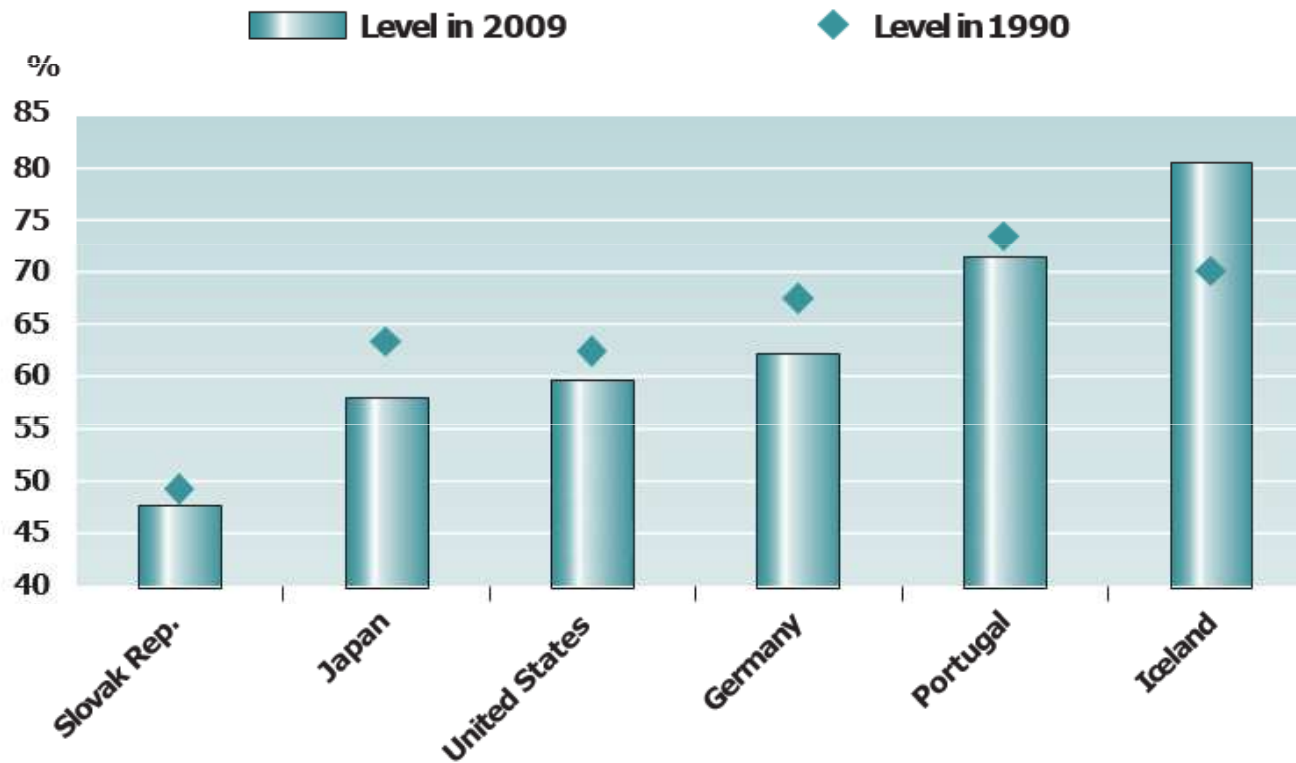
Extreme poverty (people living on less than \$1.90 a day)



Why is income inequality rising?

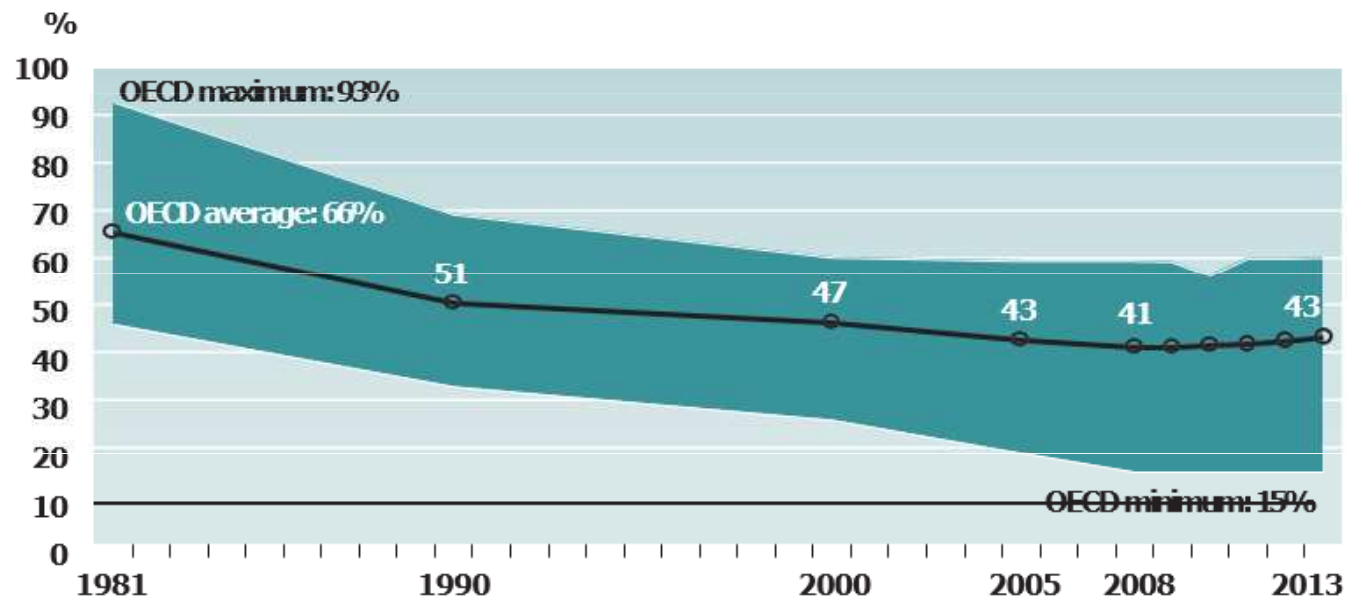
- globalisation
 - a key role for technology => replacement low-skilled workers by machines
- labour vs. capital: a shifting balance
 - larger share of income belongs to capital owners
- change in the workplace:
 - increase in part-time working
 - decline in trade union membership
- changing in societies:
 - growing tendency to marry people very similar social and educational backgrounds

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



Why is income inequality rising?

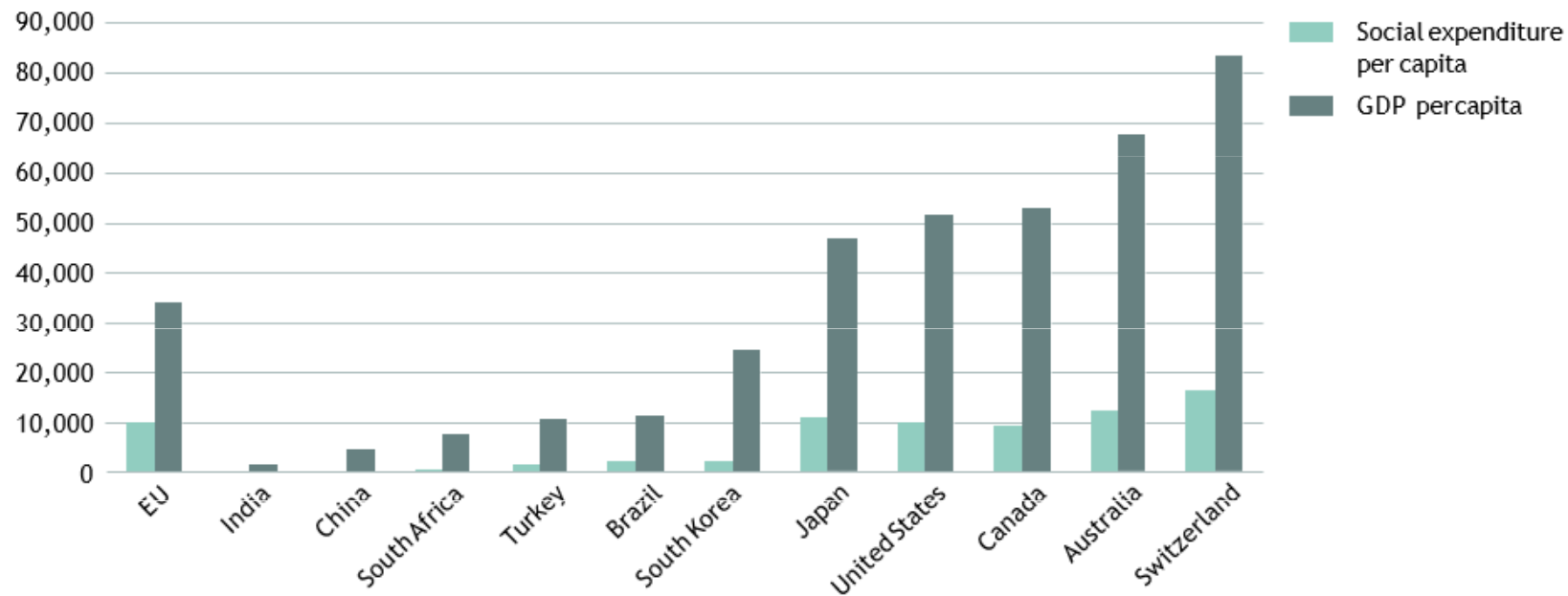
Maximum, minimum and average statutory tax rates on top incomes in OECD countries, 1981-2013 (or latest)



Welfare state (WS)

- 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.
 - In kind transfers consist of goods or services, not money

Social protection expenditure and GDP per capita (US\$)



Diversity of welfare states

- Differing welfare models evolved after WWII.
- Esping-Andersen (The Three Worlds of Welfare Capitalism, 1990) identified models of welfare state according to stratification and the different providers of welfare
 - Social-democratic (Scandinavian) model
 - Corporatist (continental) model
 - Liberal (Anglo-Saxon) model
 - Southern model

Social-democratic (Scandinavian) model

- prevalent in Denmark, Sweden, Norway
- generous replacement of market earnings through the state (e.g. for unemployed)
- social welfare is an universal right
- state as a main provider of social welfare
- characterized by high social expenditure, active labour market policies and increased public-sector employment

Corporatist (continental) model

- typified by Germany and France
- 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.)

Liberal (Anglo-Saxon) model

- United Kingdom, Ireland
- seeks to increase demand for labour 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.

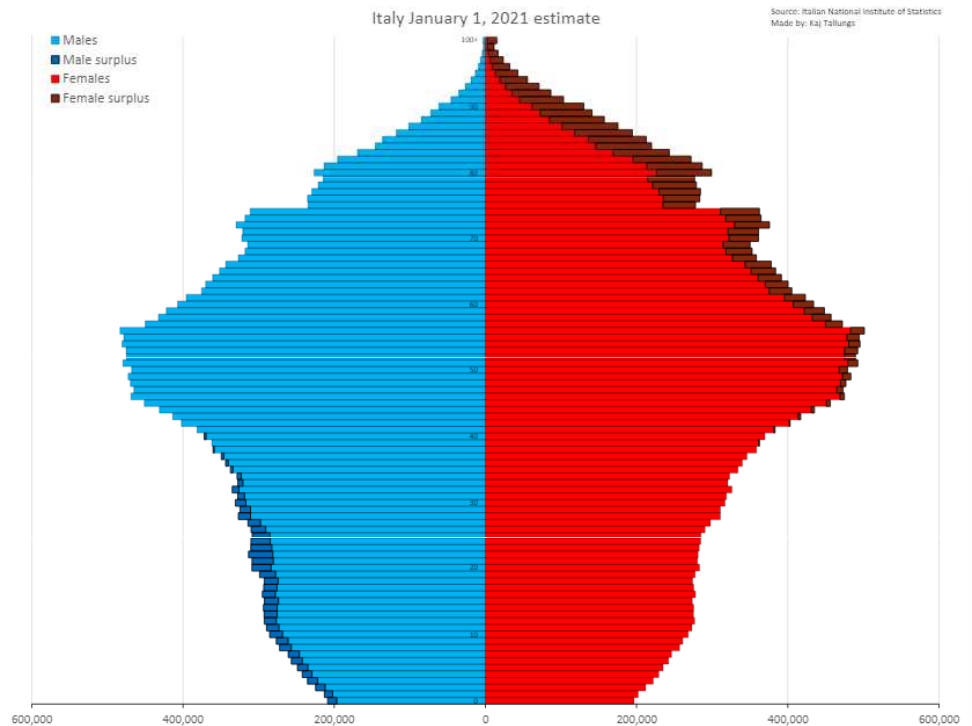
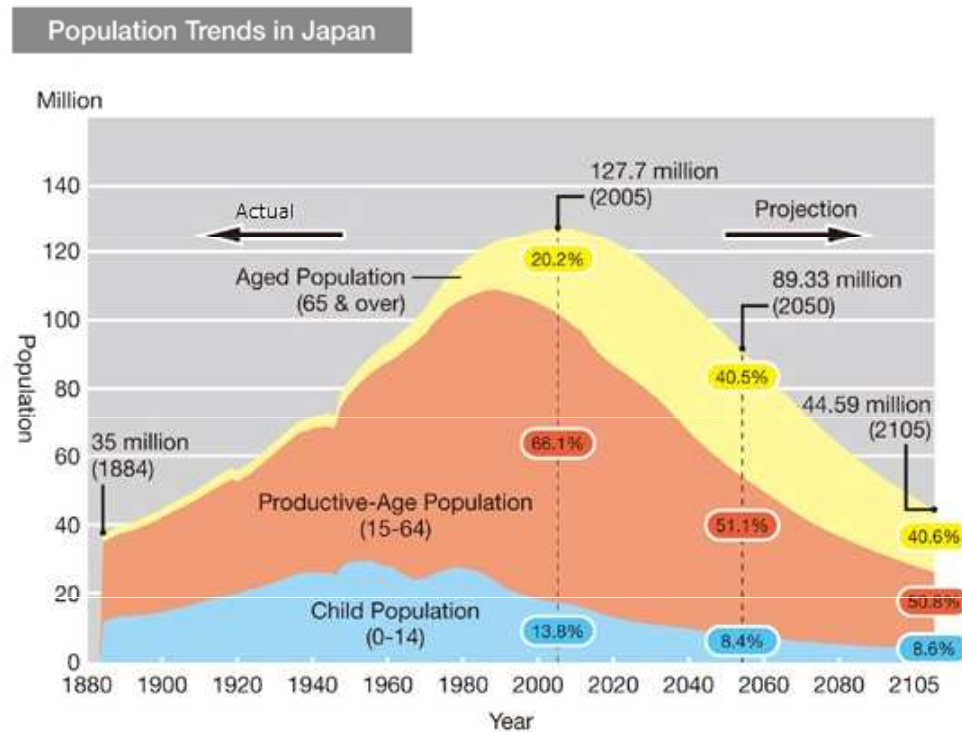
Southern model

- Spain, Italy, Greece, Portugal
- 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 ageing 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 labour supply
- new technologies and the changing mix of jobs

Challenges for welfare states



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