

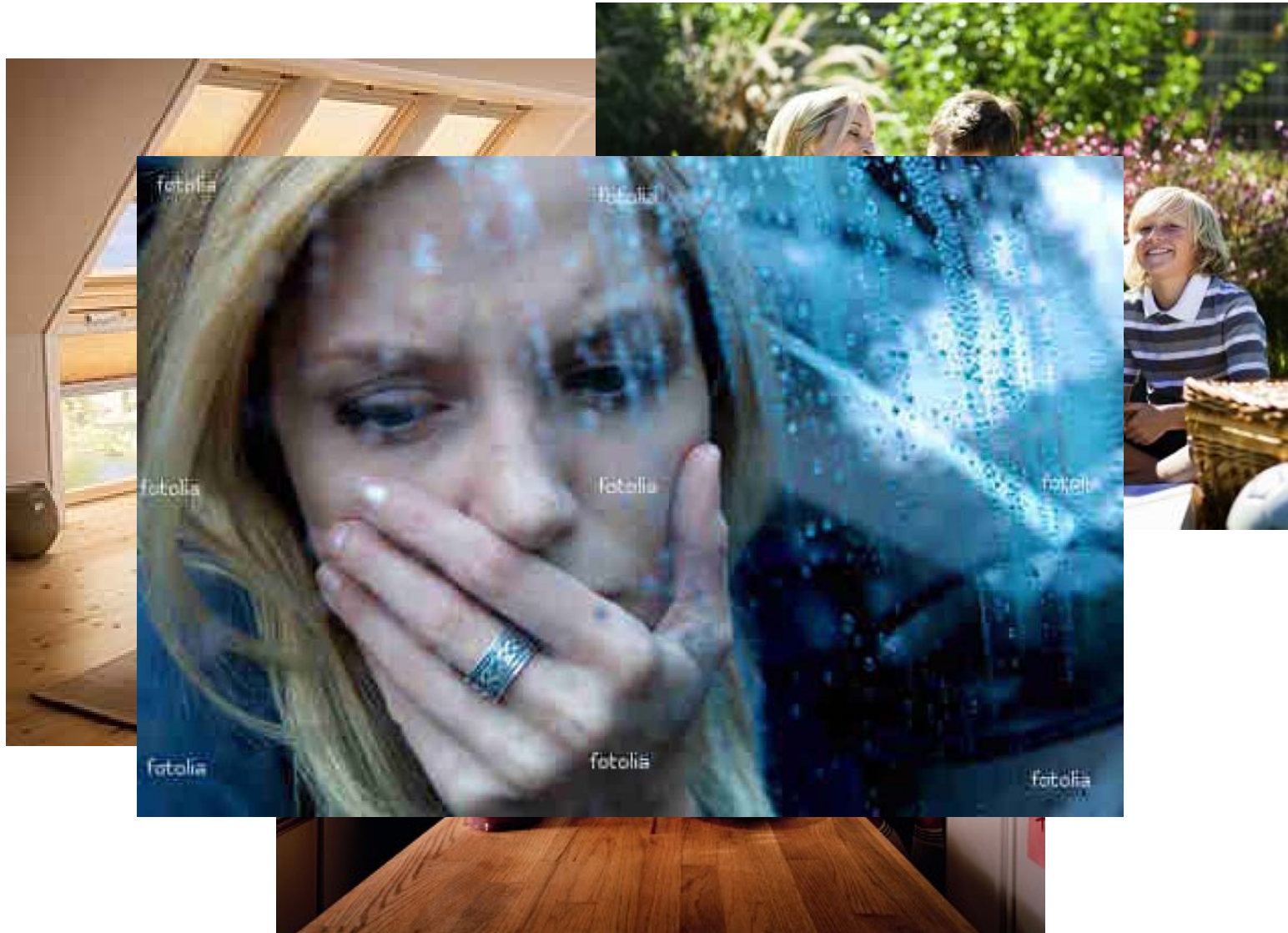
Inequality – Reasons, Consequences and Treatments

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Motivation



Consequences

- Diminishing middle class
- Inequality as the main reason for the excessive boosting of housing credit in the US (Rajan 2011)
- Growth
- Happiness

Inequality of what?

Income as only one, but important, determinant of capabilities

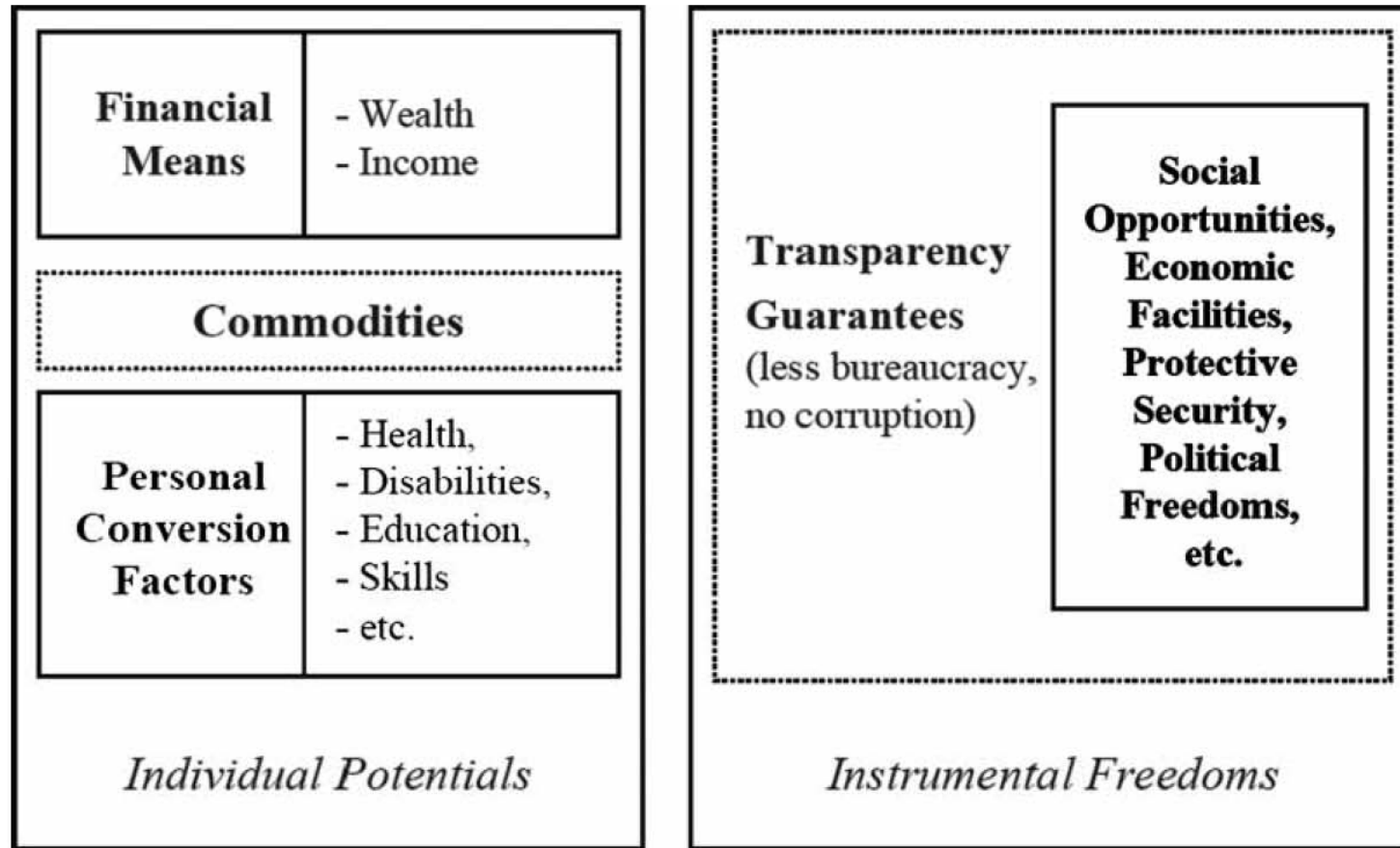
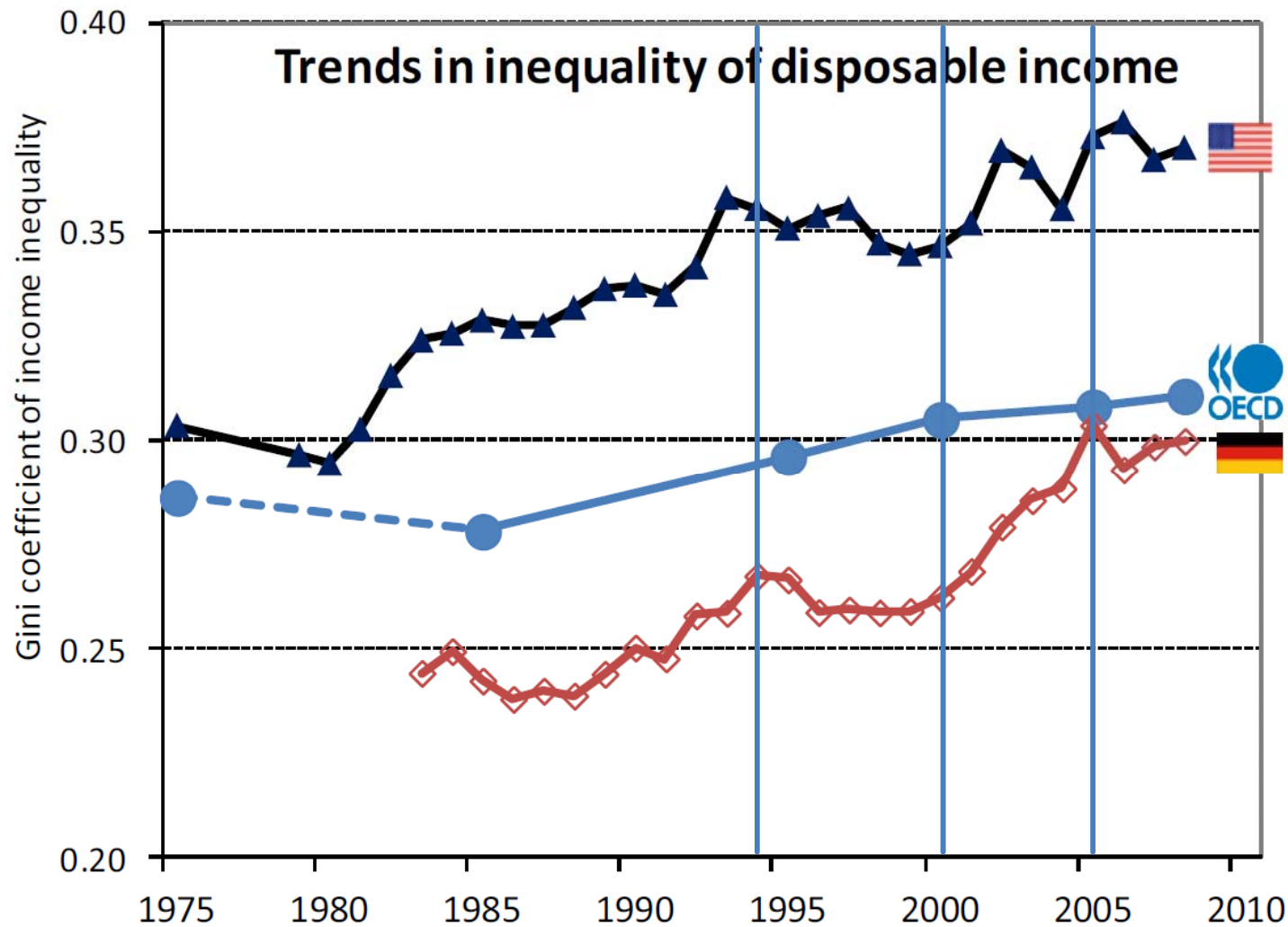


FIGURE 1. Main determinants of capabilities.

Source: Arndt/Volkert (2011)

Development of Income Inequality



Source: OECD (2011)

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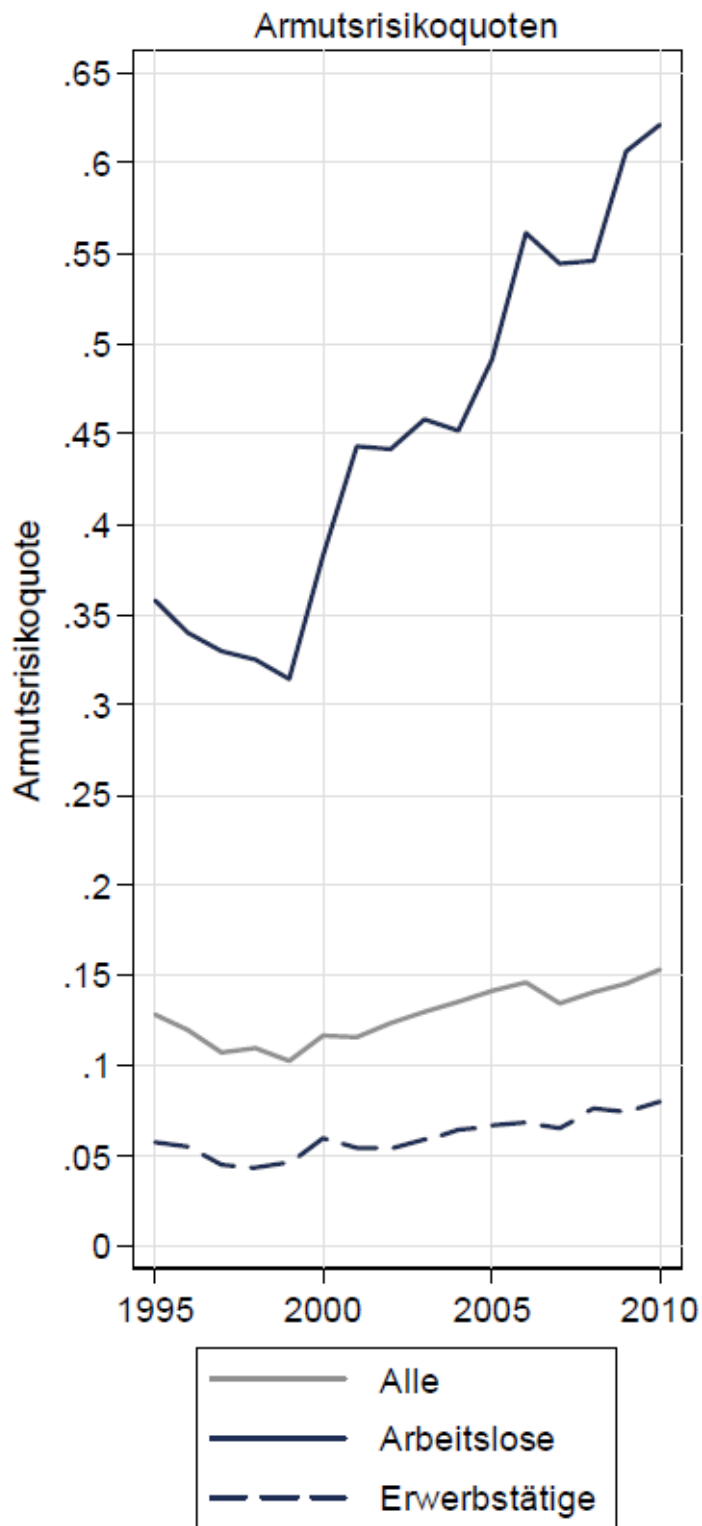
Reasons in the long run

- Long-run determinants (OECD 2011)
 - skill biased technological change
 - changing work intensities
- Long-run determinants for Germany
 - diminishing coverage of collective wage bargaining schemes
 - demographic trend (twofold effects)

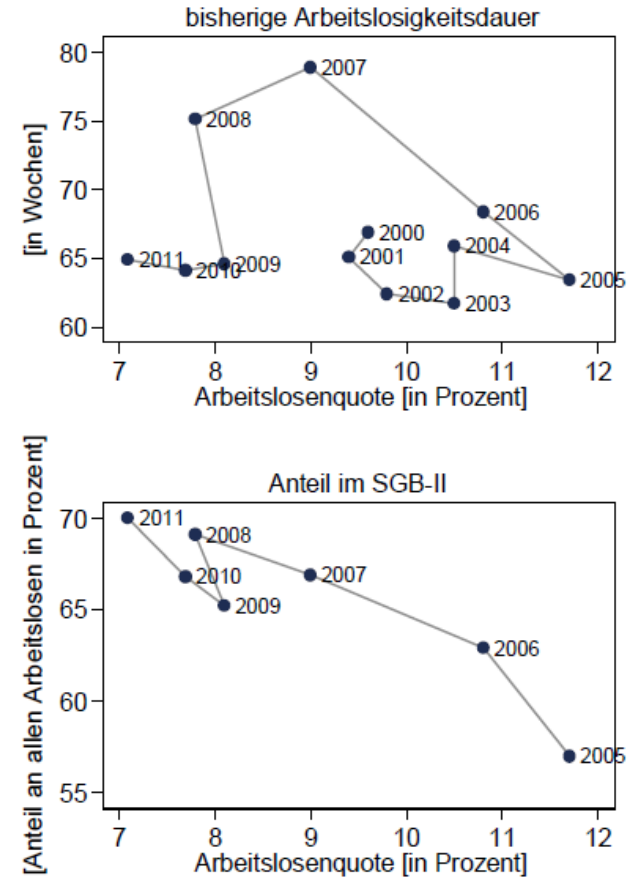
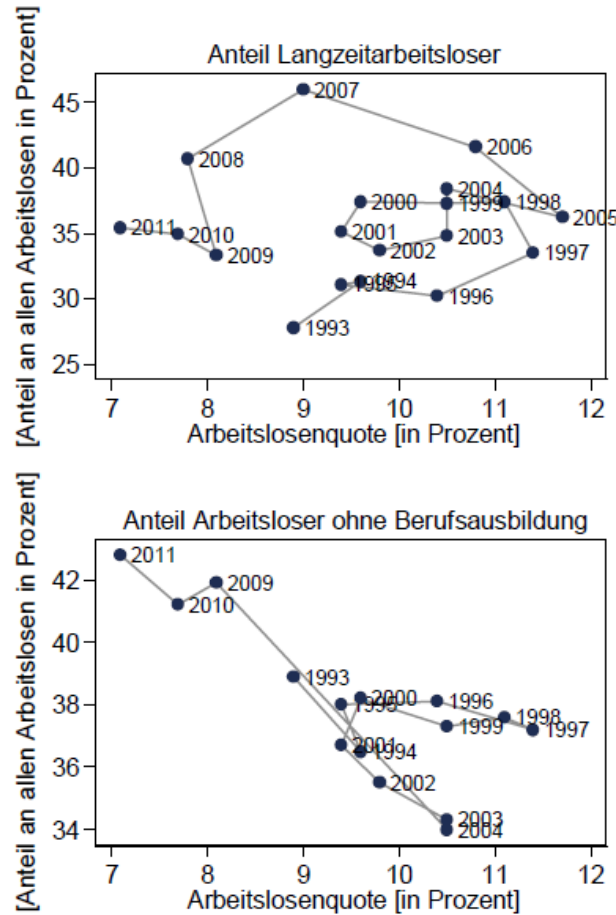
Reasons for Recent Developments in Germany

- Strong increase of income inequality 1999-2005 (IAW/UniTue 2012)
 - increasing unemployment (50%)
 - changes in income tax formula (25%)
 - polarization of wages (25%)
- Stable level of income inequality (2005-2011)
 - decreasing unemployment
 - increasing poverty among the unemployed by a worsening structure of the unemployed

Poverty and Composition of the Unemployed

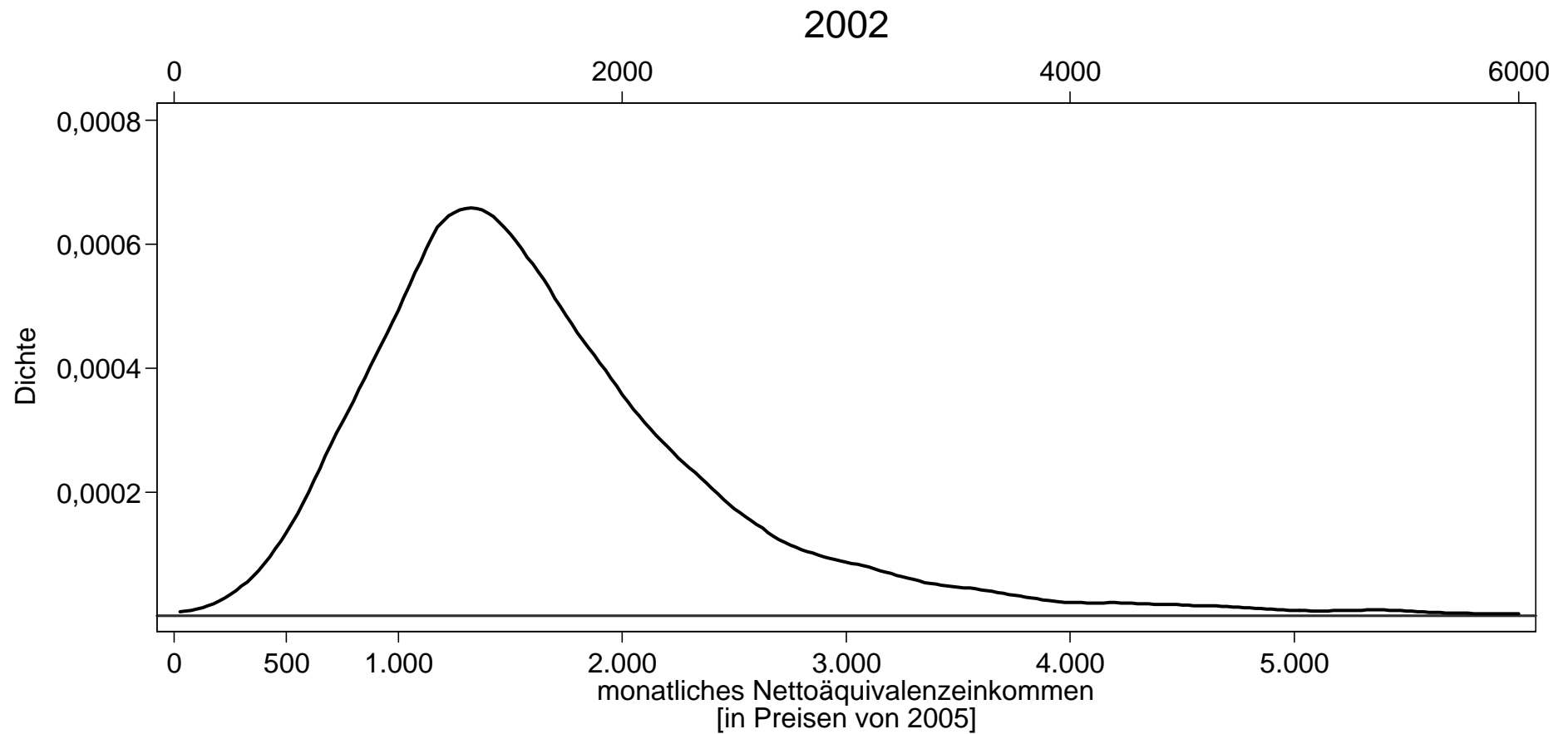


Composition of the Unemployed and Unemployment Rates (1993-2011)

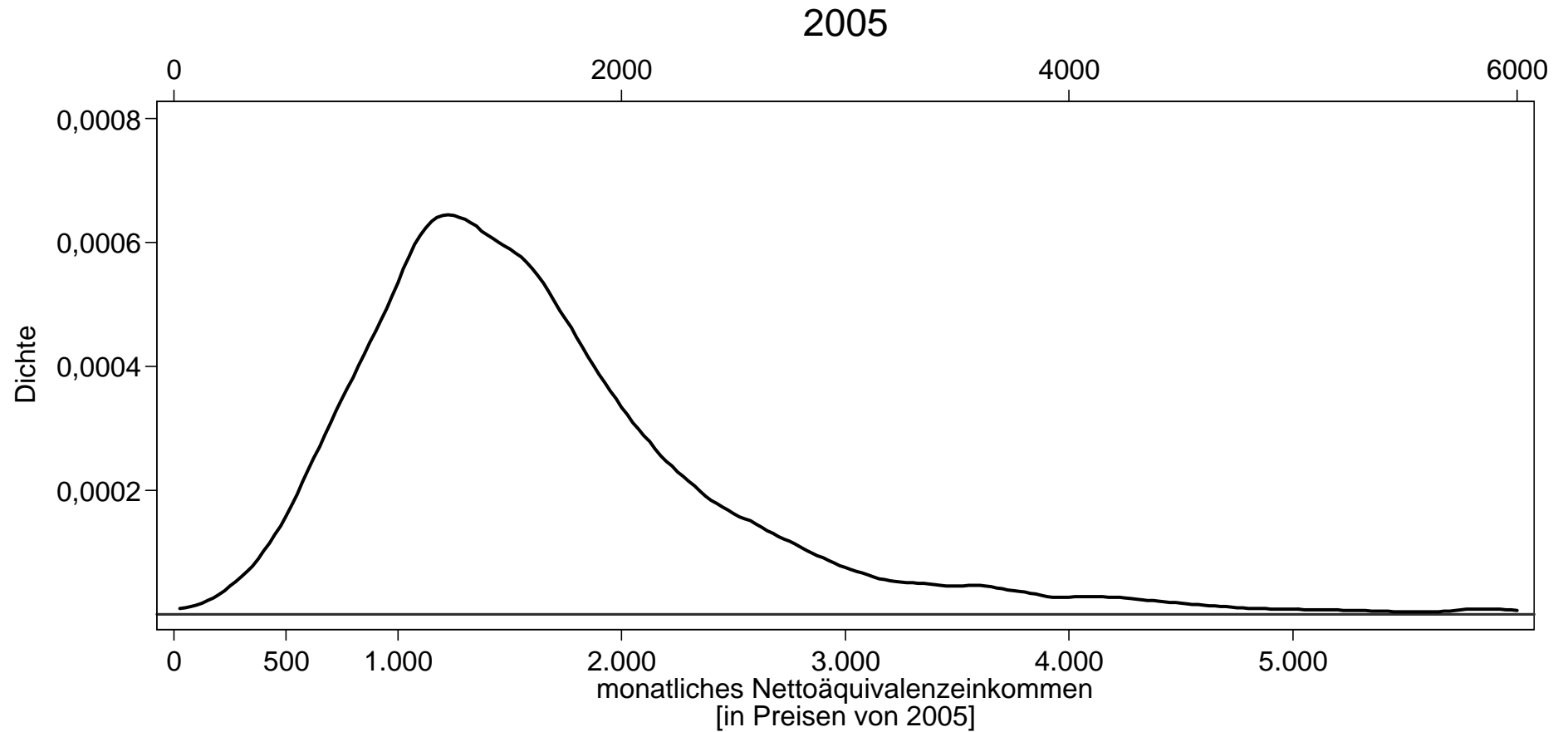


Source: Own Calculations, SOEP v27

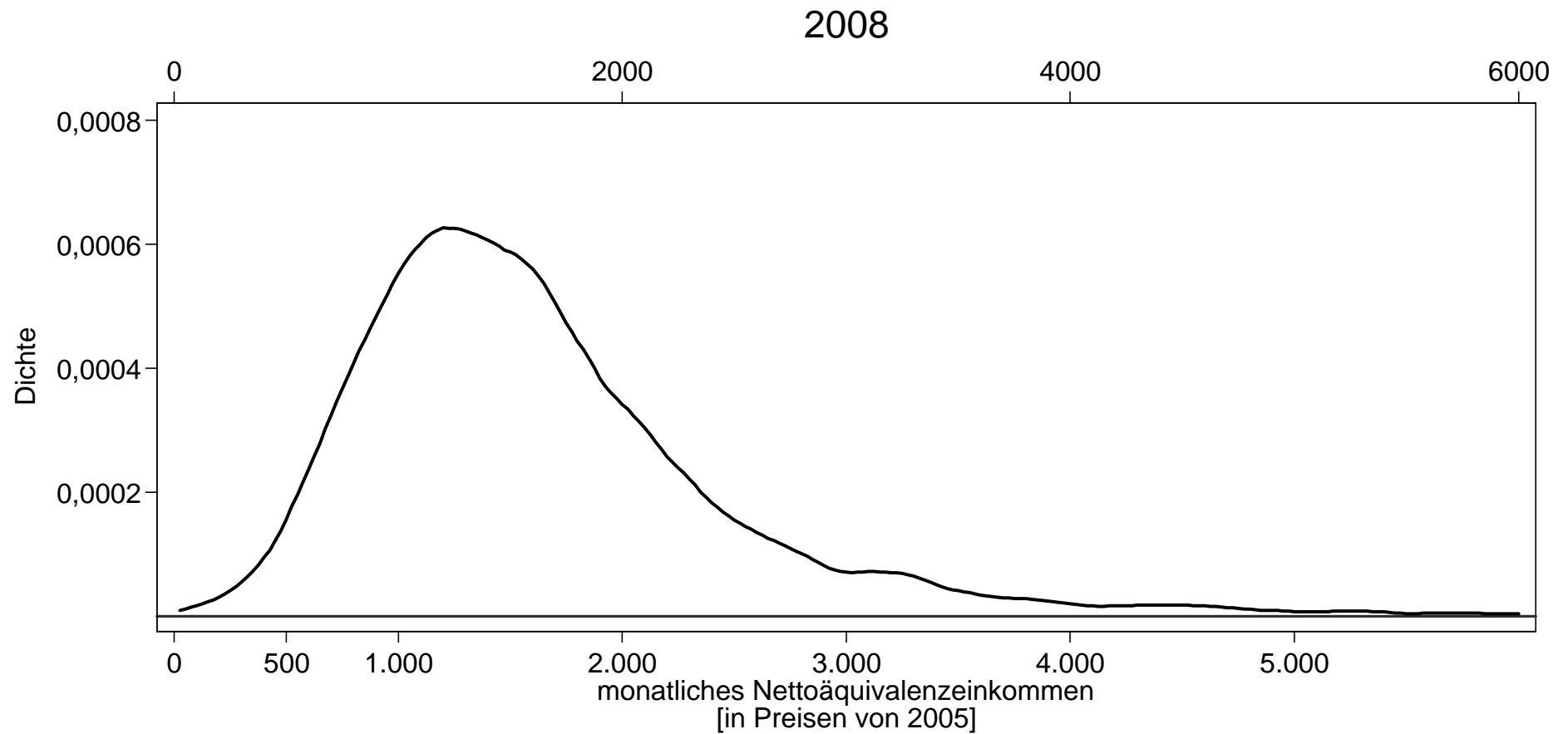
X-Raying the Income Distribution 2002



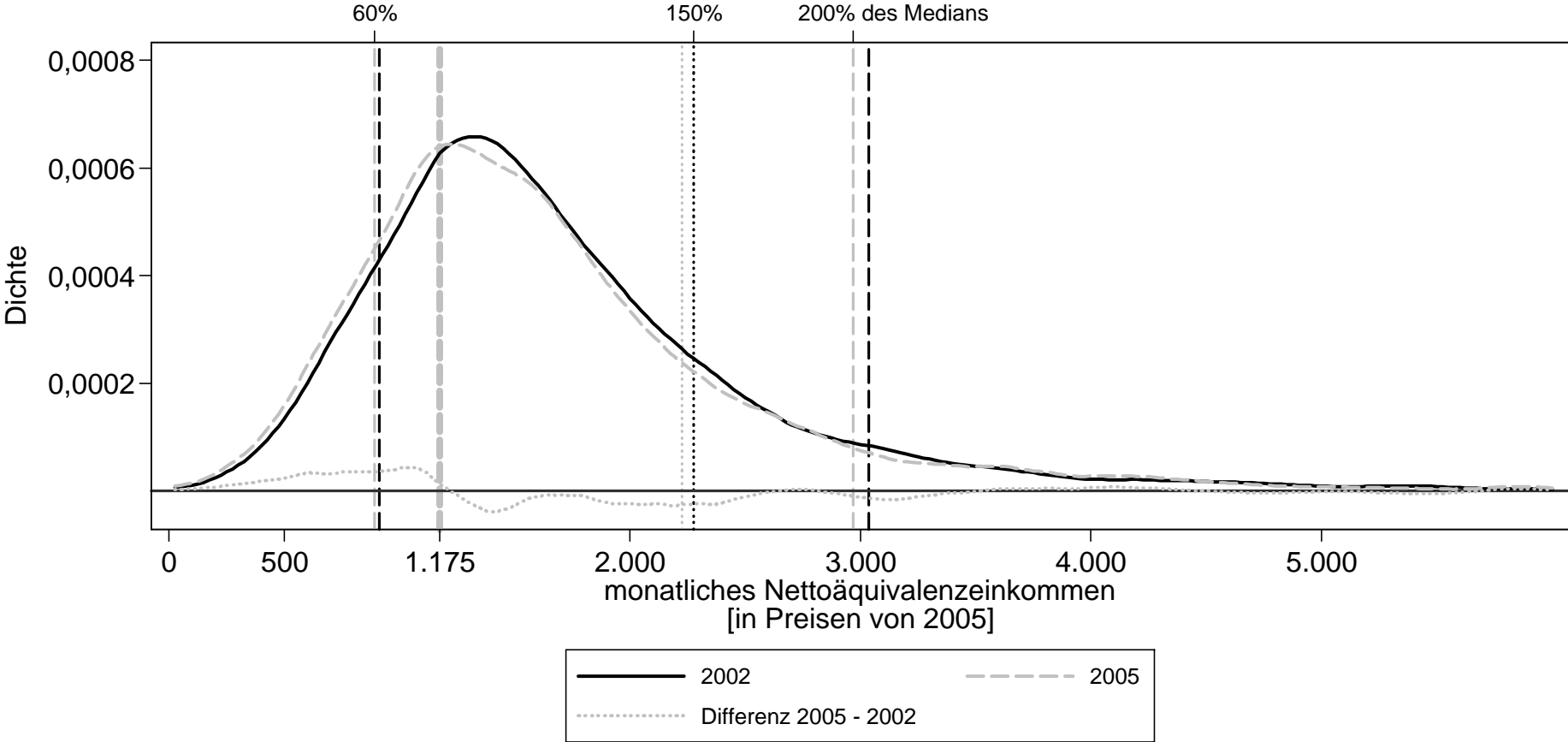
X-Raying the Income Distribution 2005



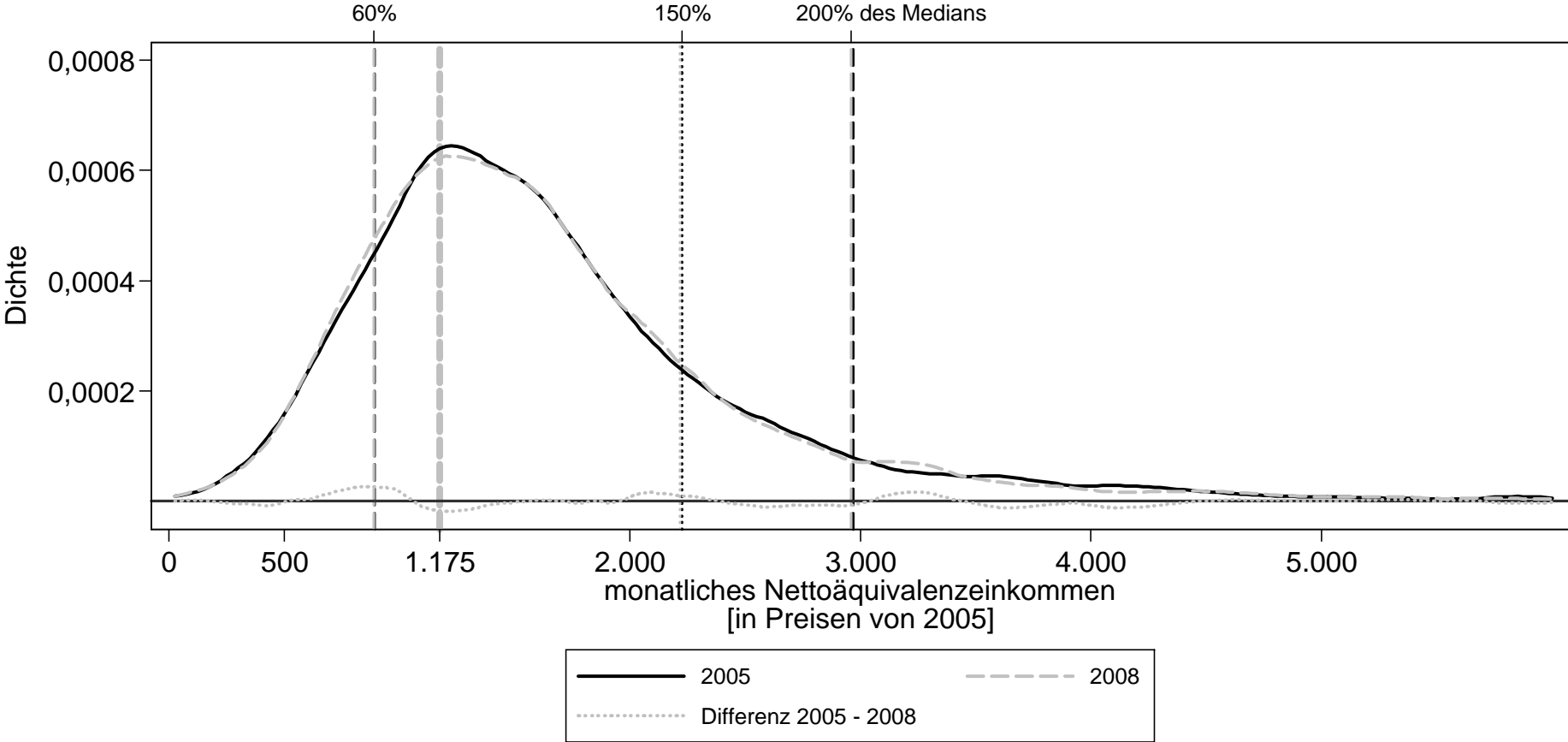
X-Raying the Income Distribution 2008



X-Raying the Income Distribution



X-Raying the Income Distribution



... compare ...

Figure II.A: Distribution of Income in China

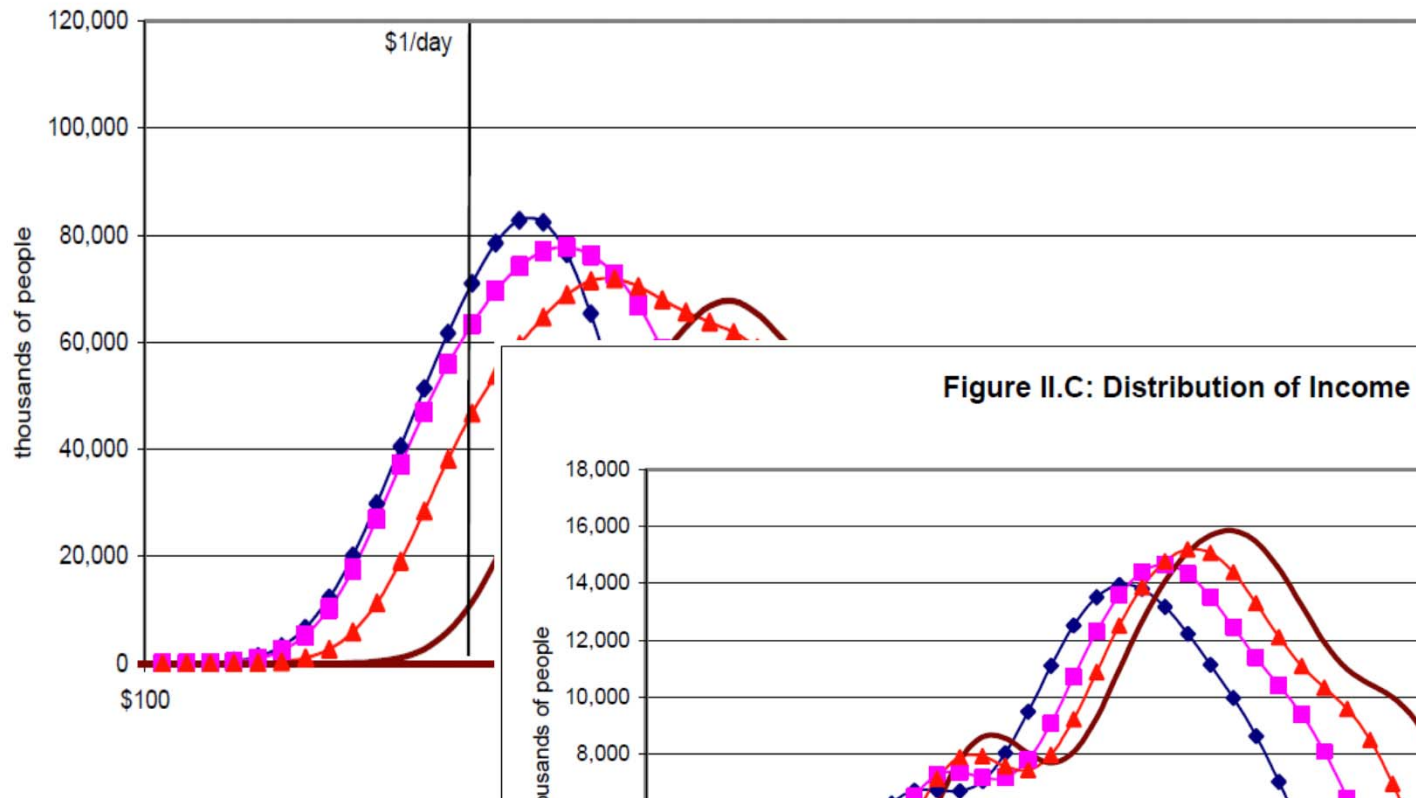
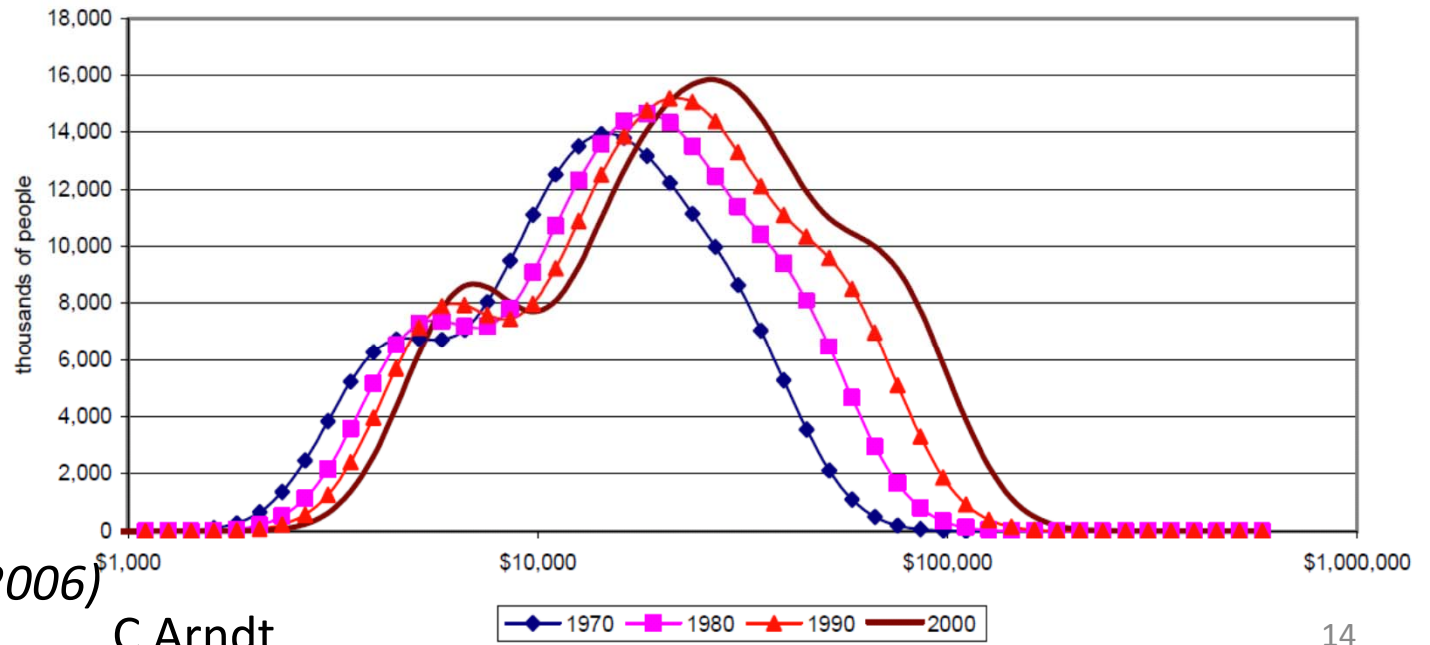


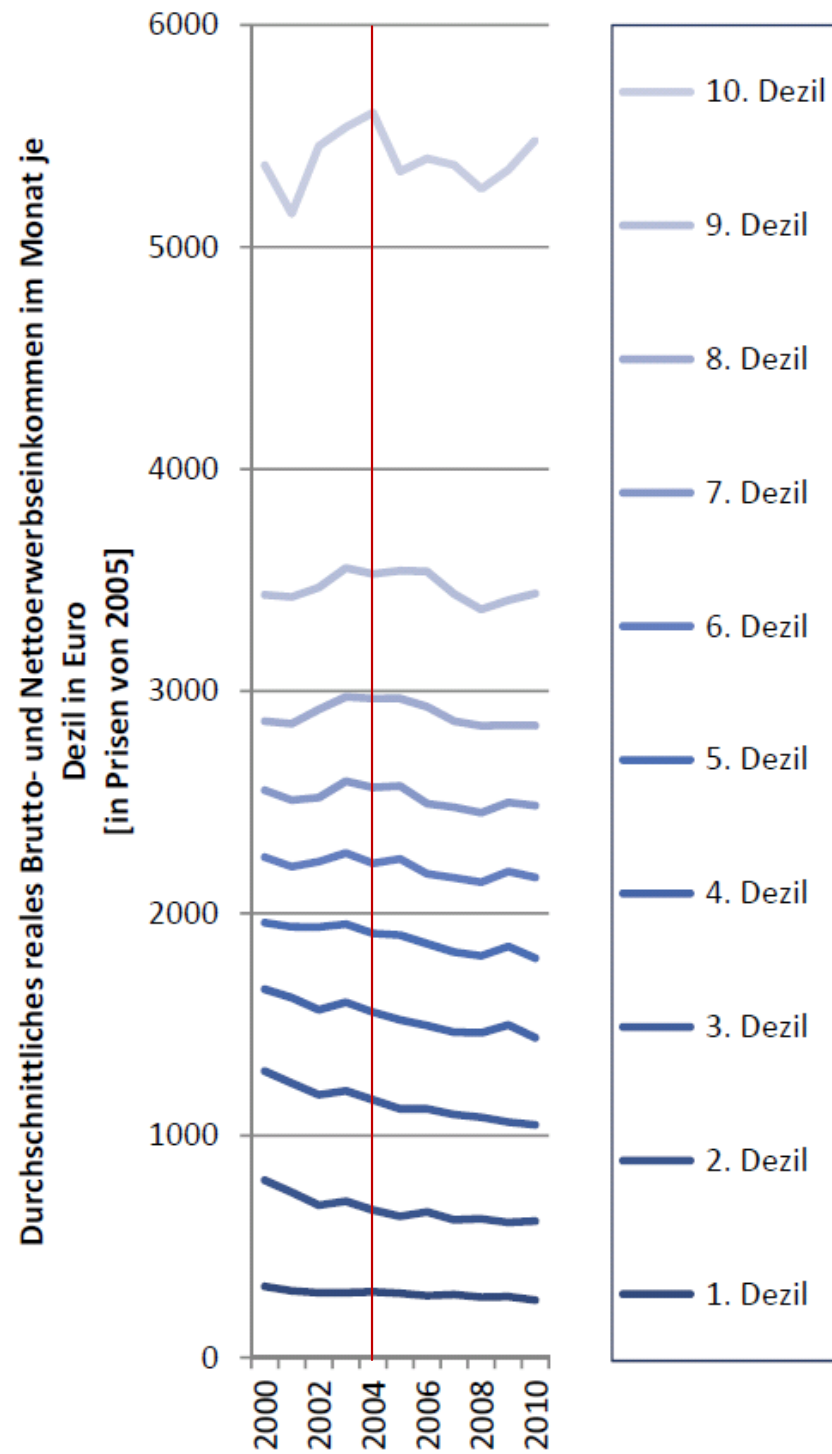
Figure II.C: Distribution of Income in USA



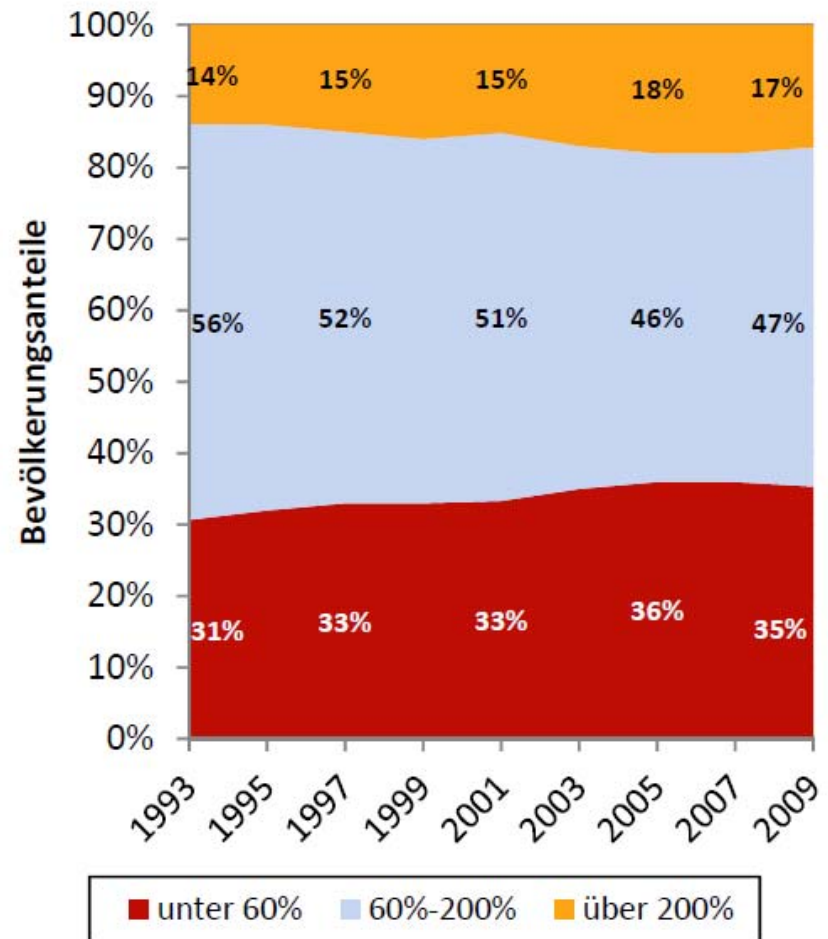
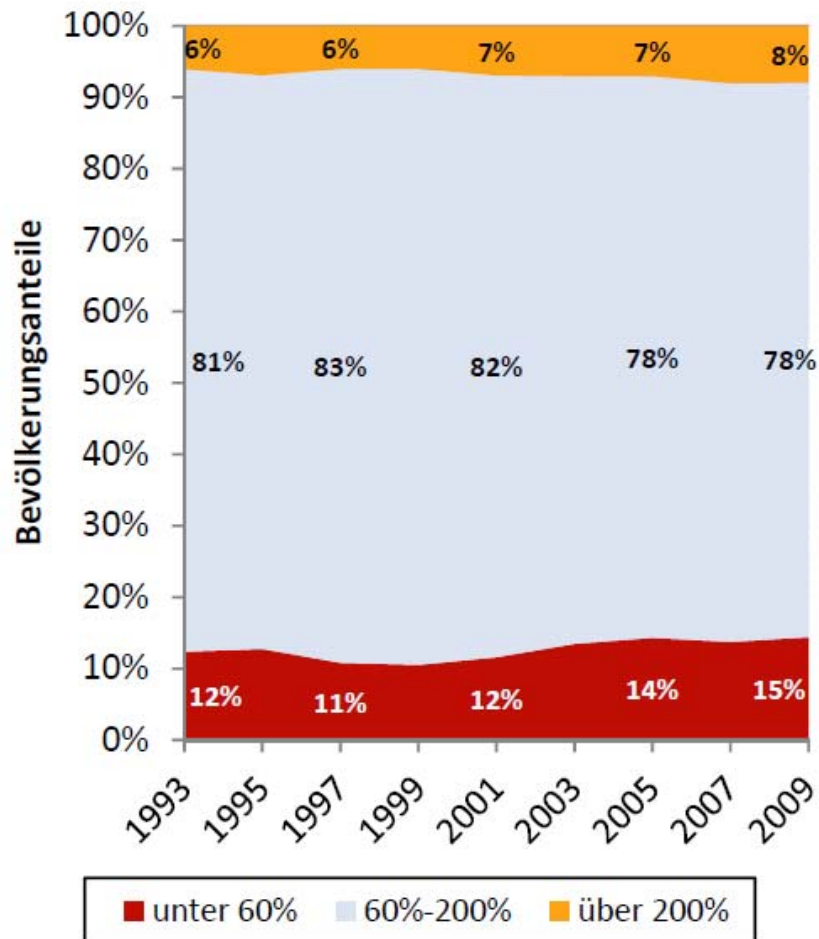
Source: Sala-i-Martin (2006)

C Arndt

Development of the Wage Structure in Germany



Inequality Reduction by Social Transfers



Quelle: Eigene Darstellung auf Grundlage von Berechnungen in ISG (2011)

Intermediate Summary: Determinants of Income Inequality

Enforcing factors

- Technological Change
- Hours worked
- Demographic change
- Decline of collective wage bargaining
- Polarization of market incomes
- Increasing Unemployment
- Changes in the tax rate

Mitigating factors

- Educational expansion
- Labor participation by women
- Transfer system

Neutral factors

- Globalization
- Flexibilization of labor markets
 - Increase of employment
 - Polarization of wages

Policy Recommendations

- Support Special Groups (lone parents)
- Don't interfere with the price-setting process of the labor market (e.g. minimum wages, or ceiling for CEO-bonuses)
- Discuss about redistribution (also of wealth)
- Insure against labor market risks but keep labor incentives sharp
- Enhance social mobility and the efficiency of the labor market
- Foster educational expansion, pre-school, tertiary and life-long



Source: Beth Yarnelle Edwards: Suburban Dreams