

The Effect of Labour Share Divergence in the Eurozone

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Introduction

- Different social impact of the crisis on Eurozone (EZ) countries:
Greece, Ireland, Portugal, Spain (GIPS)... and also Cyprus, or Lithuania...
... vs. France, Germany... and also Belgium or Finland.
- Usual explanation:
 - Focus on the effects of austerity (public expenditure cuts + taxes increases).
 - Emphasis on the role of wage dispersion.
- Need to pay also attention to:
 - The labour market reforms, and their effect on inequality, poverty and exclusion
 - The role of functional distribution of income (labour-capital shares of GDP).

The Relevance of Labour and Capital Incomes: Data

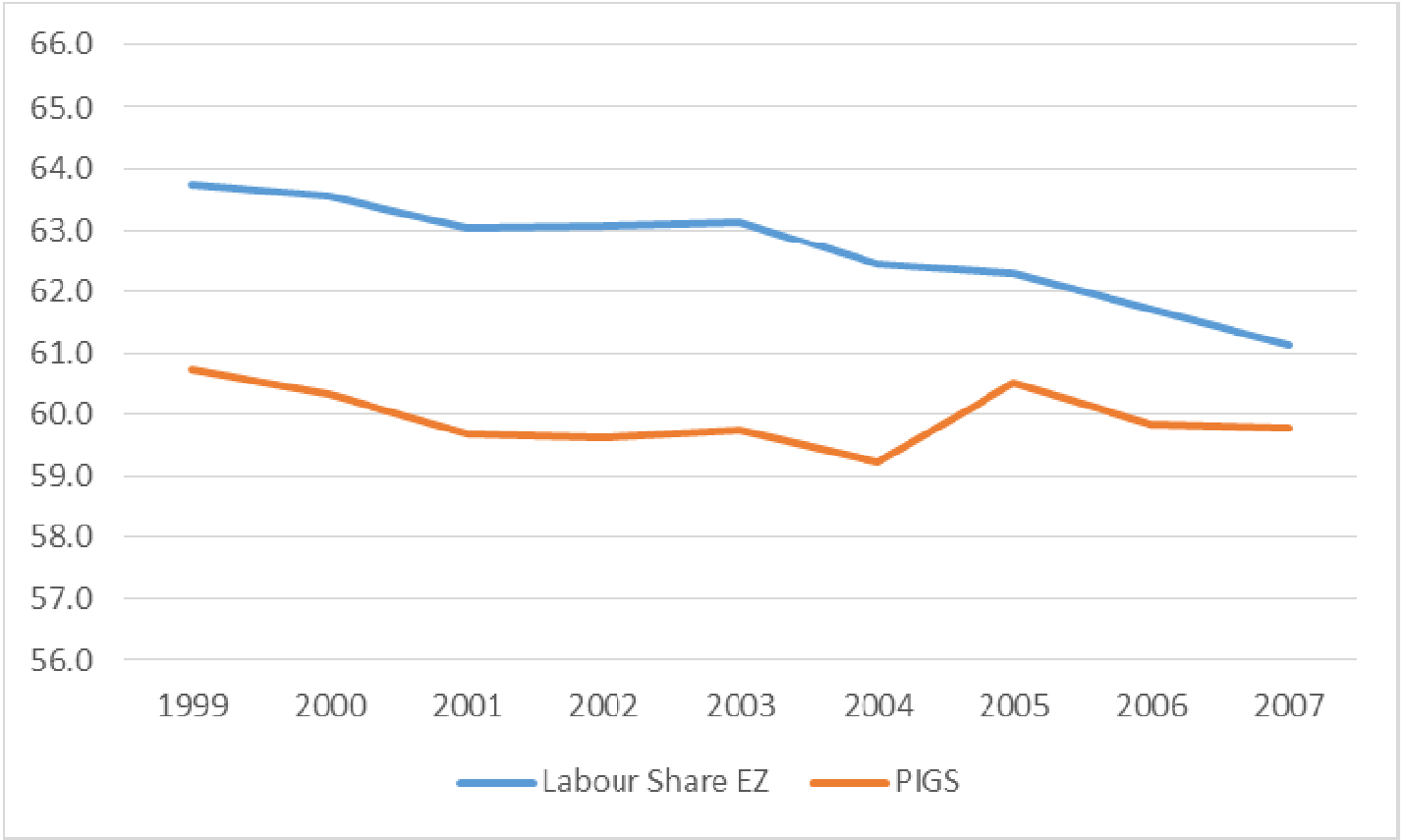
- Market incomes importance (EU; 2012) (Source: [Social Situation Monitor](#)):
 - 46,4% average share of total income for low-income groups (> 50% in 10 countries)
 - 70,9% average share for middle-income groups
 - 87,8% average share for high-income groups
- Lack of importance of wage dispersion (OECD countries) (Source: [OECD](#)):
 - Average 9/1 ratio: 2004: 3.50 → 2014: 3.46
 - Average 9/5 ratio: 2004: 2.01 → 2014: 2.02
 - Average 5/1 ratio: 2014: 1.73 → 2014: 1.70

→ Relevance of labour-capital aggregate distribution for inequality and poverty

The Relevance of Labour and Capital Incomes: Previous Studies

- [Daudey and García-Peñalosa \(2007\)](#): 39 countries panel data analysis:
 - ↑ Labour share of GDP → ↓ Gini index.
- [Giovannoni \(2008\)](#): 25 countries panel data analysis:
 - Functional distribution → Personal Distribution → Poverty.
- [Schlenker and Schmid \(2013\)](#): 17 EU countries panel data analysis:
 - ↑ Capital share → ↑ Household income inequality.
- [Bengtsson and Waldenström \(2015\)](#): 19 countries panel data analysis:
 - ↑ Capital shares → ↑ Top income shares (and Gini index).
- [Wolff \(2015\)](#): United States (1947-2012):
 - ↑ Profit share → ↑ Top income shares.

Trends before the Crisis: Falling Labour Share but Relative Convergence: EZ vs. PIGS



Source: AMECO (Adjusted wage share as percentage of GDP at current factor cost).

Trends before the Crisis:

-> Partial Convergence in Inequality and Exclusion: EZ vs. PIGS

	Gini Index (before Transfers)					AROPE Rate (%)				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
EZ	n.a.	n.a.	48.2	49.7	49.3	n.a.	n.a.	22.0	22.1	21.9
Greece	49.0	47.7	48.1	48.9	49.4	32.9	30.9	29.4	29.3	28.3
Ireland	44.2	46.8	48.7	48.5	48.2	24.4	24.8	25.0	23.3	23.1
Portugal	n.a.	50.8	51.2	51.4	51.0	n.a.	27.5	26.1	25.0	25.0
Spain	n.a.	47.7	46.0	45.6	45.4	n.a.	25.0	24.3	24.0	23.3

Source: Eurostat (Gini coefficient of equivalised disposable income before social transfers (pensions included in social transfers);
People at risk of poverty or social exclusion (percentage of total population))

Trends before the Crisis:

-> Partial Convergence in Inequality and Exclusion: EZ vs. PIGS

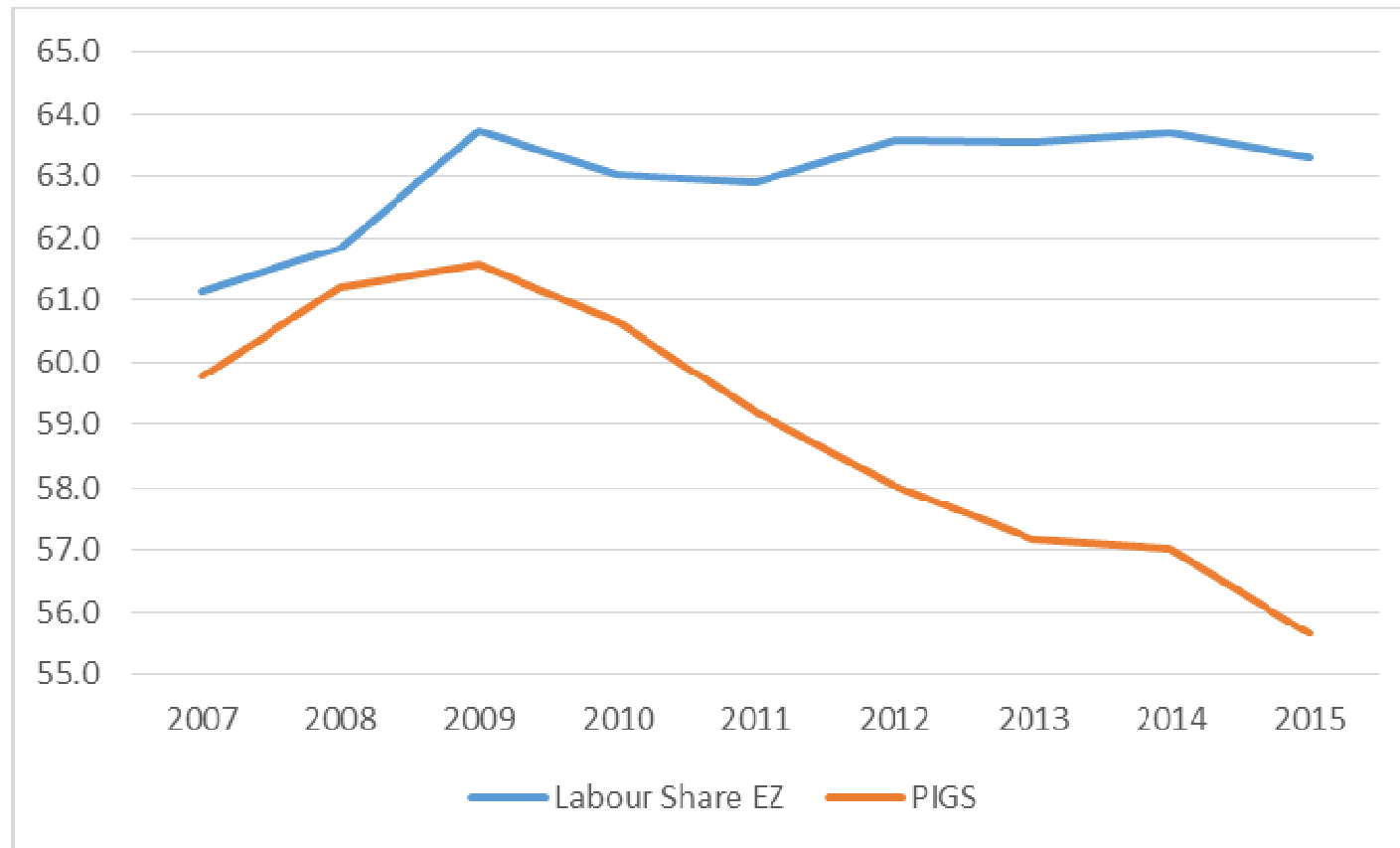
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Trends after the Crisis: Deep Labour Market Reforms in Peripheral Countries

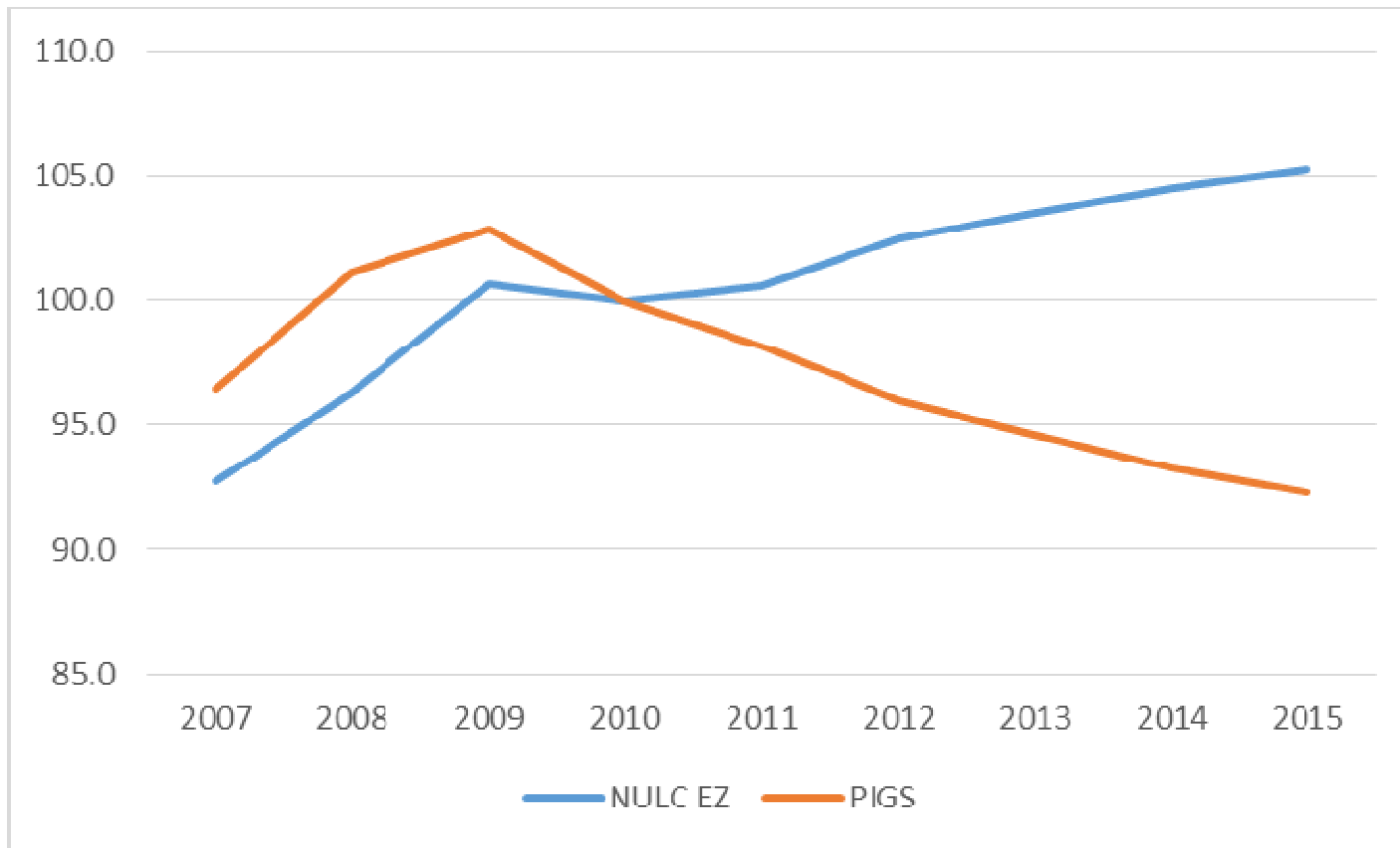
- Main goals:
 - External competitiveness gains through lower labour costs (in monetary union context).
 - Jobs creation.
- Main measures (Source: [LABREF](#)):
 - Shrinkage of minimum wages and creation of sub-minimum wages.
 - Decentralization of collective bargaining: introducing an opting out clause for firms
 - Adding-up of new causes for objective (justified) dismissals.
 - Retrenchment of unemployment benefits.
 - Cuts in public sector employees' earnings.
 - ...

Trends after the Crisis: Surprising Labour Share Divergence EZ vs. PIGS



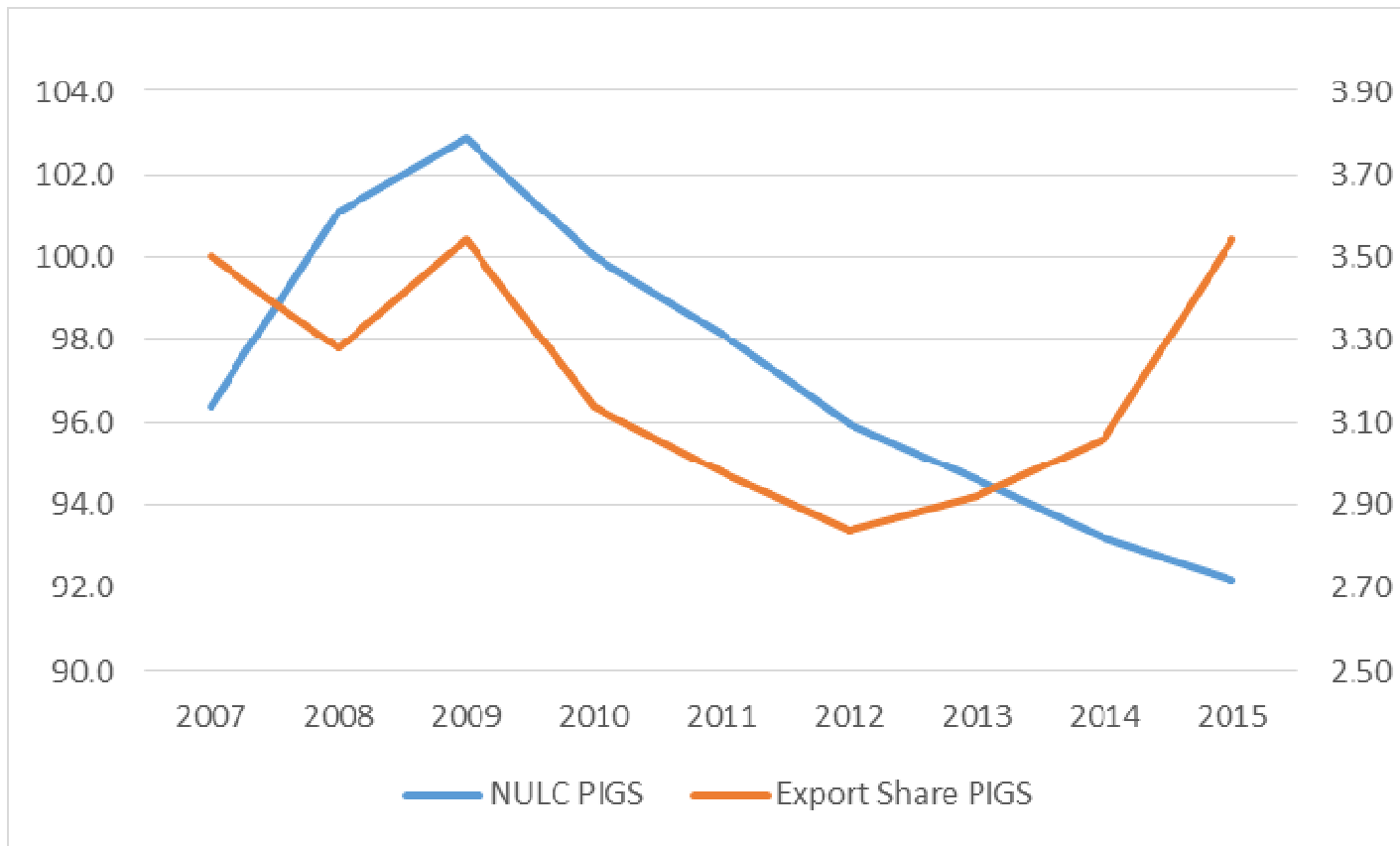
Source: AMECO (Adjusted wage share as percentage of GDP at current factor cost).

Trends after the Crisis: Labour Costs Divergence: EZ vs. PIGS



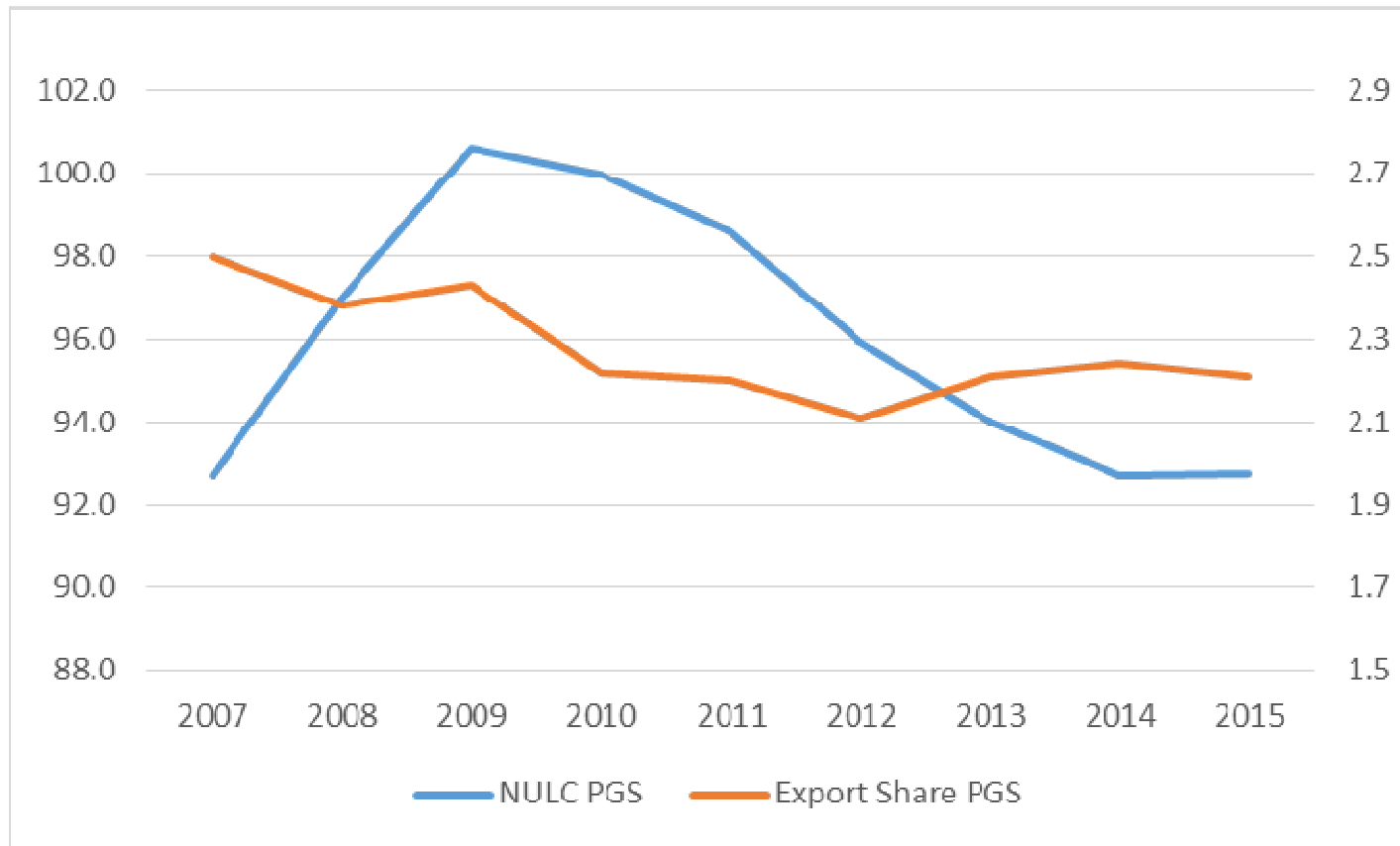
Source: AMECO (Nominal unit labour costs: total economy
(Ratio of compensation per employee to real GDP per person employed) (2010=100))

Trends after the Crisis: PIGS: Lower Labour Costs, Late Recovery of Competitiveness (at best)...



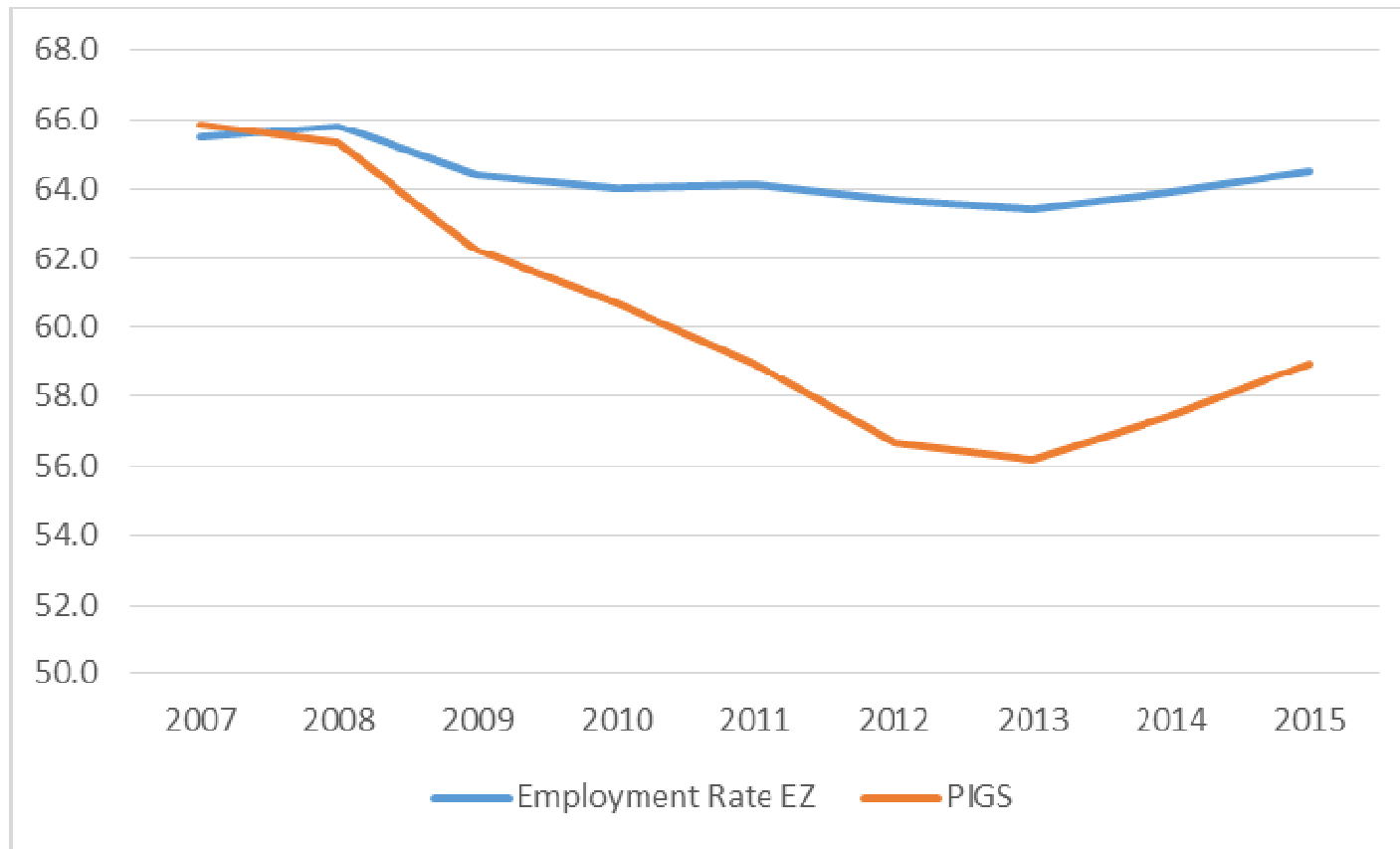
Source: AMECO (Nominal unit labour costs: total economy (Ratio of compensation per employee to real GDP per person employed) (2010=100)) and Eurostat (Goods export market shares (% of world total)).

Trends after the Crisis: ... or No Competitiveness Improvement at All (PGS)



Source: AMECO (Nominal unit labour costs: total economy (Ratio of compensation per employee to real GDP per person employed) (2010=100)) and Eurostat (Goods export market shares (% of world total)).

Trends after the Crisis: -> Huge Employment Losses



Source: Eurostat (percentage of 15-64 years total population)

Trends after the Crisis: Dissimilar Relevance of Wage Dispersion: FG vs. PIGS

	Ratio 5/1		Ratio 9/1		Ratio 9/5	
	2007	2012	2007	2012	2007	2012
France	1.47	1.5	2.91	2.97	1.98	1.99
Germany	1.83	1.77	3.26	3.26	1.78	1.84
Greece	1.72	1.55	3.43	2.71	1.99	1.75
Ireland	2.03	1.95	3.78	3.64	1.86	1.87
Portugal	1.65	1.49	4.31	3.81	2.61	2.57
Spain	1.68	1.64	3.47	3.07	2.06	1.88

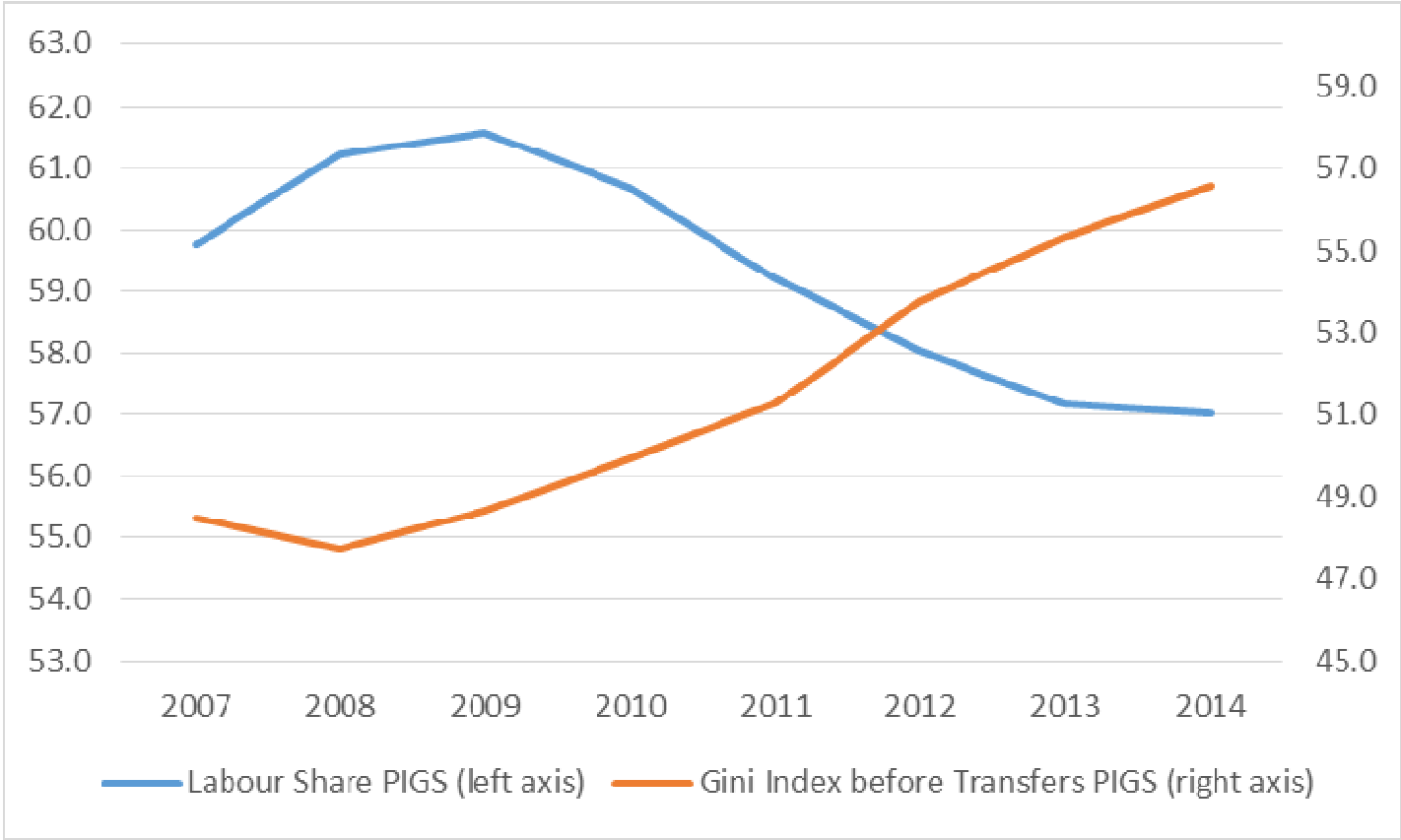
Source: OECD (Decile ratios of gross earnings of full-time dependent employees).

Trends after the Crisis: Dissimilar Relevance of Wage Dispersion: FG vs. PIGS

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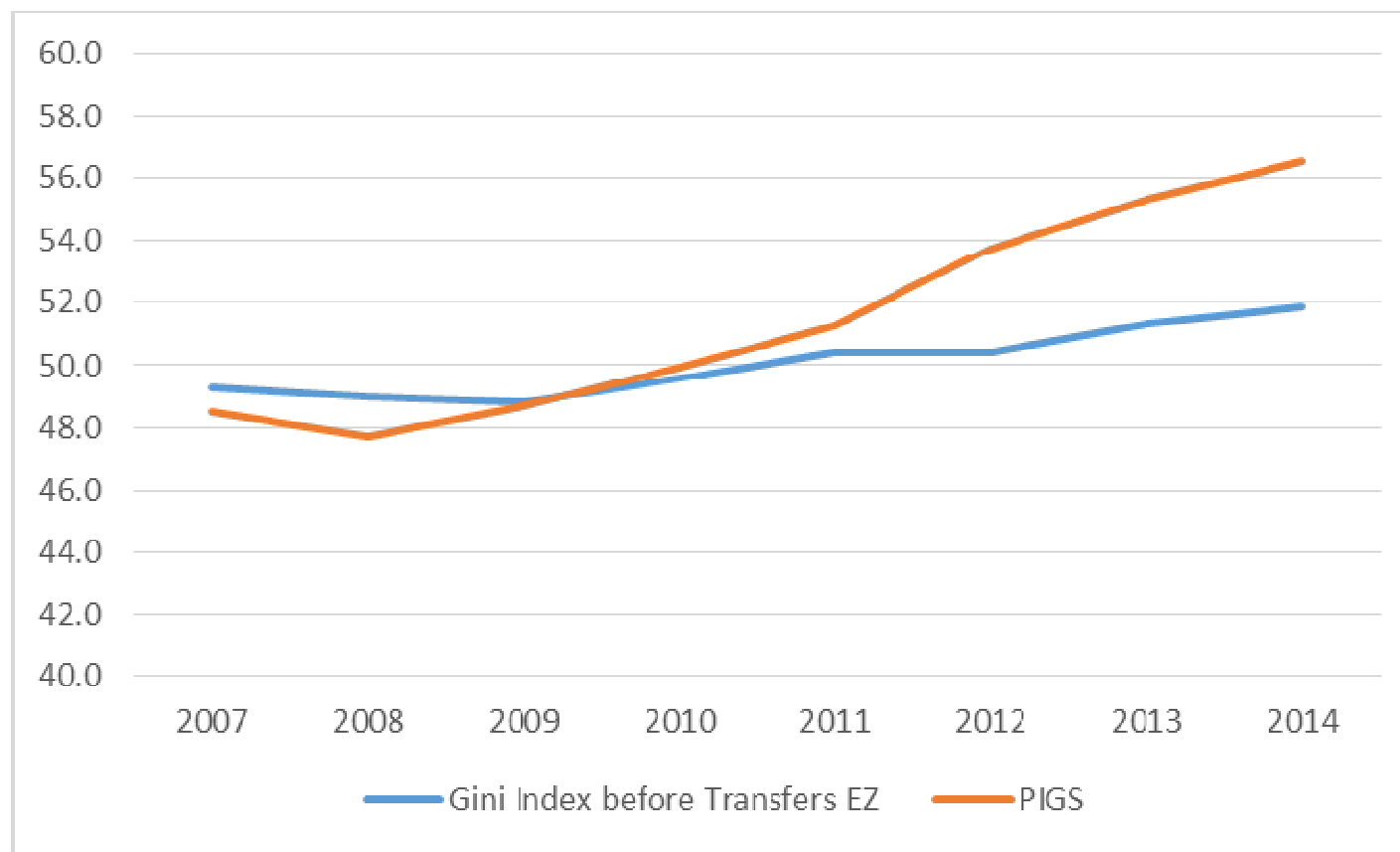
Trends after the Crisis: PIGS: Strong Impact of Falling Labour Share on Market Income Inequality



Source: AMECO (Adjusted wage share as percentage of GDP at current factor cost) and Eurostat Eurostat (Gini coefficient of equivalised disposable income before social transfers (pensions included in social transfers)).

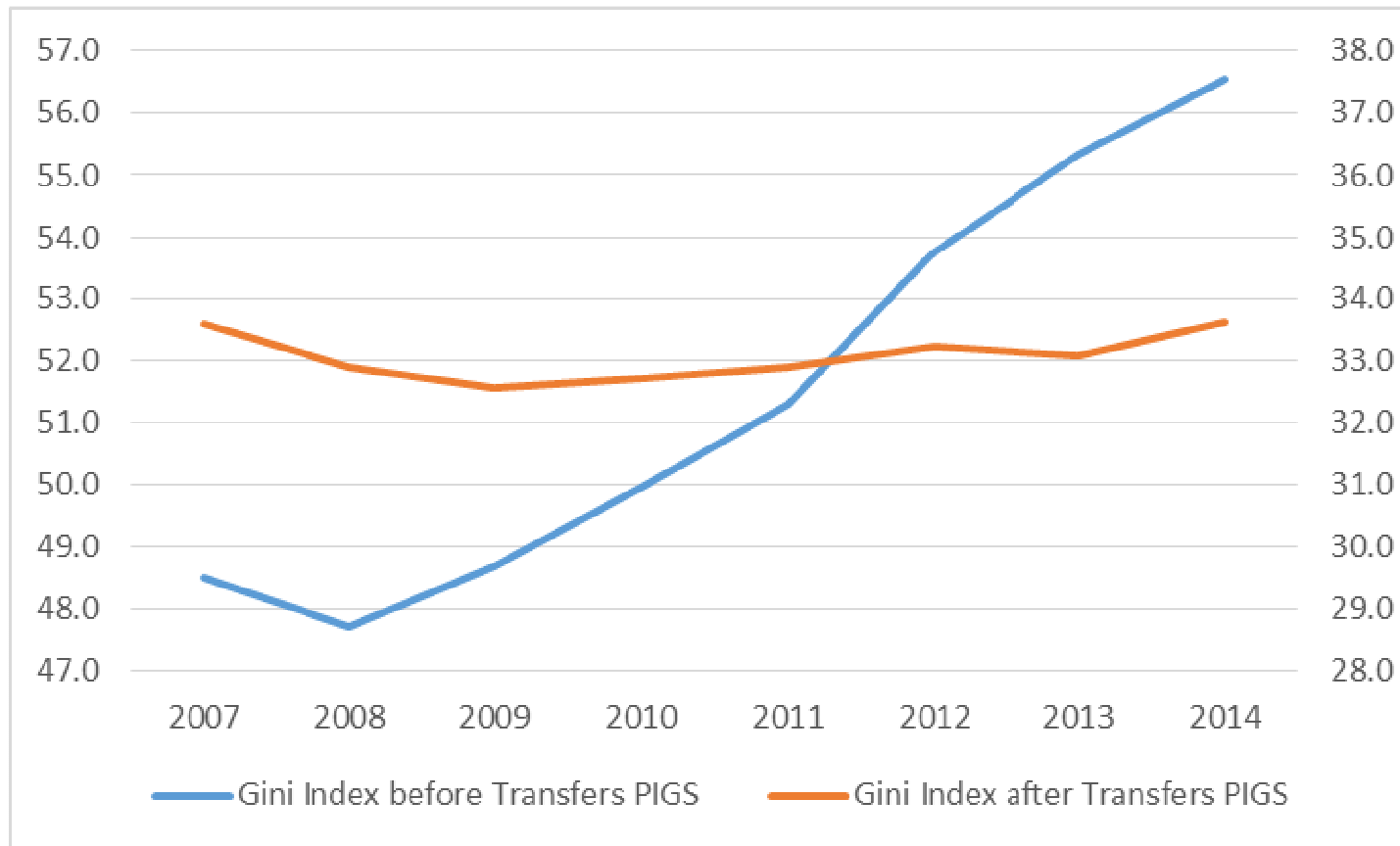
Trends after the Crisis:

-> Divergence on Market Income Inequality: EZ vs. PIGS



Source: Eurostat (Gini coefficient of equivalised disposable income before social transfers (pensions included in social transfers)).

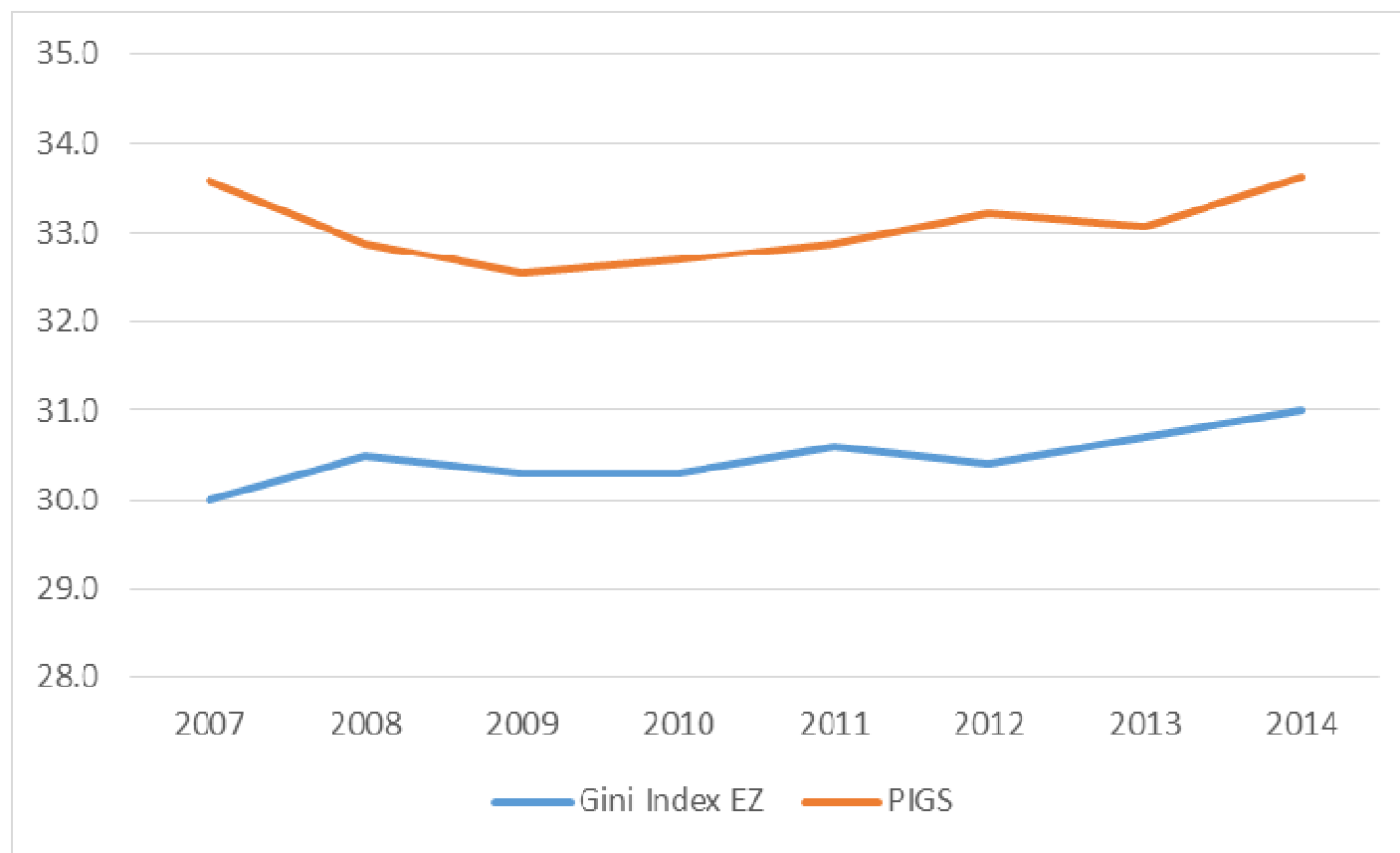
Trends after the Crisis: PIGS: Impact on Overall Inequality Partially Cushioned by the State



Source: Eurostat (Gini coefficient of equivalised disposable income before social transfers (pensions included in social transfers); Gini coefficient of equivalised disposable income).

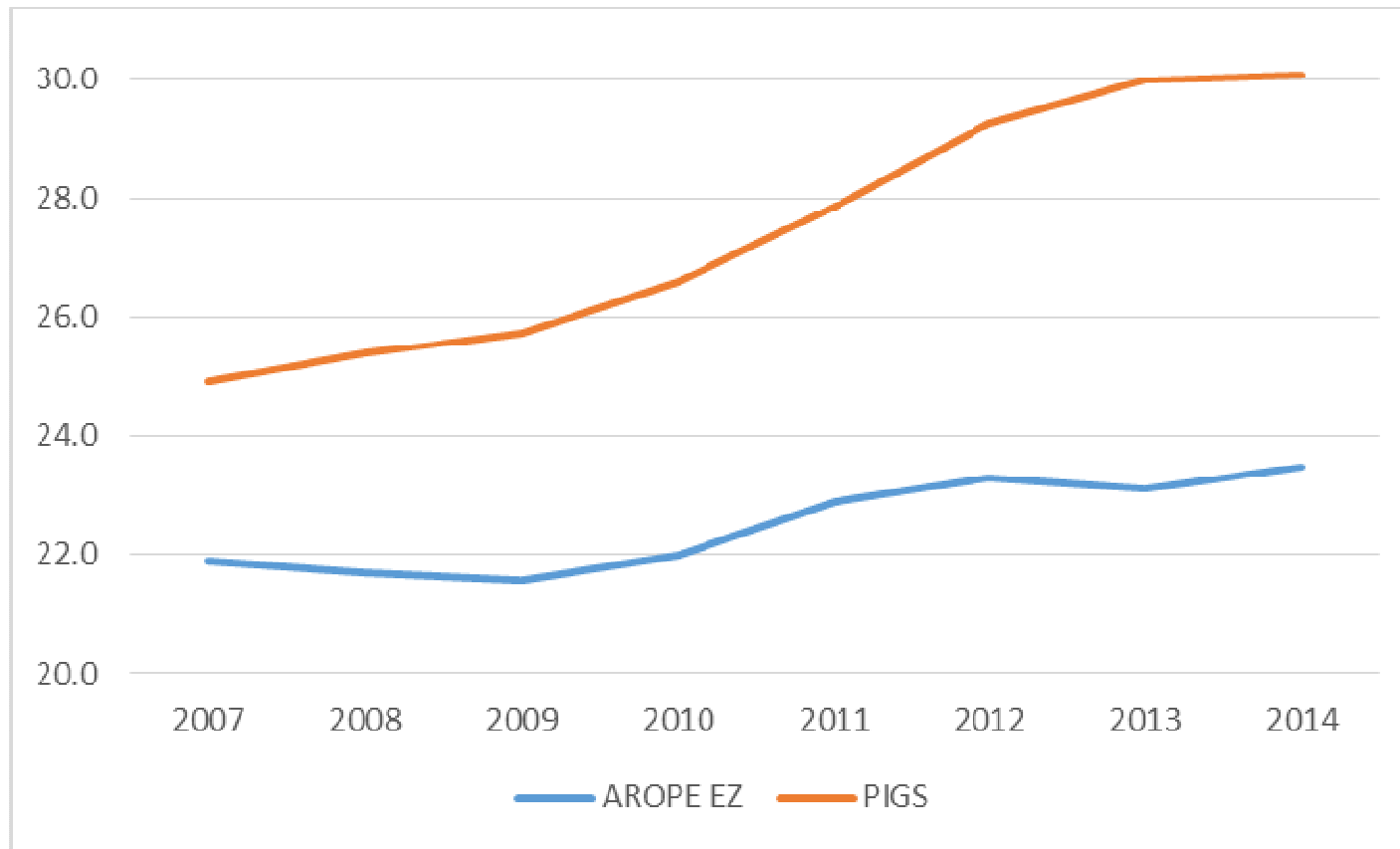
Trends after the Crisis:

-> Parallel Paths Followed by Overall Inequality: EZ vs. PIGS...



Source: Eurostat (Gini coefficient of equivalised disposable income).

Trends after the Crisis: ... but Different Impact on Social Exclusion: EZ vs. PIGS



Source: Eurostat (People at risk of poverty or social exclusion (percentage of total population)).

Conclusions

- Labour market reforms in PIGS countries did not achieve their goals:

Neither External competitiveness gains...

... nor jobs creation, despite lower labour costs.

- On the contrary,

They caused labour share to substantially fall, unlike the rest of the EZ...

... contributing to comparatively higher market income inequality and social exclusion.

- Paradoxically,

State action prevented overall Gini index gap (PIGS vs. EZ) to widen, despite austerity...

... Although it was unable to avoid the expansion of exclusion.

Discussion

- Centre-Periphery dynamics within the Eurozone (and its configuration).
- Competitiveness strategies within a monetary union.
- The role of productive specialization.
- Fiscal austerity vs. Labour Market Reforms.
- Wage dispersion vs. functional distribution of income.
- Unemployment vs. functional distribution of income.
- Income inequality and social exclusion.

Thank you!

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