DOI: 10.1111/1475-5890.12393

Fiscal Studies
The Journal of Applied Public Economics
IFS Institute for Fiscal Studies

SPECIAL ISSUE PAPER

Changing inequalities in Europe and North America: part two

James Banks[1,4] | **Richard Blundell**[2,4] | **Antoine Bozio**[3] | **Jonathan Cribb**[4] | **David Green**[5] | **James P. Ziliak**[6]

[1]University of Manchester

[2]University College London

[3]Institut des politiques publiques; Ecole des hautes études en sciences sociales; Paris School of Economics

[4]Institute for Fiscal Studies

[5]University of British Columbia

[6]University of Kentucky

Correspondence
James P. Ziliak, University of Kentucky, Center for Poverty Research, Gatton Building Suite 234, 550 S. Limestone St, Lexington, Kentucky 40506-0034, USA.
Email: jziliak@uky.edu

Abstract
This special issue is the second in a two-part series on the evolution of labour market and disposable income inequalities over recent decades in 17 high-income countries in Europe and North America. In this Introduction, we provide additional background for the cross-country project, which has been conducted in parallel to the wider IFS Deaton Review of Inequalities. We briefly summarise the key trends and findings of the papers that cover five Western European countries and four Southern European countries, and a companion paper on the role of education and intergenerational mobility across all 17 countries.

KEYWORDS
inequality, international comparisons, labour markets

JEL CLASSIFICATION
D3, E24, J1, I3

1 | INTRODUCTION

This special issue is the second in a two-part series resulting from a four-year collaboration between researchers in 17 high-income countries in Europe and North America who have constructed and utilised harmonised data on education, labour market employment and earnings, and disposable incomes to understand patterns and trends in a range of working-age inequalities. This collaboration, undertaken in parallel to the IFS Deaton Review, was described in detail in the introduction to the June 2024 special issue of *Fiscal Studies* (Banks et al., 2024). It has so far produced a set of comprehensive reports on labour market and income inequalities following a 'template' structure, published at https://www.ifs.org.uk/inequality/country-studies, and a set of short narrative papers on the key trends in these inequalities (published in the June 2024 special issue) in eight English-speaking and Nordic countries.

This second special issue, comprised of papers covering nine economies in Western and Southern Europe, completes the set. Each paper provides a short summary of the most important trends in each country. Importantly, by using the harmonised data, readers know that the measurement of key outcomes in one paper is consistent with those in the rest of the 16, making the papers published in this two-part special issue a major resource of comparative analysis for all interested in the evolution of key economic inequalities.

Led by the editors of these special issues, the authors of these papers (all of whom are members of the overall collaboration) represent a useful mix of academics at major research universities, and economists at central banks and at public policy-focused economic research institutes. All bring deep knowledge of their own country's policy environment and economic data. As noted in Banks et al. (2024), co-producing the data in this project has allowed us to undertake the harmonisation in a way that is designed to allow us to make key comparisons across the wide range of high-income countries involved in this work.

The data constructed in this project will ultimately be made available to all researchers and those interested in economic inequalities for use in comparative analysis. To highlight the potential for explicitly cross-country analysis in this area, this issue also contains a paper using cross-country data on educational inequalities (using international data from the OECD) to examine the characteristics of different educational systems with regard to intergenerational persistence.

Before turning to the key findings of the papers in this issue, we wish to acknowledge that this work has been made possible by the funding from the Trans-Atlantic Platform (T-AP) Recovery, Renewal and Resilience in a Post-Pandemic World research initiative. This provided funding from six national funding agencies: the Social Science and Humanities Research Council (Canada); Agence Nationale de la Recherche (France); Academy of Finland (Finland); Ministry for Education and Research (Germany); the Economic and Social Research Council (ESRC; United Kingdom); National Science Foundation (United States).

2 | KEY FINDINGS

This issue contains nine papers using harmonised data on inequalities for working-age adults across nine countries in Western and Southern Europe, specifically Austria, Belgium, France, Germany and the Netherlands representing Western Europe, and Greece, Italy, Portugal and Spain representing Southern Europe. We cluster these sets of countries together due to some broad similarities in the policy environment, economic history, level of prosperity and patterns of inequalities, with, in general, the Western European nations having both higher average incomes and lower income inequalities. Papers written as part of this project and covering four English-speaking countries (Canada, Ireland, United Kingdom and United States) and four Nordic countries (Denmark, Finland, Norway and Sweden) were covered in the preceding issue of *Fiscal Studies* in June 2024.

The Austrian paper, authored by Martin Halla and Andrea Weber, is the first of a set of papers that examine countries that, at first glance, have stable levels of income inequalities at a fairly low or moderate level. Indeed, the authors show that while standard metrics of inequality in disposable incomes, hourly wages and labour earnings were stable in recent decades, there were other underlying inequalities changing in the labour market, many of which relate to gender. Large increases in female employment occurred and the share of workers working part-time grew substantially, amongst both men and (particularly) women. Persistent gender gaps remained in employment and childcare. They also note the importance of rising levels of immigration and highlight the rise of cross-border workers who are employed in Austria but live in neighbouring countries.

Bart Capéau, André Decoster, Bram De Rock and Jonas Vanderkelen are the authors of the Belgian paper. They find that, while standard measures of disposable income inequality in Belgium show fairly low and stable income inequality, the income surveys on which these are based underestimate incomes from capital. In particular, if undistributed profits from the corporate sector are allocated to households, pre-tax income inequality was seen to increase markedly in the early 2010s, returning it to levels seen in the mid-2000s. Even incorporating taxes and benefits does not change this U-shaped pattern of falling inequality in the mid- to late 2000s, followed by rises in the early to mid-2010s.

The French experience is covered in this issue in a paper from a team of researchers at the Institut de Politiques Publiques: Antoine Bozio, Malka Guillot, Lukas Puschnig and Maxime Tô. France is another country with stable, and fairly low, levels of disposable income inequality. They note that this is in great contrast to perceptions about inequality in French society. In a similar way to the Austrian paper, they examine which other income inequalities may be important in France. They show that the composition of households with low disposable incomes has changed substantially over time. In particular, individuals in these households are increasingly likely to come from an immigrant background, live in a household with no working adults, and to have low levels of formal education.

The paper for Germany is covered by a large team originally based at the ifo-Institute: Maximilian Blömer, Elena Herold, Max Lay, Andreas Peichl, Ann-Christin Rathje, Paul Schüle and Anne Steuernagel. They show that inequalities in earnings and in household disposable incomes rose in the late 1990s and early 2000s, but that between 2005 and the COVID-19 pandemic there was relatively little change. This lack of change since 2005 came despite underlying trends that would otherwise generally push up income inequalities, notably increased assortative matching and high net migration rates, with immigrants increasingly disproportionately on low household incomes compared with the rest of the population. Counteracting forces that have helped push down income inequalities have included the introduction of a minimum wage and a closing gender pay gap.

The final paper in our 'Western European' cluster is from the Netherlands, authored by Egbert Jongen, Jim Been, Koen Caminada and Heike Vethaak. Similar to the German paper, they present a nuanced picture of some factors that have acted to drive up income inequalities in recent years, and some that have pushed them down. At the heart of this is the fact that men and women have seen very different trends in the labour market. Male earnings inequality has increased substantially and the fraction of low-income people who are single has increased. There is now more assortativeness on earnings for couples. These factors actually helped push up income inequality, despite factors which acted to reduced it, namely: increases in employment and earnings from lower-educated or lower-earning women, and reductions in direct taxes at the bottom of the income distribution. In common with a number of other papers in this issue, they identify the significant gaps in incomes between immigrants and Dutch-born individuals while the fraction of the population born abroad has risen substantially.

Turning towards Southern Europe, the experience in Greece is covered by a team from the Foundation for Economic and Industrial Research: Svetoslav Danchev, Georgios Gatapoulos, Niki Kalavrezou, Antonis Mavropoulos, Grigoris Pavlou and Nikolaos Vettas. The Greek paper examines income inequalities in Greece from 2004 to 2021, a period that contained the Great Recession and the Greek debt crisis: GDP per capita dropped by 26 per cent from 2008 to 2013, though standard metrics of income inequality were initially stable and then fell markedly. This is in contrast to the Spanish experience after the Great Recession, as described below. As in France, the standard metrics of (falling) income inequality also clash with high perceptions of inequality in Greece. Falling disposable income inequality was caused by large declines in earnings, particularly higher up the distribution, with pension benefits also falling more at the higher end of the distribution. State benefits have also become more concentrated on lower-income households. Despite the falls in income inequalities, the authors highlight high (and in some cases widening) other inequalities, such as rising unmet need for health care and household overcrowding post-2010, particularly striking for low-income groups. These inequalities are not captured by a focus purely on labour market and disposable income inequalities.

The paper covering Italy is authored by Daniele Checchi, Tullio Jappelli, Immacolata Marino and Annalisa Scognamiglio. It presents key stylised facts on inequalities in Italy since 1990, in the context of high levels of disposable income inequality compared with most high-income countries, and slow economic growth with recessions followed by only weak recoveries. They identify rising inequality in the earnings of employees (measured net of tax) as a key trend in the Italian labour market, feeding through into greater disposable income inequality. Earnings growth was particularly strong in the top 10 per cent of earners, and particularly weak amongst the bottom 10 per cent of earners. Additionally, the authors highlight that there is considerable persistence in this inequality within generations. Low 'mobility' means poorer people are likely to stay poor, and the authors link this to other literature showing low levels of intergenerational mobility in Italy.

Carlos Oliviera covers the Portuguese experience in this issue, examining the period from democratic revolution in 1974 to the COVID-19 pandemic. Portugal was characterised by huge increases in income and labour market inequalities from the mid-1980s to the mid-1990s. Inequality subsequently remained high and relatively stable until the mid-2000s, since when it has fallen substantially. Oliveira argues that changes to demand and supply of skilled labour were a key dynamic driving these inequalities, with large increases in demand for skills in the 1980s combined with fairly low levels of education leading to large increases in earnings for highly educated workers, pushing up earnings in higher paid parts of the distribution. This was moderated in the 2000s as increased numbers of women, and more highly educated younger generations, entered the workforce. Higher minimum wages and increased collective bargaining subsequently helped bring down earnings inequalities. These patterns of large rises and falls in inequalities place the Portuguese in particular in sharp contrast to many of the countries in this issue.

Finally, a team composed of Brindusa Anghel, Laura Hospido, Julio Ortega and Ana Regil, based at the Banco de Espana, examines the key trends in Spain. In common with Portugal, the Spanish paper identifies significant fluctuations in income and earnings inequalities. However, while those seen in Portugal were characterised by a large rise, followed by a fall since the mid-2000s, in Spain these fluctuations have occurred with the business cycle. Most notably, there were falls in inequalities during the economic expansion of the mid-1990s, followed by large rises after the 2008 global financial crisis before a recovery and falls in inequalities in the 2010s. It was these macroeconomic patterns that have been particularly important in driving inequalities in Spain, even though they have also experienced many of the longer-term trends also seen in other countries such as rising female labour force participation and falls in marriage/cohabitation rates that affect, in particular, people with lower levels of education.

A common factor underlying the characterisation of the inequality experiences of these economies (as well as those of the countries discussed in the first special issue of this two-part series in *Fiscal Studies*) is education. In the comparative paper in this issue, Patrick Bennett, Kelly Foley, David Green and Kjell Salvanes examine the role of education in inequality movements across these countries. A standard story about inequality in recent decades is that it has been, in part, driven by technological change that has favoured more-educated, as opposed to less-educated, workers. In that circumstance, expanding education has the appearance of a silver bullet – by increasing education, countries can increase the competition for jobs for the more-educated and decrease competition for jobs for the less-educated, thus tempering wage growth at the top and increasing it at the bottom. At the same time, a more-educated workforce would generate increased productivity through allowing a broader adoption of the new technology. Perhaps in light of this, the economies we study have all expanded higher education with great enthusiasm – between 1990 and 2000, the proportion of the working-age population with a university degree increased by an average of 39 per cent across our 17 economies, and then increased by a further 83 per cent, on average, over the following two decades. But, as the papers in these special issues have shown, inequality in these economies has followed a wide variety of paths.

In their comparative paper on education and inequality, the authors pursue this point, arguing that the exact nature of the educational expansion matters and that, in some cases, increased education could actually increase inequality. They create measures of the nature of educational systems (validated by the members of each country's team) and compute measures of intergenerational education and income mobility. Using these, they show that educational systems can be broken down into different types. One type (epitomised by Germany and Austria) focuses on early streaming into trades-type education. Another (epitomised by Canada and Finland) puts its emphasis on moving the children of low-educated parents into high education. Many countries do some combination of the two, but no country appears to do both well. And the economies that do neither well (the United States and Italy stand out) are the countries with the highest inequality in our study. Interestingly, the streaming approach appears to be detrimental to girls and relatively good for boys, while the system focusing on access to university tends to yield the opposite pattern.

REFERENCE

Banks, J., Blundell, R., Bozio, A., Cribb, J., Green, D., & Ziliak, J. P. (2024), Changing labour market and income inequalities in Europe and North America: a parallel project to the IFS Deaton Review of Inequalities in the 21st century. *Fiscal Studies*, 45, 111–17.

How to cite this article: Banks, J., Blundell, R., Bozio, A., Cribb, J., Green, D., & Ziliak, J. P. (2024), Changing inequalities in Europe and North America: part two. *Fiscal Studies*, 45, 263–267. https://doi.org/10.1111/1475-5890.12393