REDISTRIBUTION POLICY AFTER THE CRISIS
Challenges in the context of longer-term trends

Herwig Immervoll
herwig.immervoll@oecd.org
Context and outline

• Demand for social support especially acute during and after deep downturns
• How important are cyclical changes for the effectiveness of redistribution policies over the longer term?
• This presentation:
  ➢ Policy and trends prior and since the crisis
  ➢ What are policy options for making redistribution more “crisis-proof”? 
Trends prior to the downturn
Less spending on working-age benefits

"non-elderly" benefits: mid-90s to mid-00s % of GDP

Source: OECD Social Expenditure Database
Declining benefit coverage…
… a key driver of rising inequality

% of unemployed receiving unemployment benefits, selected countries

Safety nets are crucial when labour markets are weak

"average" decile

Income position of two-parent families, ca. 2005

Source: OECD Income Distribution database.
What need for support?
Experience from earlier recessions

- Income gaps widen – and recoveries often fail to close them
- At bottom: incomes fall rapidly during & after recessions
- At top: incomes often continue to rise (at reduced pace)
- Any narrowing of gaps after recessions does not last long enough to close gap
- Data for recent crisis point in similar direction as historic trends

Household market incomes, working-age
in real terms, earliest data point = 100

Source: Immervoll and Richardson (2011)
Trends since the downturn, implications and challenges
Before the crisis: Were families more or less vulnerable than in previous downturns?

**Less vulnerable**
- Unemployment low; employment rates at all-time high
- More two-earner households than in previous recessions
- More effective re-employment support for job seekers

**More vulnerable**
- Labour-market segmentation; larger numbers of temporary and part-time workers
  - Higher risk of job loss
  - Less likely to qualify for unemployment support
- More single-adult households
- Reduced redistributive capacity of tax/transfer systems
Number of workless households surged

% of adults living in workless households

Poorer households tended to lose more or gain less between 2007 and 2010.


Annual changes in disposable income, in %, by income group.
Need for counter-cyclical support

• “Scarring”: not just for unemployment but possibly for low income more broadly

• Provision of support when it is most needed:
  - To alleviate poverty (“equity argument”)
  - To reduce future social and fiscal costs (“efficiency argument”)

• But benefits provisions often not counter-cyclical
  - Unemployment benefits effective as “front-line” support, but less so for groups with biggest job losses (e.g., low-skilled, youth)
  - Safety-net benefit ‘caseloads’ have yet to reflect the growing need for support
  - Policy changes have frequently resulted in benefit cuts early during the recession
  - Working-age benefits have been a prime target of more recent savings measures
More people receive unemployment benefit, but no change for “inactive” benefits

OECD total, number of recipients in 2007 shown as 100

Gainers and losers across the earnings spectrum

Changes in net transfers, % of disposable income

Couples, 2 children

Source: Immervoll and Richardson (2013)
Making redistribution more crisis-proof: Policy implications and challenges

- Ensure essential **support for the least well-off**
- Prioritise funding in **investment-type programmes**, especially for children and youth (investment at the right time)
- Accessible **employment support** for all family members, adapted to labour market situation
- **Counter-cyclical support** needed to tackle longer-term trend towards rising inequality
  - effective support during downturn
  - broad revenue base to provide adequate resources
  - credible commitment to make savings during upswing
Thank you, and some sources

- OECD Income Distribution Database: www.oecd.org/social/inequality
- OECD Social Expenditure Database: www.oecd.org/social/expenditure
- www.oecd.org/social