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IZA/OECD Workshop on Economic Crisis, Rising Unemployment and Policy Responses:

What Does It Mean for the Income Distribution?

by

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Ladies and Gentlemen,

On behalf of the Institute for the Study of Labor and the OECD, I would like to welcome you all to this one and a half-day research workshop. We are very happy to have been able to assemble such a distinguished international group of labour-market and income-distribution experts to discuss the distributional consequences of the current jobs crisis.

It is not hyperbole to describe the current economic downturn as a "jobs crisis". The OECD unemployment total has jumped by over 17 million since the downturn began at the end of 2007, a growing number of countries are experiencing double-digit unemployment rates and the numbers of long-term unemployed are rising rapidly in some countries. Even though a recovery in the OECD economy is now underway, thanks in part to vigorous macro-economic policy measures taken by governments to stimulate aggregate demand, the concensus is that the recovery is likely to be modest over the coming two years, and unemployment rates in many OECD countries may well continue to rise until later this year, before beginning a slow decline in 2011.

We cannot ignore the social consequences of the economic crisis. The steep hike in unemployment is exacerbating the risk of poverty for many labour force groups. So now is an opportune moment to reflect on the likely distributional impacts of the crisis, and how public policies might seek to alleviate this risk. All the while, we should have in the back of our minds the rising trend in inequality in many OECD countries over the two decades which preceded the current downturn – trends highlighted in the OECD's 2008 publication "Growing Unequal? An obvious question springs to mind: will the jobs crisis exacerbate this long-running trend in inequality?

It is of course far too early for any definitive judgement on who will be the main losers of this jobs crisis – or on its effect on income inequality and poverty more broadly. For one thing, policymakers have been busy devising new labour market policy measures or expanding existing ones with the aim of curbing the rise in unemployment and/or cushioning the effects of income losses. Many of these policy initiatives could have a significant impact on the income distribution. However, it is too early to predict precisely how they will enhance or reduce household incomes. At the same time, falling activity and fiscal stimulus packages have led to growing public sector deficits which cannot persist indefinitely; the resulting fiscal consolidation will also have significant impacts on income inequality and poverty, especially whether it is driven mainly by cuts in public spending or tax increases..

Finally, and perhaps most obviously, collecting high-quality household income data is time consuming. In most cases, the data needed for detailed distributional analyses are at least 1-2 years or more out-of-date. This is a big drawback in periods characterised by economic changes as rapid as we are currently witnessing, and as we have witnessed for the past 2 years or so.

These are important constraints. Yet, it is very important to provide policymakers with guidance about the types of distributional changes that are likely to emerge. Such distribution scenarios are, for instance, a prerequisite for assessing the effectiveness of existing or proposed safety-net policies and changes in tax rates in alleviating the social costs of the economic crisis. Without regular assessments of the likely incidence of job and earnings losses, there is a danger that distributional concerns carry insufficient weight in the debate about crisis-response measures.

Analyses of the experience in previous recessions can provide important pointers. For instance, we know that even though overall inequality need not go up, income losses among the bottom deciles can be very significant, especially if labour-market dynamism does not return quickly, or if safety nets are weak or are scaled back as a result of the fiscal tightening that typically follows a downturn.

Of course, history does not repeat itself: this recession is different from previous ones. And there are also important differences in terms of the capacities of households and social protection systems to withstand or absorb labour-market downturns.

To work towards a better understanding of how the economic crisis will affect inequality and poverty, there arguably is a need to pull together expertise from a range of different areas and modelling approaches, including macro-economic models, models of labour-market behaviour, and tax-benefit models. This presents very significant analytical challenges which hopefully our discussions over today and tomorrow will go some way to providing answers. We and our IZA colleagues see this workshop as a way to intensify the dialogue between researchers about some of these issues. And we look forward to what promise to be very exciting presentations and discussions.