

# **Inequality and Poverty across Generations in Europe**

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# Discussion

- My understanding of the paper
- Evidence on some peculiarities of the Italian case
- Specific remarks on data and econometric approach

# The structure of the paper (1)

During the last decade (in particular following the Global Financial Crisis) overall income inequality in the EU countries has almost remained stable but if we look at individuals ordered by age:

- the (real median equivalized net) income of the young increased much less than that one of the elderly
- the risk-of-poverty of the young dramatically rose whereas the opposite happened to the elderly

## The structure of the paper (2)

Intuition: these outcomes mainly derive from:

- labour markets developments: the increase of youth unemployment and the trend toward less stable jobs for the young
- the design of social protection and fiscal policy that poorly addressed the impact of the crisis on youth poverty

## The structure of the paper (3)

Regressions to investigate the relationship between labour market developments and social protection systems on the one hand and differentiated effects on inequality and poverty across age groups on the other hand

- Annual panel data: 25 EU countries over 9-year period (2007-15)
- Income inequality and poverty measures classified by age groups: 18-24, 25-49 50-64, 65+

## The structure of the paper (4)

Main findings:

- **Long-term unemployment** worsens the relative position of the young (18-25 ys old) compared to the elderly (particularly for older than 65) in terms of income and absolute poverty
- **Public social spending** is associated with lower incomes but also lower absolute poverty risks for the young relative to older generations
- **Direct taxes** are effective in increasing incomes of the young relative to older generations, but the effects on absolute poverty risks across generations are not statistically significant

## The structure of the paper (5)

Additional regressions are run to explain the main drivers of unemployment across generations

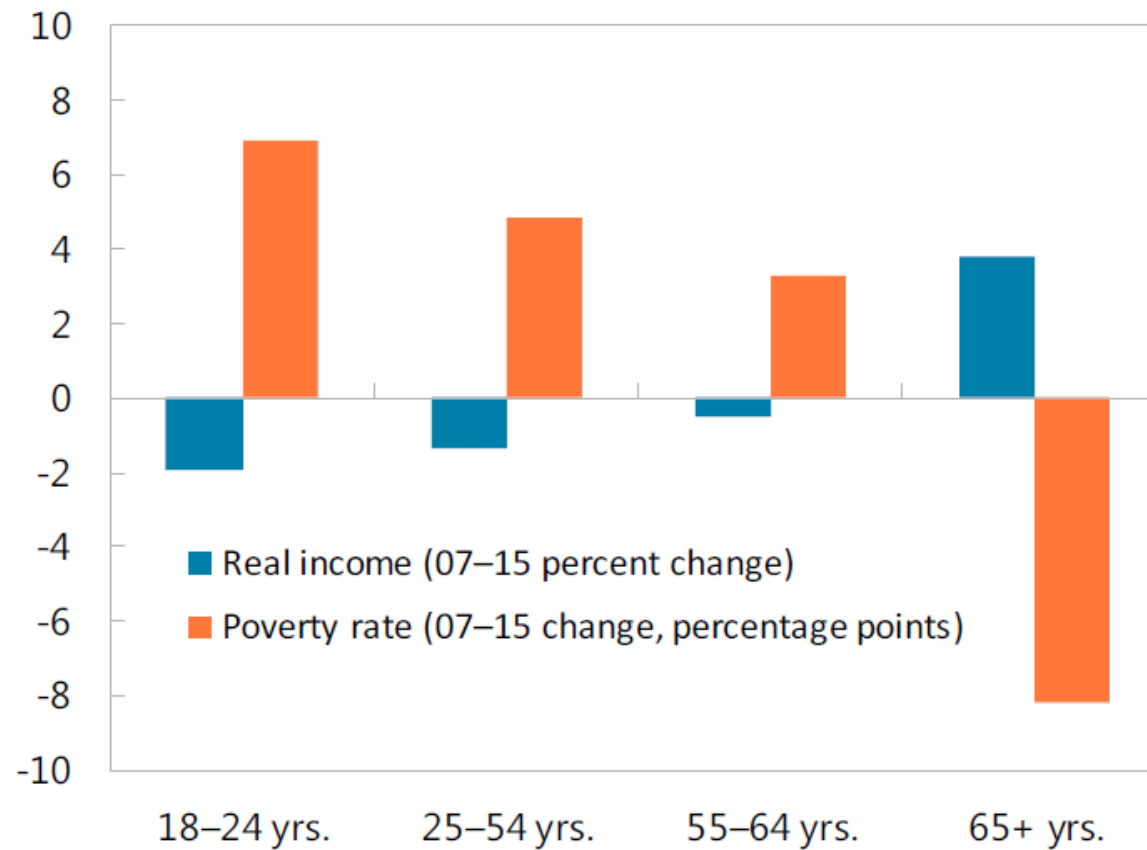
Economic recession, labour tax wedge, union membership rate are associated with higher unemployment for young workers relative to older generations

The opposite occurs when the share of temporary jobs is high and the economic cycle is positive

# Is Italy somehow peculiar?

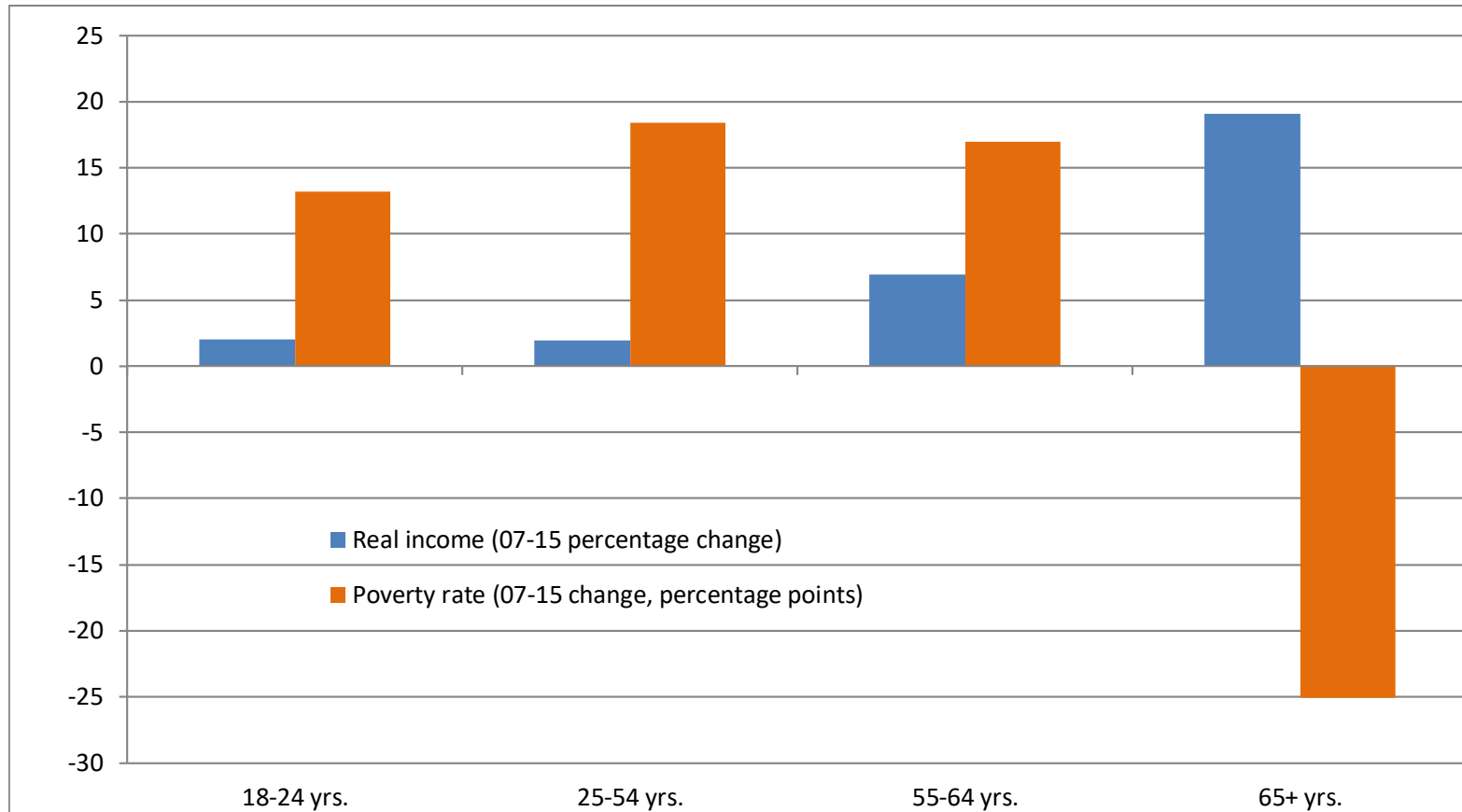
*In the South, the income decline and poverty increase fell mainly on the young.*

## Southern Europe

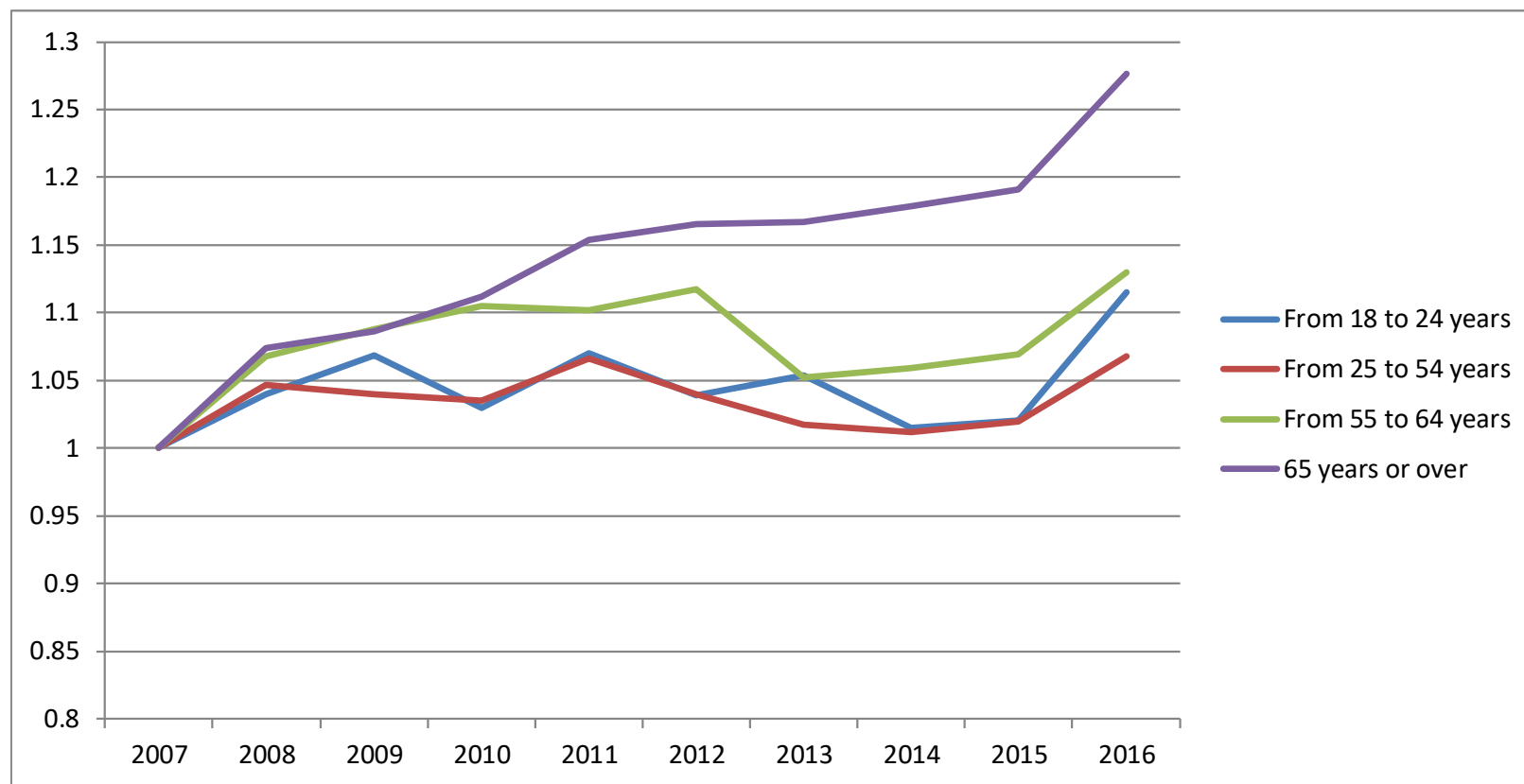




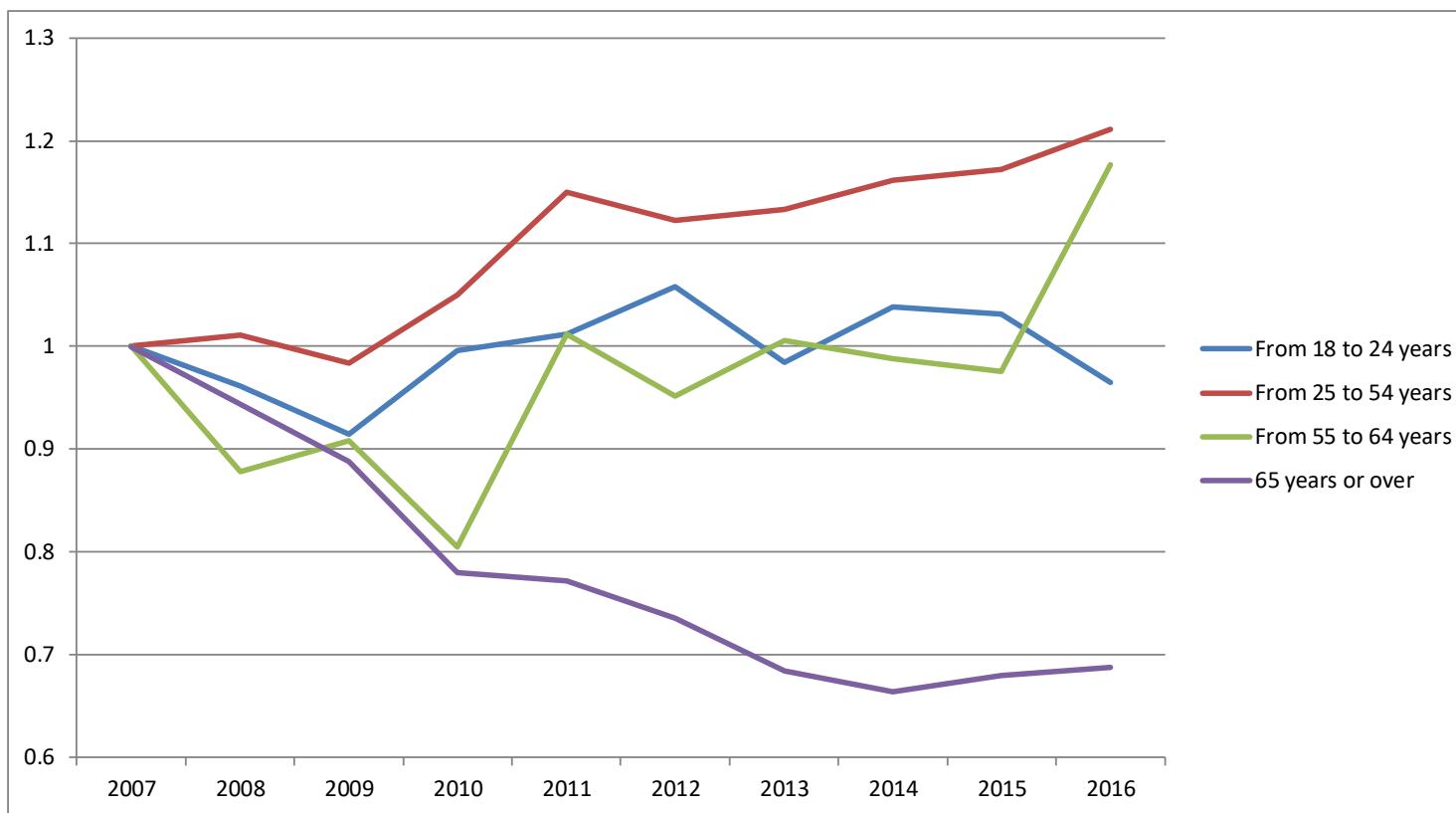
# Italy: real income and poverty rate 2007-2015



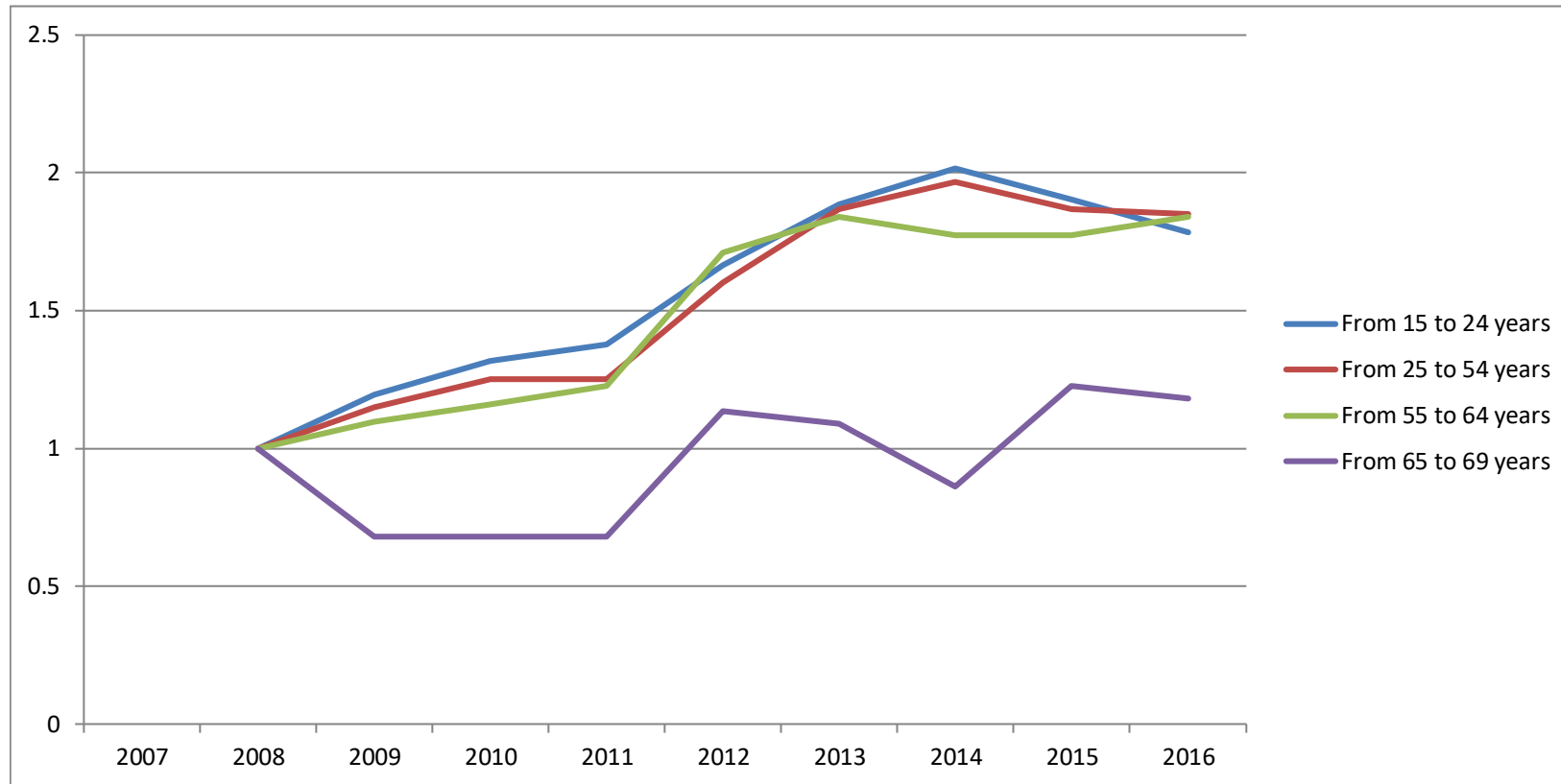
# Italy: real income



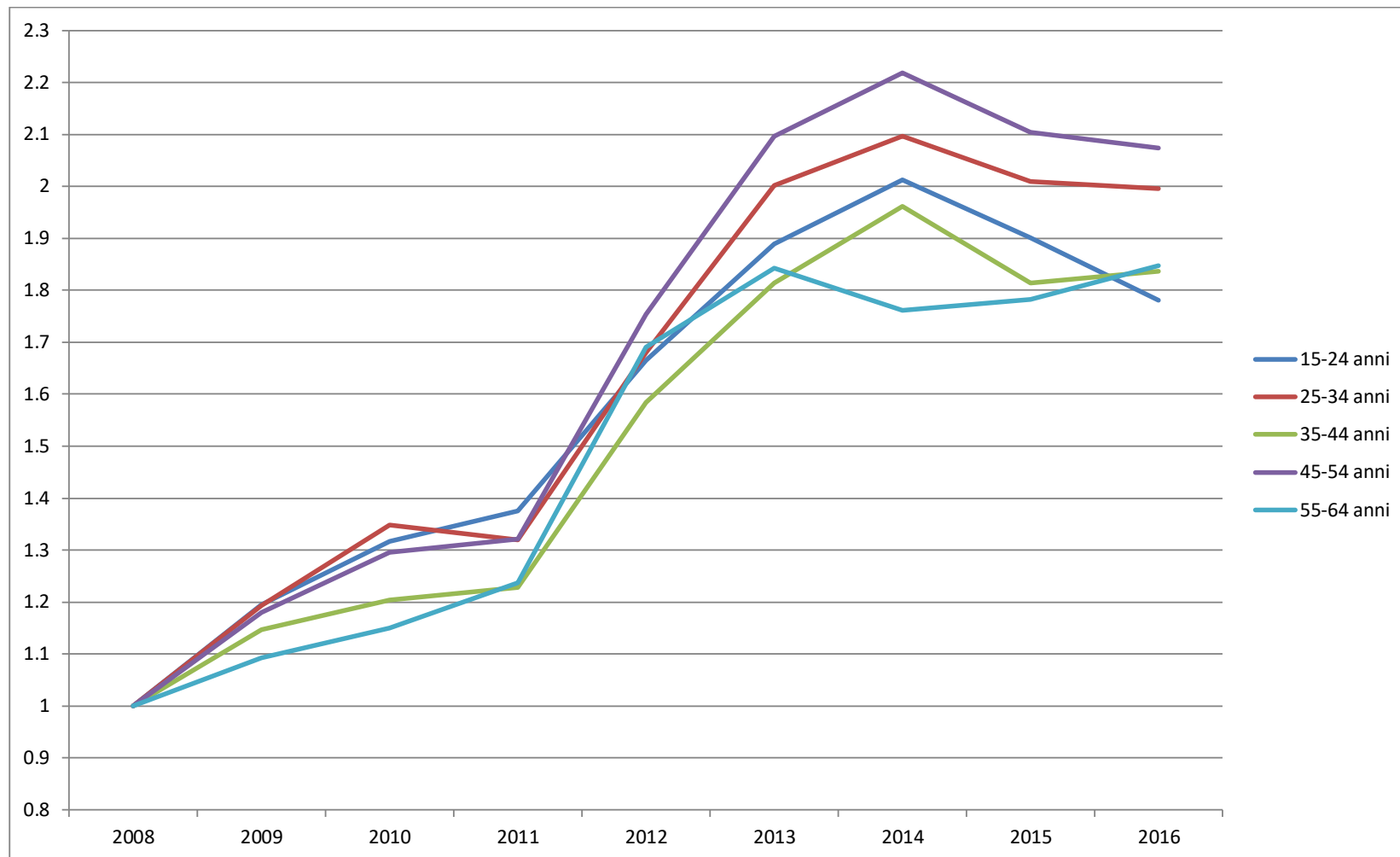
# Italy: poverty rate



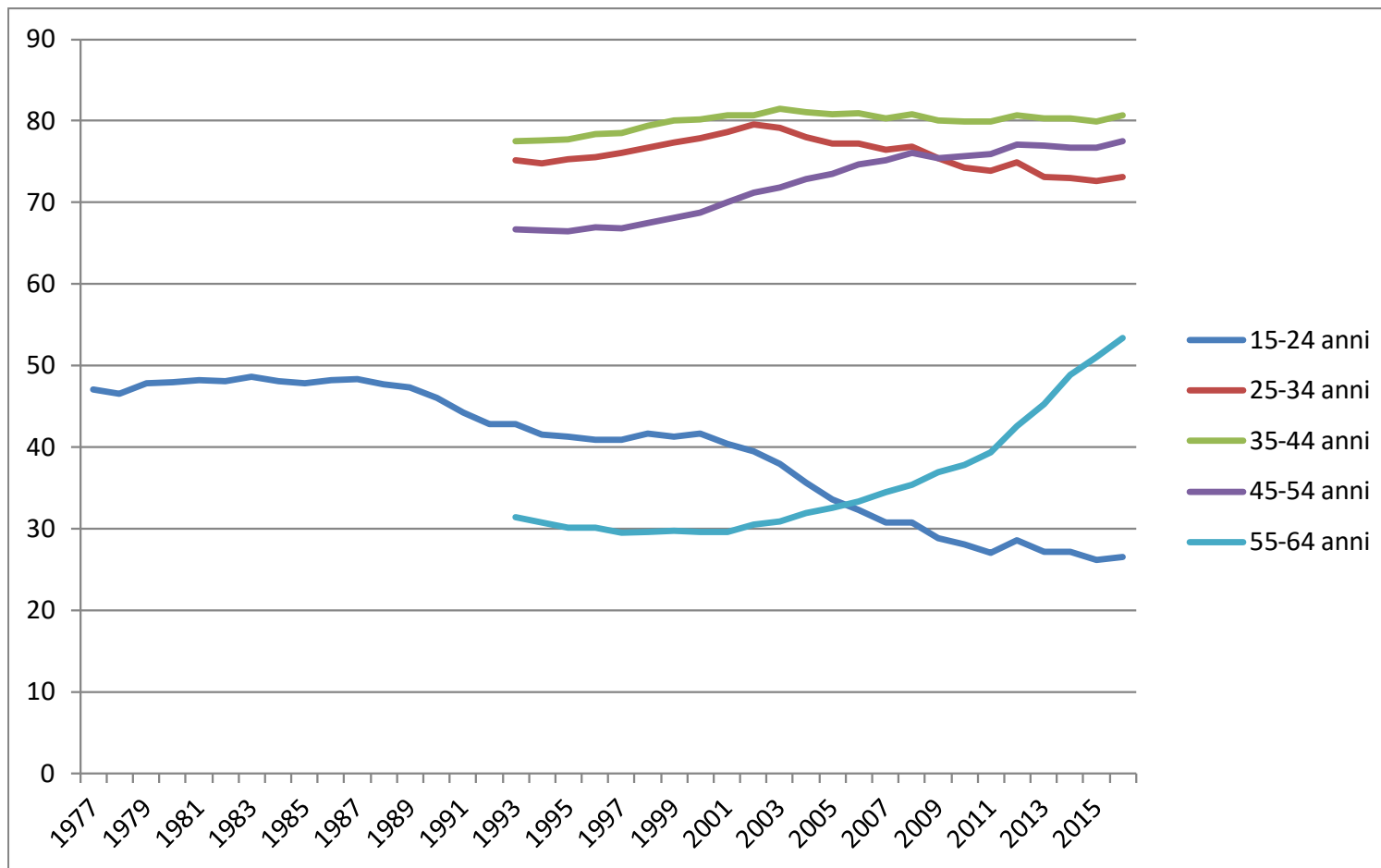
# Italy: unemployment (Eurostat)



# Italy: unemployment rate (Istat)



# Italy: participation rate (Istat)



# Comments (1)

## Age groups definition

The equivalised disposable income of the household is attributed equally to **each member of different ages**

In multi-generation households this implies that the income of the young living together their parents depends on their relatives' incomes

This makes blurred the interpretation of the main findings of the analysis

This is particularly true in Italy where the young (18-24 years old) typically postpone the exit from their parental household during adverse economic conditions

Possible options:

- refer to the age of the main breadwinner in a household
- refer to single income sources (e.g. labour, transfers) that allow to understand how the different cohorts have gained\lost over time, regardless of family composition

## Comments (2)

### **Econometric issues**

The econometric approach adopted by the paper do not actually evaluate the effects of the GFC on inequality and poverty across generations, but just the effects of a number of regressors (e.g. long-term unemployment) on the income gap between the young and the elderly in the period 2007-15

Diff-in-diff estimate is required to separate the effects before and after the crisis. An adequate sub-sample before 2008 is required

Serious endogeneity problems (as recognized by the authors)



## Comments (3)

### **No intergenerational crowding-out?**

Rather surprised that policy prescriptions do not include any pension reforms providing for less demanding old age requirements in order to avoid intergenerational crowding-out (at least in the short term)

Can rebalancing public funds between pensions and (more inclusive) unemployment benefits be sufficient to support the disposable income of the young?