

Le Syndicat européen

# **INEQUALITY AND THE CRISIS : THE STORY FROM EUROPE**

DID INEQUALITY CAUSE THE (EURO) CRISIS ?

DOES EUROPEAN POLICY WORSEN INEQUALITY?

# FROM INEQUALITY TO EURO CRISIS

- ❖ Standard argument: High or rising inequalities distribute income from « spenders » to 'savers »
- ❖ This causes a leakage of aggregate demand ....
- ❖ ....to which policy responds by organising « debt- asset » bubbles.
- ❖ Famous Greenspan quote: « If we can't raise wages, let's increase their debt »

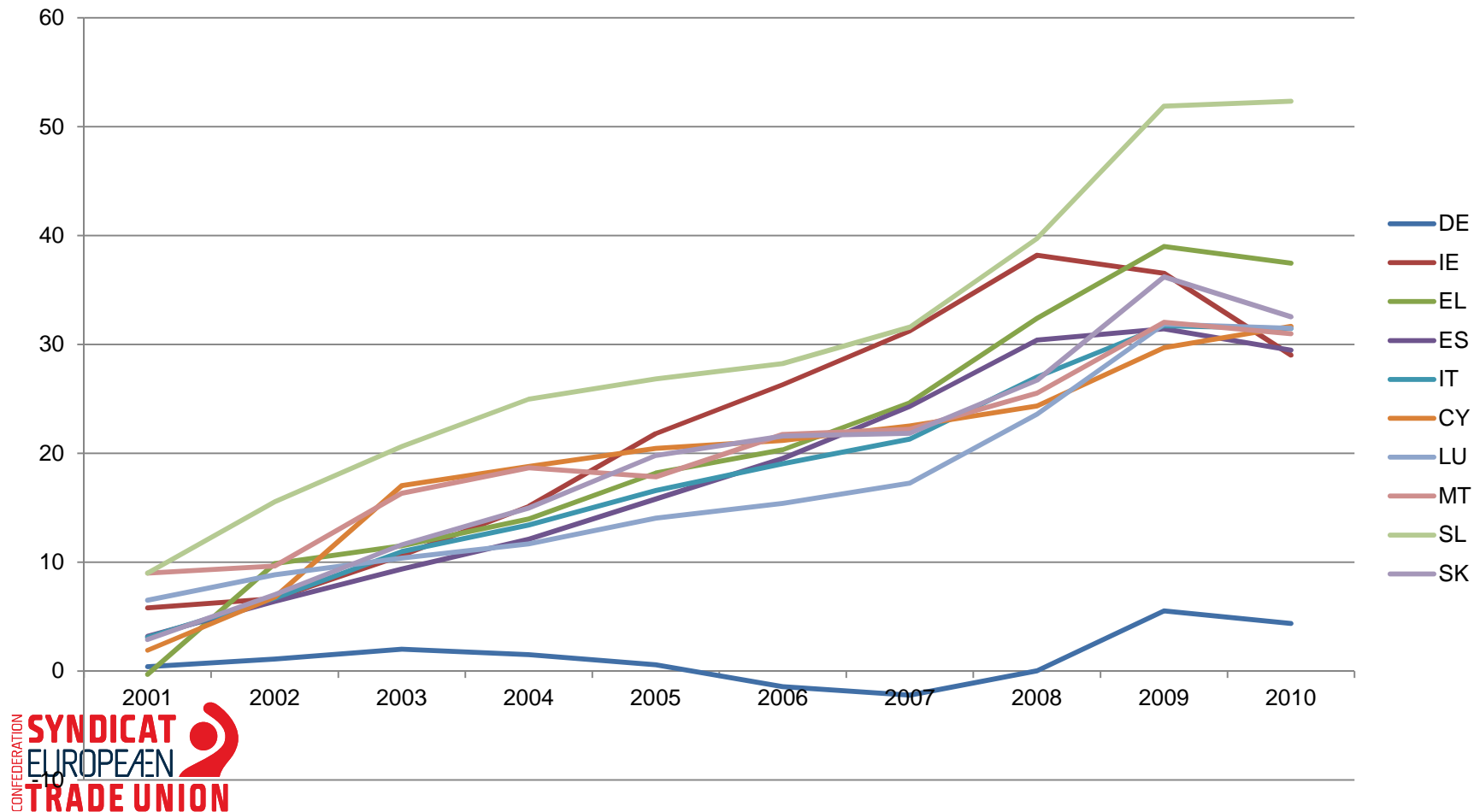
# A BIT MORE COMPLICATED STORY IN THE EURO AREA (1)

- ❖ From the start of the single currency, one key member fully opted for a competitive wage policy....
- ❖ ...resulting in rising inequality, falling share of labour in GDP, rise in working poverty, rise in precarious work
- ❖ .... and in inflation in Germany falling to levels close to zero...

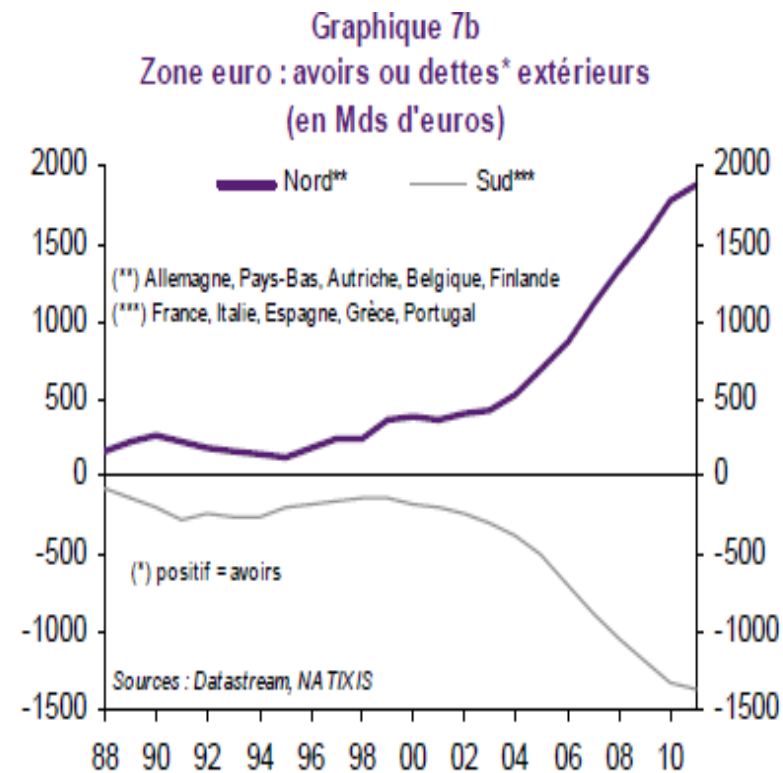
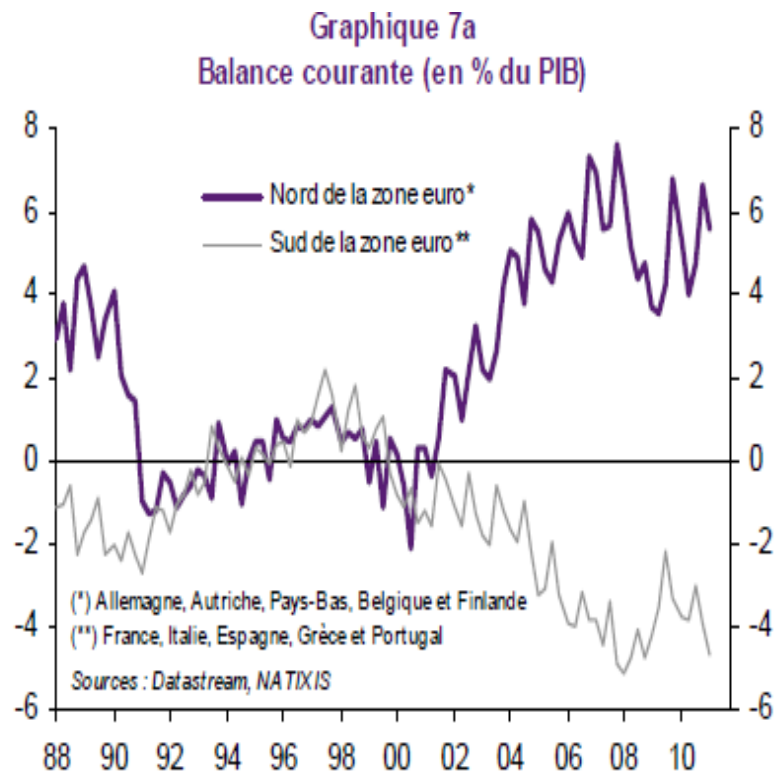
# A BIT MORE COMPLICATED STORY IN THE EURO AREA (2)

- ❖ Response from the ECB : Low interest rates for a prolonged period of time.....
- ❖ « Single currency » effect: 2% interest rate:
  - Still too high for Germany's depressed state of the economy
  - Far too low for the 'peripheral' economies
- ❖ Massive flow of (cheap) capital from the core to the periphery, creating housing bubble and overheating these economies
- ❖ Picture at the end: Soaring inequalities in Germany triggering debt bubbles in Spain, Greece, Portugal, Italy.....To this day, the 'finance' strike in these countries continues as does their economic depression....

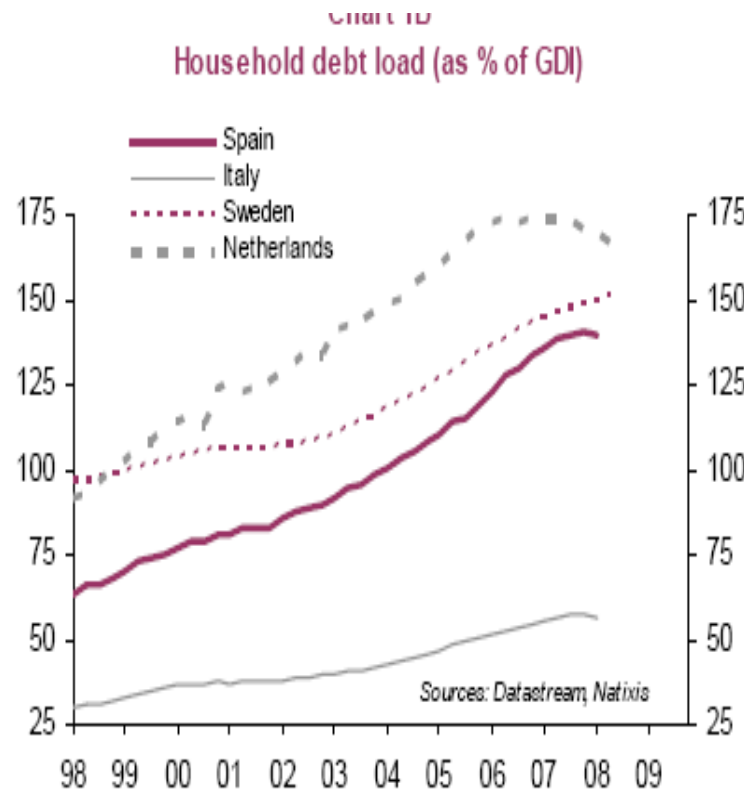
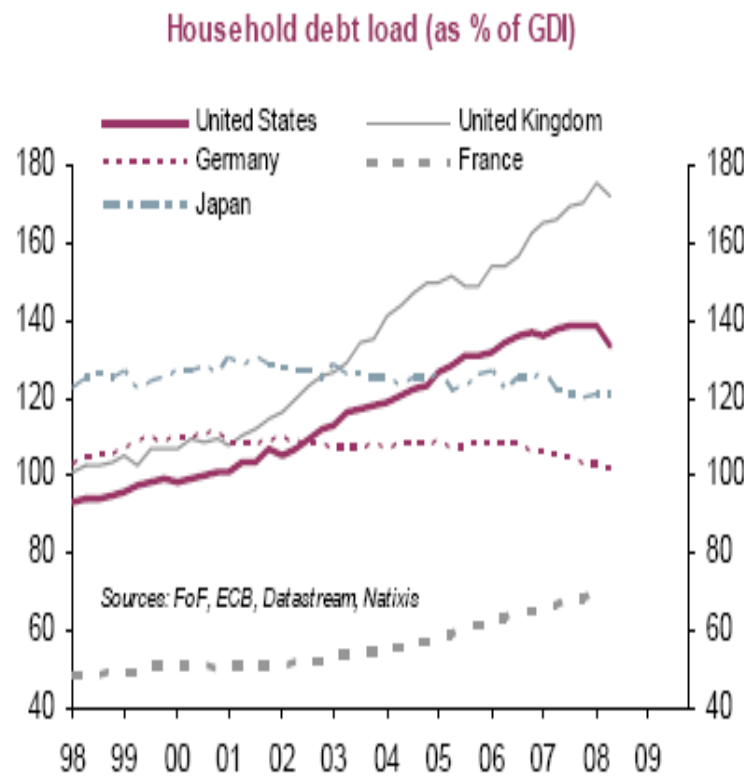
# UNIT LABOUR COSTS 1999 = 100



# CAPITAL FLOWS UNBALANCING THE EURO AREA



# HOUSEHOLD DEBT LOADS

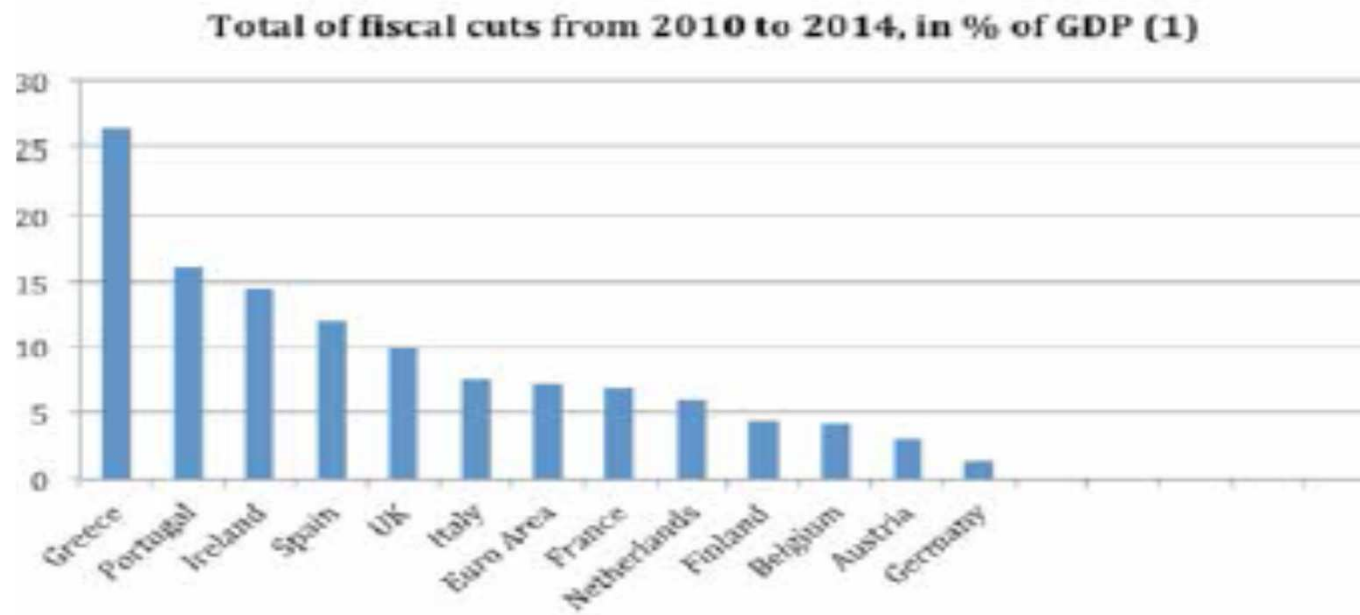


# FROM CRISIS TO HIGHER INEQUALITIES

Does policy response to Euro  
crisis promote inequalities  
further ?

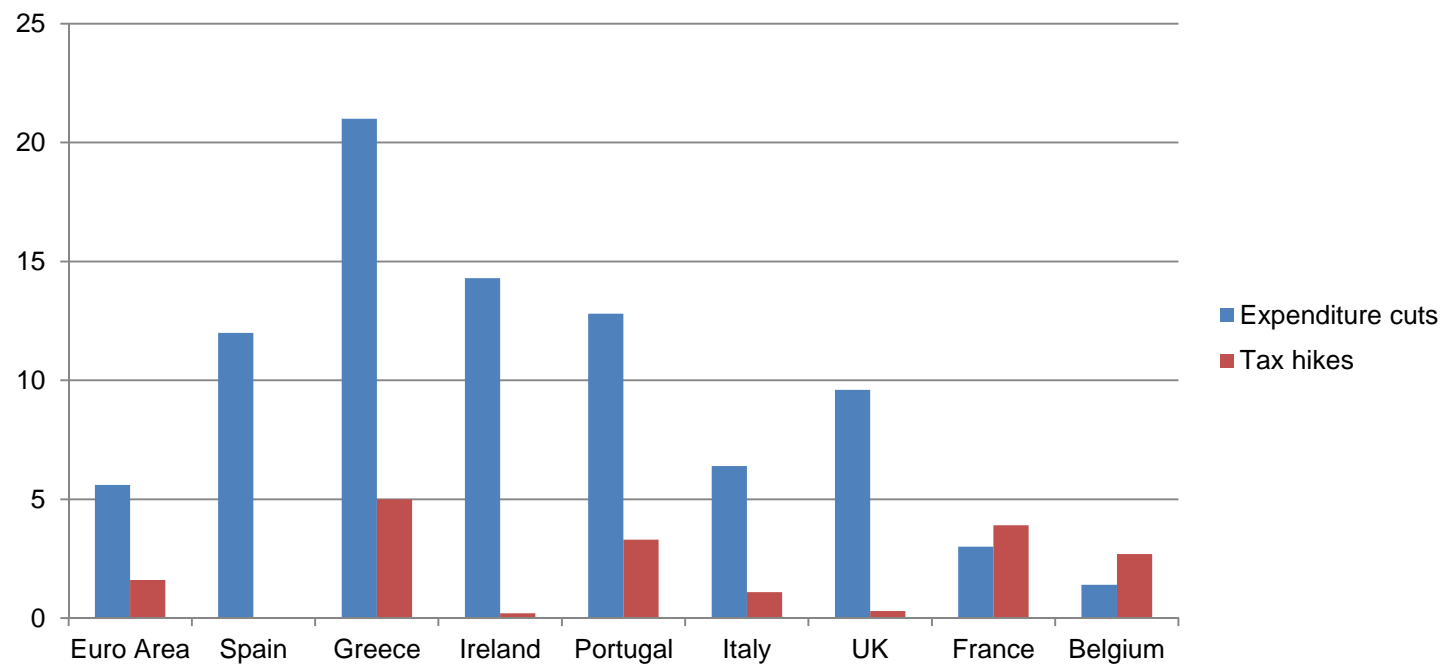


# HEAVY FISCAL AUSTERITY ....



Source: IMK Report. Die Krise schwelt weiter. March 2013.  
Note: 1 Change between 2009 and 2013 in government structural primary balance.

## .... MAINLY ON THE EXPENDITURE SIDE



# POLICY OF INTERNAL DEVALUATION

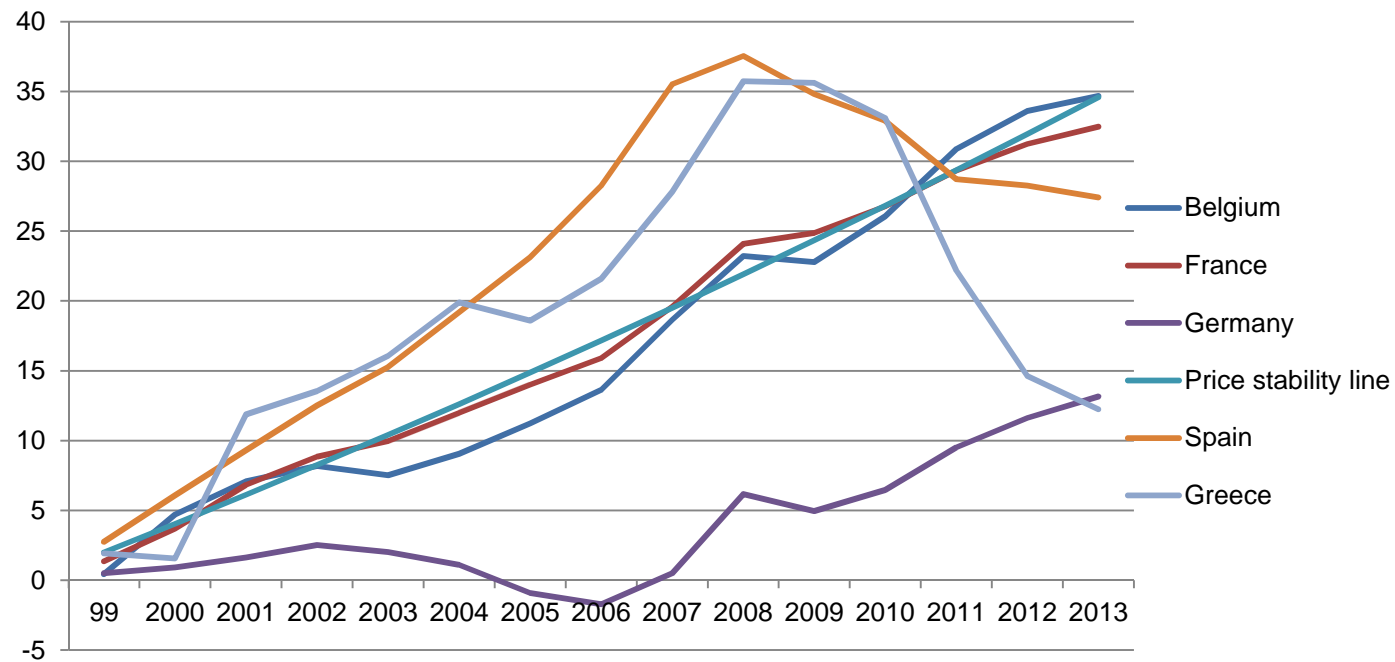
- « If we can't devalue the currency any longer, let's devalue wages »
- All institutions protecting wages/promoting collective bargaining are under attack/have been dismantled

## ILLUSTRATION: DG ECIN'S « LABREF » DATABASE ON STRUCTURAL REFORMS

« An 'employment friendly' reform is a reform that 'reduces the wage setting power of trade unions' »

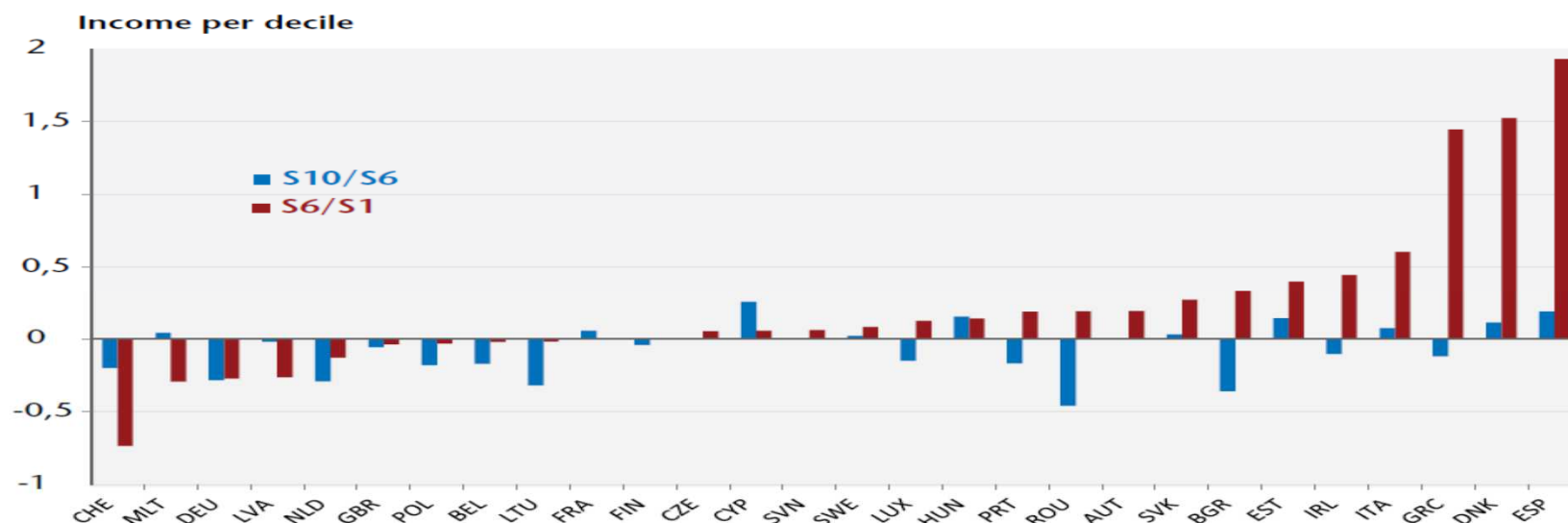
(Source: Labour Market developments  
report from Autumn 2012)

# IT « WORKS » (UNIT LABOUR COSTS SINCE 1999 UPDATED)



# INEQUALITY INCREASING AT THE BOTTOM OF THE INCOME DISTRIBUTION

Figure 20. Evolution between 2008 and 2012 of share of national equalised income

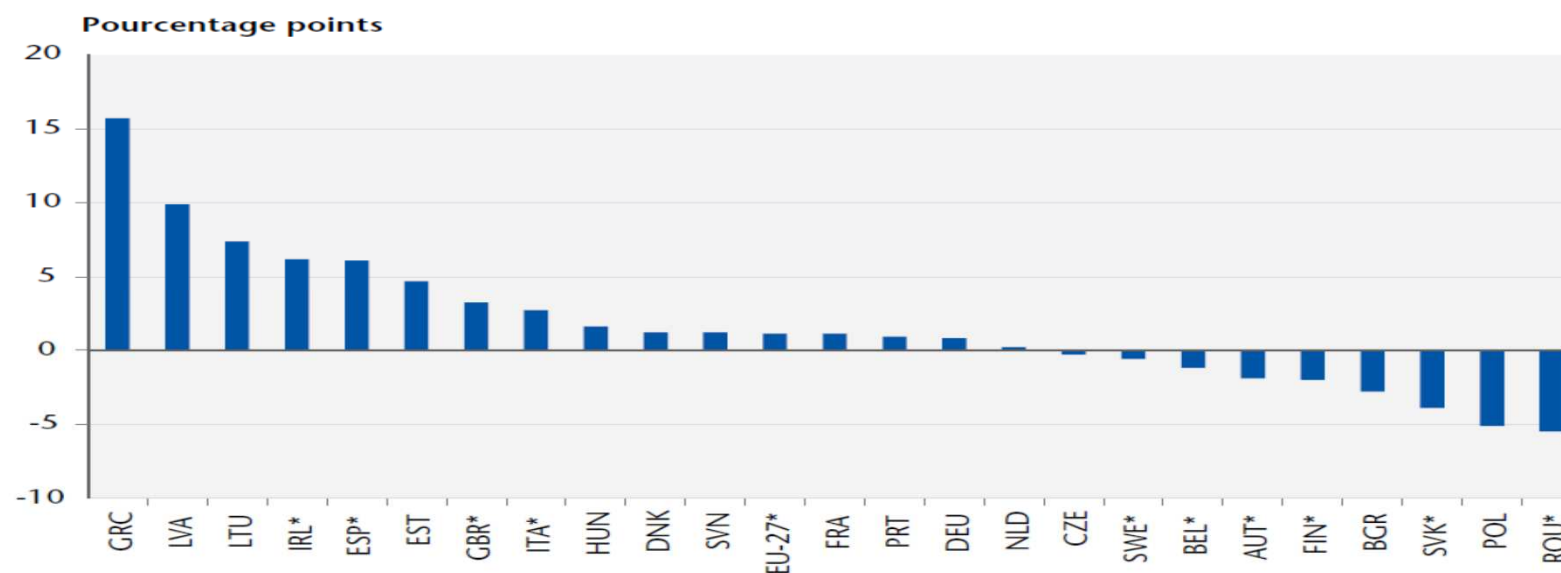


Note: S10 is the share of national equalised income detained by the 10% richest people. S6 is the share of national income detained by people with incomes between the 5th and the 6th decile income.

Source: Eurostat SILC database.

# ANCHORED POVERTY RATES

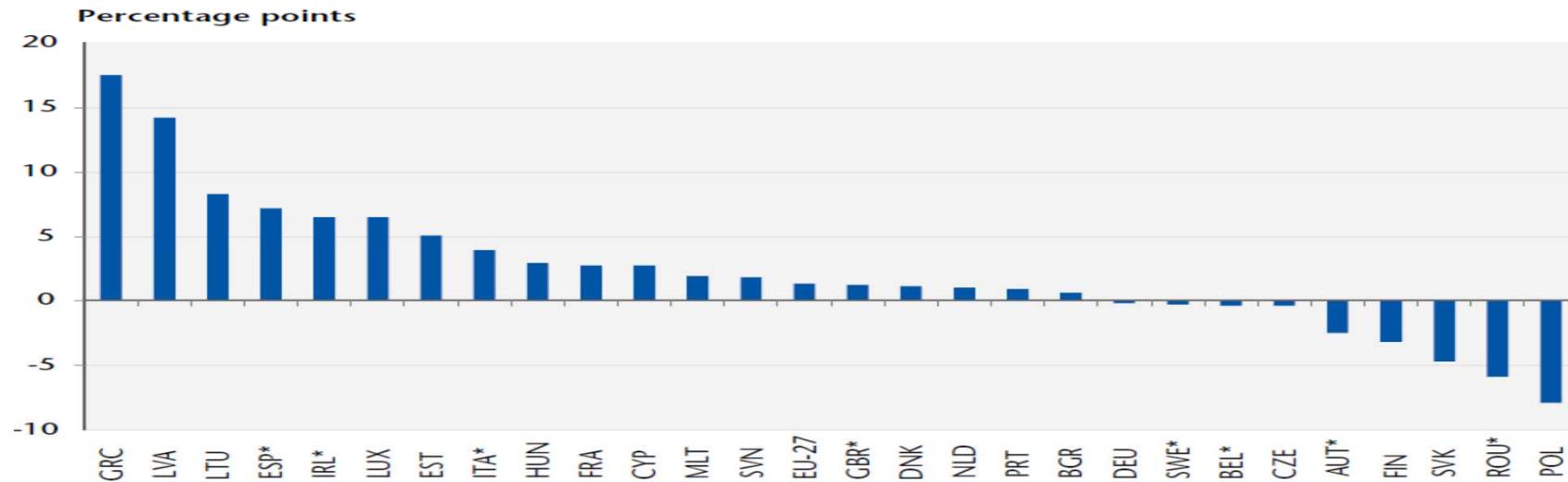
Figure 21. Change in the risk of anchored poverty 2008-2012



Note: For countries marked with \* 2011 are the latest data available. At-risk-of-poverty rate anchored in 2008. Change in the percentage of total population.

# ANCHORED POVERTY RATES OF CHILDREN

Figure 23. Change in the anchored risk of poverty for children (under 18 years) 2008-2012



*Note:* At risk of poverty rate for the population under 18 years. For countries marked with \* 2011 are the latest data available. At-risk-of-poverty rate anchored in 2008.

*Source:* Eurostat SILC database.



# CONCLUSION

The same policy that was at the root of the financial crisis is now being pursued 'to get us out of the crisis'.....

....no chance that this will work



European  
Trade Union  
Confederation

|

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