

Rede von BM Rudolf Hundstorfer
(aufgrund einer Unabkömmlichkeit des Ministers wurde die Rede zur Eröffnung der
Tagung am 30.5.2014 von Dr. Hans Steiner (BMfASK) verlesen)

Economics of Inequality

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Ladies and gentlemen,

Let me start with a pointed remark: Inequality has been rising for four decades now – but it still seems to be a kind of side issue in the science of economics...

The financial and economic crisis shows that increasing income and wealth disparities raise questions, not only for social policy and justice but also for the growth model and the stability of the whole economic system.

On the one hand, the growing disparities are weakening the demand for goods in the real economy, due to a lack of mass purchasing power. On the other hand, the financial sector is blown out of all proportion, with a growing number of speculative financial instruments. The result is that the real economy is becoming less important in comparison to the financial sector – the negative consequences are more than obvious.

Therefore, I believe that economists should look at inequality more closely: How does the distribution of income and wealth affect the growth outlook and the stability of an economy?

I have just criticised the scientific community for neglecting this topic for so long. But policy makers, too, seem to have missed the opportunity to place it high on their agendas. This is probably due to the unquestioned, long-standing philosophy that everything is about the growth of the pie: if distribution remains the same in a situation where the pie is getting bigger and bigger anyway, everybody will get a bigger slice of the pie. Clearly, inequality does not play a major role in this approach.

In light of the crisis, however, the question of distribution has become a key challenge for policy makers and economists. And it will even gain in importance in the future: economic growth will probably not be as strong as it used to be. Consequently, we will need a higher level of redistribution so that low-income groups can also profit from the gain in prosperity – their position needs to be strengthened.

In the past, it was assumed that inequality leads to the provision of capital for investments, which in turn boost the economy. Today, we can say that this is only half of the story: the concentration of income mainly means that more capital is injected into the financial markets. And financial markets are

subject to instability. This aspect should be taken into account by economists. Moreover, analysing the causes of increasing inequality is also of great importance. Without doubt, globalisation and the changing demand for qualifications on the labour market are playing a role in this context. However, the rising unemployment figures, the resulting shift of power from labour to capital, and precarious employment situations seem to be of even greater relevance.

Therefore, we first and foremost need effective strategies in fighting unemployment.

Over the last few decades, those earning the most have had the biggest tax advantages – a worldwide phenomenon. This is due to the reduction in wealth taxes and top tax rates. So it is not only economic developments but also policy choices that have contributed to inequality. Therefore, tax-related measures are a key instrument for more income and wealth equality.

In light of the crisis, the distribution of wealth, in particular, is becoming relevant for the public debate on inequality as states are faced with budgetary constraints, and debt levels are rising. In times like these, we need solutions that do not hamper economic growth but reflect people's ability to pay taxes and contributions. In other words, we need to rely more on the ability-to-pay-principle: those who can contribute more to the

system should do so. Today, those groups that earn or possess most are contributing less and less to the financing of the welfare state in relative terms. In my opinion, this is the wrong approach.

As Minister for Social Affairs I must also point out that inequality has consequences for the financing of social protection systems: a declining wage ratio goes hand in hand with a decrease in social contributions. Growing inequality means that the state has to find alternative sources of financing. The relevant question in this context is this: How can the welfare state best be financed so that we have an employment-friendly and more equal contribution situation with sufficient financial means?

We must always bear the following in mind: the more unequal primary distribution, the more state intervention is needed. It will become harder and harder for the state to create equal opportunities and to guarantee participation for all of society – and I think there is wide consensus across all the different schools of thought that this is one of the major objectives of a state.

We need to act – now. This view was also shared by the ministers at the last OECD meeting at the beginning of May: in the discussion there, not only ministers for social affairs but also ministers from other policy areas highlighted the

importance of the distribution issue for the growth model, the financing of the state, and social peace. Frankly speaking, I was astonished to see that inequality was considered that important across different political camps. I think this shows how vital the topic is for all of us.

To conclude on a more positive note, I want to underline that I highly appreciate the focus of this conference – it is high time that the issue of inequality came to the fore. I hope that in the future there will be a fruitful exchange among economists, but also between economists and policy makers, regarding this important issue.

Thank you for your attention.