Parliamentary Assembly
Assemblée parlementaire
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COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

Doc. 14287
07 April 2017

Fighting income inequality as a means of fostering social cohesion and economic development

Report[1]
Committee on Social Affairs, Health and Sustainable Development
Rapporteur: Mr Andrej HUNKO, Germany, Group of the Unified European Left

Summary

Across Europe, income inequality is at its highest level since the mid-1980s, and the economic recovery observed since 2010 has not yet delivered inclusive growth. The richest 1% has now accumulated more wealth than the rest of the world put together. Member States and major economic players should recognise that income inequality is closely linked to economic imbalances such as persistently high levels of youth unemployment and precarious employment, as well as an increase in the "working poor".

The Parliamentary Assembly should urgently express its concern about the effects that significant income inequality has on social cohesion, economic performance, growth and sustainability and the functioning of democratic institutions and processes. It should invite member States to make the fight against income equality a political priority, and to develop comprehensive and effective national strategies. Diverse policy measures are needed regarding employment and wage-setting policies, tax policies and labour market institutions, not only to alter present distribution patterns but also to rebalance underlying institutions and processes of decision-making which currently assign significantly more power to those in possession of wealth and income.

1. Reference to committee: Doc. 13889, Reference 4160 of 27 November 2015.

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A. Draft resolution[2]

1. Over the past few decades, income inequality has constantly been on the rise across Europe and throughout the world, with an ever-greater gap between top earners and incomes at the bottom of the scale. The richest 1% has now accumulated more wealth than the rest of the world put together. In Europe, the economic recovery observed since 2010 has not yet delivered inclusive growth or reversed the trend towards increasing income inequality, which remains at the highest value since the mid-1980s.

2. The Parliamentary Assembly is very concerned about the current level of income inequality and its effects, not only on social cohesion, but also on economic performance, development and sustainability and the functioning of democratic institutions and processes. Whilst it has always been widely recognised that a certain level of inequality may be needed to stimulate individual ambitions and overall growth, levels of inequality in Europe have now gone far beyond the limits of healthy competition. These concerns are shared by international economic organisations, such as the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and the International Labour Organization (ILO).

3. Member States and economic stakeholders at all levels need to recognise that increases in income inequality lead to other forms of inequality and related challenges, such as persistently high levels of youth unemployment and precarious employment, the appearance of a new class of "working poor", as well as persistently high gender pay gaps in many European countries. Such inequalities are, in the long term, harmful to democracy. Member States should address these challenges urgently and include relevant targets in socio-economic policies at all levels, ranging from the new European Pillar of Social Rights at the European Union level to social policies at the local level. They should promote an inclusive social dialogue aimed at reaching a new social consensus with regard to levels of individual security and employment flexibility to be achieved in each national context.

4. In the light of the above, the Assembly invites member States to:

4.1. make the fight against income inequality a political priority and develop comprehensive and effective national strategies, including by setting or promoting measurable targets in terms of reducing overall levels of inequality, gender pay gaps and ratios between lowest and highest salaries;

4.2. as regards employment and wage-setting policies:

4.2.1. encourage the reduction of current levels of precarious employment and provide employees with more stable professional perspectives and positions in accordance with their qualifications;

4.2.2. invest in training programmes and continuous training for all workers during their life course, thus generally upskilling the workforce, including on the use of information and communication technologies;

4.2.3. increase levels of female participation in the labour market in accordance with women's qualifications, thus consolidating household incomes and facilitating families' equal access to health care, childcare and education;

4.2.4. introduce a sufficiently high minimum wage (living wage), ensure equitable wage levels for all categories of workers, including vulnerable groups in the labour market (women, youth, migrants, etc.), and consolidate relevant income support schemes;

4.2.5. take concrete measures to promote youth employment and vocational training;

4.2.6. promote the fight against the gender pay gap, and ensure equal pay for work of equal value to all women and men, including through relevant legislation and complaint mechanisms;

4.2.7. strengthen social services in order to allow families, including single parents, to achieve an acceptable work-life balance between decent employment and domestic care duties for children or seniors;

4.2.8. encourage the limitation of excessive wages and rewards to top earners, by ensuring transparency about their income and by promoting maximum ratios between top and bottom wages within specific branches or companies (for example through stakeholder control, public tender rules, and in particular via public procurement policies);

4.2.9. encourage better access of small and medium-sized enterprises to public procurement;

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2. Draft resolution adopted unanimously by the committee on 24 March 2017.

4.3. as regards tax policies and systems:

4.3.1. make taxation systems more progressive, in particular by increasing the tax rates for higher incomes and significantly lowering pressure on “at risk of poverty” groups, such as large families or single parents (for example lower income tax rates, tax breaks, and tax credits, and shifting away from consumption taxes on basic and essential goods);

4.3.2. review taxation on wealth, capital gains and inheritance, with a view to reducing and increasing transparency on tax incentives of any kind;

4.3.3. step up international co-operation and design effective measures to fight tax havens and tax evasion, as specified in Assembly Resolution 1881 (2012) on promoting an appropriate policy on tax havens and Resolution 2130 (2016) on lessons from the “Panama Papers” to ensure fiscal and social justice, and promote co-operation to avoid tax competition between countries which leads to the displacement of companies and individuals;

4.4. as regards labour market institutions:

4.4.1. reverse negative trends which have weakened collective bargaining institutions and coverage in the past;

4.4.2. strengthen social dialogue as a means of fighting income inequalities and designing modern labour market policies, in line with Assembly Resolution 2146 (2017) on reinforcing social dialogue as an instrument for stability and decreasing social and economic inequalities;

4.4.3. build systems of “good governance” and transparent decision making by setting up public registries of lobbyists and stronger rules on conflicts of interest, with a view to limiting, if not eliminating, the influence of vested interests in all relevant policy areas (including employment, wages and taxes).

5. The Assembly also calls on member States to:

5.1. contribute to the development of a new paradigm of social justice for their societies, in which income inequality is treated as a major challenge for entire economies and societies;

5.2. comply with their commitments with regard to the universal Sustainable Development Goals (SDG), adopted in September 2015 at the United Nations, and effectively protect social rights as guaranteed by the European Social Charter treaty system of the Council of Europe, not least by ratifying the European Social Charter (revised) (ETS No. 163) if they have not yet done so.

B. Explanatory memorandum by Mr Andrej Hunko, rapporteur

1. Introduction

> *"As long as poverty, injustice and gross inequality persist in our world, none of us can truly rest." Nelson Mandela*
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> *"We have the chance to build a more human economy, where the interests of the majority are put first. A world where there is decent work for all, where women and men are equal, where tax havens are something people read about in history books, and where the richest pay their fair share to support a society that benefits everyone." Oxfam, "An economy for the 1%"*

1. Widening income inequality has been one of the major socio-economic trends and the subject of much academic debate in recent years. During the past decades, the rich have become ever richer, while the vast majority have seen their income stagnate or decline in relative terms. Increasingly, the middle class, which has always been considered as an important pillar of solid economies and democracies, has been affected by negative income trends.

2. Moreover, much evidence has been provided over the past years that increasing income inequality not only negatively affects the well-being of those directly concerned by lower incomes, but poses a major threat to social cohesion, amongst others by creating unequal opportunities in accessing social services or employment, and by contributing to an increase in violence, mental illness, drug addiction, the social exclusion of certain groups of the population, and a rise in xenophobic and nationalist movements. Beyond these trends, growing inequality is also believed to have a negative impact on economic performance and development, and on the functioning of democracy as low income is positively correlated with low levels of participation in democratic processes, for example elections.

3. Despite much evidence of the devastating effects in the short and long term, the persistent negative trends towards further inequalities have hardly been met with adequate parliamentary debate and policy response. With this report, I therefore wish to contribute to filling this gap, first by providing an analysis of the main trends we can currently observe in European societies, as well as some of the underlying causes and consequences of inequalities, then by identifying adequate policy responses for putting an end to negative trends and promoting more inclusive growth.

4. To back up recommendations to be conveyed to member States, I will refer to the evidence gathered by the Organisation for Economic Co-operation and Development (OECD), the International Labour Organization (ILO) and others, as compiled by Professor Brian Nolan of the Institute for New Economic Thinking (INET) of the University of Oxford (United Kingdom), in an expert report prepared in December 2016. Further evidence was obtained through a hearing involving experts from the OECD and the British charity organisation Oxfam, organised by the Committee on Social Affairs, Health and Sustainable Development in June 2016,[3] as well as an exchange of views with different experts organised by the Sub-Committee on the European Social Charter in Turin (Italy) on 17 March 2016.[4] Finally, further inspiration was found at a recent ILO conference on "Inequalities and the world of work: what role for industrial relations and social dialogue?", held in Brussels on 23 and 24 February 2017, which I attended on behalf of the Assembly.

5. Overcoming current levels of inequality observed across Europe and worldwide is a huge challenge. Current patterns of generation and distribution of income and wealth are deeply rooted in our societies, and decisions are very often taken in favour of those already advantaged through respectable levels of wealth, income and education. In order to reduce the current inequalities gap or at least put a halt to negative trends which are further increasing them, policy measures are needed at various levels. It is not through a single report and debate that we can substantially change entire socio-economic situations and patterns of distribution, but the Parliamentary Assembly should at least make an attempt to flag up which measures are needed most urgently and make a contribution to changing the orientation of certain unwanted trends.

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3. Hearing with Ms Deborah Hardoon, Deputy Head of Research, Oxfam GB, Oxford (United Kingdom), and Ms Céline Thévenot, Policy Analyst in social affairs (Income distribution and Poverty Section), Directorate for Employment, Labour and Social Affairs, OECD, organised upon the initiative of Mr Tuur Elzinga, first rapporteur on this report before his departure from the Assembly in October 2016.

4. Amongst the experts heard in Turin, the following were of particular relevance for the present activity: Professor Wiemer Salverda, Special Chair Labour Market and Inequality, Institute for Advanced Labour Studies, University of Amsterdam (Netherlands), and Mr Daniel Vaughan-Whitehead, Senior Economist, ILO; exchange of views once again organised by Mr Elzinga in his capacity as Chairperson of the Sub-Committee on the European Social Charter until October 2016.

2. Income inequality facts: acknowledging "an inconvenient truth"

6. In most countries, the gap between the rich and the poor is at its highest level for 30 years. The figures are striking: the richest 1% has now accumulated more wealth than the rest of the world put together. In 2015, 62 individuals alone had the same wealth as 3.6 billion people – the bottom half of humanity.[5] Inequality of gross and net incomes has increased substantially since the 1990s in most of the industrialised world.[6] Approximately 8% of the world's financial wealth is held in tax havens, resulting in US$200 billion of tax revenue lost each year around the world.[7] The trend towards an even greater inequality is likely to continue in the absence of corrective actions. The time for these has come, not least thanks to increasing recognition of the fact that excessive economic inequality can undermine economic performance and social cohesion.

7. In order to explore possible pathways towards more equal societies, I will focus on income inequalities (as distinct from, but at the same time related to other types of inequality, such as in wealth distribution), to provide more specific policy guidance. Policy measures having a direct influence on people's future income could, in my view, have quite a substantial effect on people's life situations in the short- and mid-term, whilst measures aimed at changing patterns of wealth distribution require different and sometimes more far-reaching legislative and policy interventions and seem to be even more deeply anchored in current socio-economic institutions.[8]

8. Measuring income inequality is a statistical challenge, as measures are not standardised for all countries.[9] The OECD defines "income" as the disposable income per household in a particular year, consisting of earnings, self-employment and capital income and public cash transfers, with income taxes and social security contributions deducted, and "income inequality" as the gap between different individuals' or households' disposable income in a particular year.[10] The most frequently used measure is the Gini coefficient (ranging from 0 in the case of perfect equality to 1 in the case of complete inequality).

2.1. Overall trends and state of play of income inequality across Europe

9. Over the past few decades, there has clearly been an upward trend in income inequality. The picture varies greatly from one country to another and depends on whether we look at the pre- or post-crisis period. Traditionally, the Nordic countries had long seen relatively low levels of income inequality. The United Kingdom, Ireland, France, Germany or Belgium had slightly higher levels but still lower than Mediterranean countries (e.g. Italy, Greece, Portugal and Spain). As of the early 1980s, the most substantial increases in income inequality were observed in the Baltic countries, Sweden and the United Kingdom, leading to some degree of convergence. The economic crisis as of 2008 and the recession linked to it had varying effects rather than simply reinforcing previous trends towards increasing inequality (variations linked to unemployment or the response of tax and transfer systems). Accordingly, inequality measured by the Gini coefficient increased or even decreased very little in the period 2008-2015 in most countries.[11]

10. Beyond this "historical" view, the British charity organisation Oxfam, through its 2016 study "An economy for the 1%", takes a more straightforward approach, looking at the present situation and reminding us that "the big winners in our global economy are those at the top", that economic systems are heavily

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5. Oxfam GB, "An economy for the 1%", Oxfam International, January 2016.
6. The Gini Index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution (http://data.worldbank.org/indicator/SI.POV.GINI).
7. Gabriel Zucman, *The Hidden Wealth of Nations: The Scourge of Tax Havens*, University of Chicago Press.
8. Wealth inequality seems to be even larger than income inequality due to financial assets that are unequally distributed and mainly accrue to top income and wealth households. The share of total net wealth of the top 10% is about 60% in Austria, Germany and the Netherlands, 50% in France, Norway and Portugal, 45% in Belgium, Finland, Italy, Spain and the United Kingdom, and even 40% in Greece. See OECD, Household wealth inequality across OECD countries: new OECD evidence, Statistics Brief No. 21, June 2015, https://www.oecd.org/std/household-wealth-inequality-across-OECD-countries-OECDSB21.pdf.
9. B. Keeley, Income Inequality: The Gap between Rich and Poor, *OECD Insights*, OECD Publishing, Paris, 2015, http://dx.doi.org/10.1787/9789264246010-en.
10. In comparison to this, "wealth" is defined as the level, composition and distribution of wealth held by households at a particular time, involving the ownership of economic capital (as a dimension of people's economic (or material) well-being, alongside income and consumption); this includes non-financial assets (dwellings and other real estate, valuables, vehicles and other consumer durables) or financial assets (currency and bank deposits, equity in businesses and entitlements in pension funds); see *OECD Guidelines for Micro Statistics on Household Wealth*, OECD Publishing, Paris, 2013, www.oecd.org/statistics/OECD-Guidelines-for-Micro-Statistics-on-Household-Wealth.pdf.
11. According to information researched and compiled by Professor Brian Nolan in his expert paper (see paragraph 4 above).

skewed in their favour and that income and wealth are sucked up at an alarming rate instead of "trickling down".[12] Amongst structural causes of income inequality, a phenomenon of great concern, we also need to mention the persistently high gender pay gap across Europe, which does not have any justification in modern economies where women and men often carry out the same professional activities. For the economy as a whole, in 2014, women's gross hourly earnings were on average 16.7% below those of men in the European Union (28) and 16.9% in the euro area (19). Across member States, the gender pay gap varied by almost 24 percentage points, ranging from 4.5% in Romania to 28.1% in Estonia.[13]

11. In its latest "Income Inequality Update" of November 2016, the OECD noted that the economic recovery since 2010, expressed through renewed gross domestic product (GDP) and employment growth, had not yet delivered inclusive growth or reversed the trend towards increasing income inequality observed over past decades. Analysts believe that this may be linked to the diverging effects of economic recoveries which should narrow income inequality, but can at the same time fuel capital incomes concentrated at the top, whilst also – in the most recent case – being associated with fiscal tightening aimed at restoring sustainability of public finances and stricter access to social transfers ("austerity programmes").

12. These diverging trends have led to the fact that over the past seven years, overall income inequality levels have remained at historical highs, reaching a Gini coefficient of 0.318 in 2013/2014 (thus the highest value since the mid-1980s). This indicator seems amongst others to be based on the fact that incomes at the bottom of the distribution are still well below pre-crisis levels while top and middle incomes have recovered much of the ground lost during the crisis. Amongst underlying trends, the OECD observes that unemployment has been declining over the past few years, albeit often from high levels, and that this has most recently benefited youth in particular, whilst low quality jobs and high disparities among workers in terms of contracts or job security continue to weigh heavily on low-earning households and contribute to maintaining high levels of income inequality. However, the picture is complex and comprises specific challenges, such as the trend of low-paid jobs regularly taken by highly educated people from higher income households, often in combination with prolonged education or domestic care periods, thus driving out the less qualified of this category of employment.[14]

13. At the same time, redistributive factors, such as income taxes and cash transfers (e.g. unemployment and other benefits) which would generally cushion income inequality (alongside non-cash transfers through health care and education) have been weakened or have stagnated in most OECD countries, once again reflecting the introduction of fiscal consolidation measures in a context of austerity. Lower redistribution rates constitute a challenge for policy makers who, in the face of widening income gaps and persistent unemployment, not only need to restore economic growth but also have to make sure that all groups in society can contribute to and benefit from greater prosperity.[15]

2.2. Selected country examples

14. Whilst the OECD noted the highest level of income inequality (in terms of Gini coefficients) since the 1980s in November 2016, developments in specific countries vary greatly. Some countries have seen inequality decline significantly, such as Turkey, Iceland and Latvia. The most significant increase was seen in Estonia, followed by the Slovak Republic, Spain and Sweden; trends in other countries were less pronounced though were mostly upwards.

15. The overall trend of labour incomes recovering to pre-crisis levels cannot be confirmed for all countries either: Whilst in Estonia and Latvia the considerable growth in labour incomes since 2010 (7%-8% per year) did not benefit the bottom 10%, low-income households significantly benefited in Hungary and Turkey, thus reflecting rising employment. In some countries, weak wage growth has prevented incomes from fully bouncing back, such as in the United Kingdom, where falling real wages limited the increase in labour incomes. Other countries saw their labour incomes decrease while implementing structural reforms imposed on them by the "Troika" in a context of fiscal consolidation, e.g. Greece (decrease of 12%), Spain (due to persistently high levels of unemployment) and Portugal (decrease amongst the bottom 10% due to unemployment and a minimum wage freeze).[16]

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12. Oxfam GB, "An economy for the 1%", op. cit.
13. http://ec.europa.eu/eurostat/statistics-explained/index.php/Gender_pay_gap_statistics.
14. As pointed out by Professor Wiemer Salverda at the hearing held in Turin on 17 March 2016 (see footnote 4 above).
15. OECD/COPE (Centre for Opportunity and Equality): Income inequality remains high in the face of weak recovery, Income Inequality Update, November 2016.
16. Ibid.

16. Facing this situation, governments across Europe should start to realise that income inequality is an issue concerning societies at large. Even wealthier nations such as Germany, my own country, have until now failed to reach the relevant Sustainable Development Goals. Whilst, on average, the disposable household incomes in Germany have seen a real growth of 12% (1991-2014), the development varied dramatically for different income groups: the highest incomes have grown by 26%, middle incomes by 8% and low incomes have seen a decline, thus leading to increased inequality and a higher risk of poverty, especially for children and young people (18-25). The main causes for this evolution are an expansion of precarious employment (low-paid sector) following labour market deregulations, the insufficient adaptation of social benefits to inflation levels, a weak progression of old age incomes and demographic developments, as well as, concerning higher income groups, increasing incomes from capital gains that are additionally privileged with lower taxes. Analysts believe that effective counter-measures should involve limitations to precarious employment, tax reforms[17] (e.g. in favour of single-parent families, more progressive income taxes instead of the emphasis on consumption taxes) and measures facilitating the conciliation of work and family life. With the upcoming parliamentary election of September 2017, it is likely that all major parties will include relevant proposals in their programmes; whilst I generally welcome such a move and greater awareness, the later implementation of effective policies remains to be seen.[18]

17. In eastern Europe, transition processes to post-communist and more liberal economic systems have had various effects, resulting, amongst others, in increasing income inequality, de-industrialisation and the spread of poverty. Economic systems in this region remain dominated by a few financial-industrial groups with strong political influence focused on raw material exploitation, and small and medium-sized enterprises. Up until 2010, income inequality rates recorded relatively small increases compared to 1990, but still remained over 30%, even though they did not exceed the critical level of 40% (on a scale of 1 to 100). The highest coefficients were seen in Russia, the Republic of Moldova and Poland (37.5%, 35.6% and 34.9%[19]), the lowest in the Czech Republic and the Slovak Republic (both at 25.8%). Among the main causes of deterioration of living standards and the rise of income inequality, researchers saw declining productivity, inflation, rising unemployment and ineffective policies of macroeconomic stabilisation.[20] More recent data for these countries are not easily available, but seem to point to a continuous increase in income inequality.[21]

3. Uncovering the roots and causes of deeply entrenched inequalities

18. The upward trend in income inequality over recent decades in many European countries has generated much research to understand driving forces. As most evidence shows, and as previously pointed out by the Parliamentary Assembly, income inequalities have not only been triggered by the financial crisis which dominated Europe over the past decade, but also have well-known structural causes, such as market globalisation, technological developments, shrinking manufacturing sectors in Europe, the weakening of collective bargaining powers, demographic trends, the transformation of family structures and growing migration flows. The OECD already underlined in 2011 that skill-based technological change, lack of access to quality education and weakening labour market institutions were factors contributing to the rise in inequality.[22]

19. European Union research has further underlined how the shape of individual earnings distribution has changed, in particular based on increasing inequality in market incomes (stemming from employment, investments and private pensions, before transfers or taxes). The combination of globalisation and technological development is regularly found to be a major cause of developments observed: rich country manufacturing has entered into intense competition from emerging countries with lower labour costs, and capital has become increasingly mobile, whilst information and communication technologies have both dispensed a number of jobs and allowed for increased outsourcing in global supply chains.[23]

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17. Deutsches Institut für Wirtschaftsforschung (DIW) (German Institute for Economic Research).
18. M. Grabka and J. Goebel, Realeinkommen sind von 1991 bis 2014 im Durchschnitt gestiegen – erste Anzeichen für eine wieder zunehmende Einkommensungleichheit (Real incomes have grown from 1991 until 2014 – first signs of a newly increasing income inequality), Deutsches Institut für Wirtschaftsforschung, *DIW Wochenbericht* (weekly report) 4/2017.
19. Estimated slightly lower by the OECD which rates Poland at about 30% in 2013; https://data.oecd.org/inequality/income-inequality.htm.
20. Cristina Gabriela Susanu, The Income Inequality in the Eastern European Countries: A Comparative Study for the Period 1990-2010, in: *The Annals of the "Ştefan cel Mare" University of Suceava*, Fascicle of the Faculty of Economics and Public Administration Vol. 11, No. 2(14), 2011.
21. OECD, *In It Together. Why Less Inequality Benefits All*, OECD Publishing, Paris, 2015.
22. OECD, Divided We Stand: Why Inequality Keeps Rising, Paris, 2011.
23. Professor Brian Nolan, op. cit.

20. Researchers also underline that neither globalisation nor technological change are exogenous drivers unrelated to institutional contexts. On the contrary, both are fundamentally influenced by State action, changes in global trading rules and de-regulation of labour markets. At the same time, State action may influence wage levels through wage-setting and employment policies or leave sufficient margin to performance-related pay and share options for top executives, thus providing further grounds for increasing inequalities. The way in which such trends in individual earnings impact on income distribution amongst households depends on employment patterns at the household level. The increasing role of women in the paid labour force has served to cushion household incomes from the effects of individual dispersion. The redistributive capacity of the State through cash transfers and direct taxes has often declined, already over the decades preceding the crisis. Social security systems have evolved towards privileging pensioners at the expense of working-age recipients while struggling to adapt to higher levels of low pay and in-work poverty, and top income tax rates were generally reduced since the late 1970s.[24]

21. According to the Oxfam study of 2016, one of the main causes of a growing concentration of wealth and income is the increasing return to capital versus labour.[25] In almost all rich countries, the share of national income going to workers has been falling whilst the owners of capital have seen the latter grow consistently (through interest payments, dividends or retained profits), even faster than the rate at which economies have been growing overall. Tax avoidance and governments reducing taxes on capital gains have further added to these returns. Whilst workers have seen their wages stagnate, top salaries have continued to increase significantly, amongst others due to the fact that, across the global economy, firms and individuals have used their power and position to acquire economic gain for themselves.

22. In my capacity as rapporteur, I agree with the analysis and patterns described by Oxfam. Especially that the global system of tax avoidance is undermining the sustainability of welfare States and is a serious violation of democratic principles, as already pointed out by the Assembly in its Resolution 1881 (2012) on promoting an appropriate policy on tax havens and reiterated in Resolution 2130 (2016) on lessons from the "Panama Papers" to ensure fiscal and social justice. We can see that in the face of overall trends like globalisation and technological developments, the State has not been in a position to effectively counter the increase in income inequality over the past few decades. Only through bold public policies will we be able to achieve more equal societies.

4. The adverse effects of income inequality

23. Much evidence has been gathered recently about the adverse effects of income inequality, which are complex and tend to be self-reinforcing. We know that income inequality generally poses a major threat to social cohesion and generates significant economic costs for society.[26] In terms of household incomes, poverty excludes many from the mainstream economy, depriving them (and the next generations) of the opportunity to achieve their potential. When families face difficulties to pay for decent housing, appropriate health care, old age security and quality education for their children, the prospects for sustainable growth are further reduced.[27] In order to change the structures and processes through which income and wealth are distributed, much political willingness will be needed, not least because political and economic decisions makers are amongst those benefiting from current distribution patterns. Despite the urgent need to protect social rights and social cohesion, I would first point to the – very convincing – evidence about the economic implications of income inequality.

4.1. Striking evidence about the economic effects of inequality

24. The channels through which income inequality affects economic development mainly include: 1) growing top income shares holding back consumer demand (since rich people save more than lower earners); 2) excessive household debt also leading to firms being more reluctant to invest; 3) few improvements in household incomes, thus impeding individuals' capacity to invest in their own upgrading of skills and retaining their productivity below what it could be. In a long-term perspective, greater inequality may increase barriers to socio-economic mobility between generations, so that equality of opportunity and the future productivity of the workforce are further undermined.[28]

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24. Ibid.
25. Oxfam GB, "An economy for the 1%", op. cit.
26. Richard Wilkinson and Kate Pickett, "The Spirit Level authors: why society is more unequal than ever", www.theguardian.com/commentisfree/2014/mar/09/society-unequal-the-spirit-level.
27. Trade Union Advisory Committee (TUAC) to the OECD, The role of collective bargaining as part of a comprehensive strategy to reduce income inequality, TUAC background paper, OECD Week, 1-4 June 2015.

25. According to the latest OECD statistics, growing inequality has a significant negative impact on long-term economic growth. The rise of income inequality between 1985 and 2005 is estimated to have knocked off on average 4.7 percentage points from cumulative growth between 1990 and 2010 across OECD countries, reaching even higher levels in some countries (6% to 10% of GDP growth).[29] Since the early 1990s, around half of the jobs created have been in insecure temporary, part-time or self-employed work.[30] Accordingly, the OECD noted in 2014 that "if inequality had not grown from 1980 onwards in many OECD countries, real GDP growth would have been considerably greater", whilst the International Monetary Fund (IMF) concluded that "an increase in the income share of the top 20% drags down growth".[31] [32]

26. The ILO once again points to an alarming trend which is cause and effect of unequal income distribution: In most regions of the world, the share of national income generated through labour has declined over the past decades. At the same time, the increasing share of income accruing to capital ownership has further accelerated this trend, just like the increasing share of labour income attributed to corporate executives and financiers. The increasing income share claimed by the top 1% is not economically useful in the sense of stimulating better products and services or providing other benefits to the rest of the world's population. These trends exacerbate inequalities and contribute to the erosion of the middle class.[33]

4.2. Effects of high levels of income inequality on social cohesion, public trust and individual well-being

27. Turning to the effects on social cohesion, increasing inequality has also been seen to exacerbate a variety of social "ills" through different channels. Physical and mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life, violence, teenage pregnancies and child well-being are all significantly worse in more unequal rich countries.[34] Even the IMF points to the fact that countries with higher income inequality not only have larger gender pay gaps, but also gender gaps in terms of health, education, labour market participation, and representation in institutions like parliaments. Especially in the educational field, inequalities become very visible, as OECD data shows: the children of poorer parents regularly struggle to keep up with the social and cultural capital of their wealthier classmates, going on to lower educational attainment instead of making it to university.[35]

28. Fully in line with the most recent OECD conclusions, I strongly believe that the levels of income inequality currently observed have serious impacts for social cohesion in most European societies as they concern an increasing number of people, given that low-income households represent an ever-growing group (with up to 40% at the lower end of distribution in some countries).[36] A recent ILO study found a direct correlation between the levels of inequality and the size of the middle class (with low levels of inequalities correlating to a stronger middle class). Amongst the explanatory factors in the world of work are that higher female participation in the labour market has led to middle class growth (due to higher household incomes) and that the public sector has been significant for maintaining the core and upper middle class.[37]

29. In the past, the social impact of economic downturns was regularly moderated through automatic stabilisers, such as tax and expenditure policies. This was notably valid until, in the face of the financial and economic crisis starting in 2008, many European countries applied (or were forced to apply) austerity policies. Since then, disposable incomes have been dropping, and most economic analysts, including those of the IMF, have recognised that the "pain of austerity" has not been borne equally, thus further increasing inequality trends.[38] Long before major economic players recognised this, the Parliamentary Assembly had already

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28. Professor Brian Nolan, op. cit.
29. OECD, *In It Together: Why Less Inequality Benefits All*, op. cit.
30. Gabriela Ramos, Towards an empowering state: turning inclusive growth into a global reality, OECD Insights/Debate the issue, 20 February 2017, www.oecdinsights.org.
31. Professor Brian Nolan, op. cit.
32. However, the empirical evidence on the extent to which high or rising income inequality reduces intergenerational mobility is hotly debated. Apparently, much of the evidence put forward in practice so far has been based on comparing countries at a point in time to see whether low inequality and high mobility go together (and vice versa) and not on seeing what happens to mobility in a specific country as inequality increases or falls, as evidence of that sort is scarce.
33. Francis Fukuyama, "The Future of History", Foreign Affairs, January/February 2012, https://www.foreignaffairs.com/articles/.
34. Richard Wilkinson and Kate Pickett, op. cit.
35. Oxfam GB, "An economy for the 1%", op. cit.
36. OECD, *In It Together: Why Less Inequality Benefits All,* op. cit.
37. According to the presentation by Mr Daniel Vaughan-Whitehead, Senior Economist, International Labour Organization (ILO) (see footnote 4 above), and ILO, Long-term trends in the world of work: what effects on inequalities and middle-income groups?, Geneva, Switzerland, 2016.

pointed to such effects of austerity programmes on social rights in its Resolution 1884 (2012) "Austerity measures – a danger for democracy and social rights", based on a report which I had submitted myself at the time.[39]

30. Next to the impact on social rights, services and benefits, evidence also suggests that increasing inequality erodes trust in public institutions, with serious consequences for community life and politics, as solidarity is undermined and alienation increased. Again, it is the OECD that has undertaken more in-depth research into the matter: In 2016, the organisation noted that public trust in institutions had plunged to record lows, with public belief in governments standing at just 42%, global phenomena such as economic interconnectedness, trade, migration and technological progress being increasingly rejected, all this leading to a "growing sense that the global economy is delivering only for the lucky few".[40]

31. Regarding political processes, higher inequality is commonly associated with lower civic participation and voting turnout among the poor. Based on such evidence, the Parliamentary Assembly adopted its Resolution 2024 (2014) "Social exclusion: a danger for Europe's democracies". Across Europe, inequality is also seen as a cause supporting the rise of xenophobic movements (e.g. in Hungary or Poland). The fact that support for xenophobic parties has also risen in countries where inequality has been fairly stable over time (such as Austria, France and Germany) illustrates the complexity of the factors at work.[41]

32. In the United Kingdom, inequality has very recently been seen as a central driving force in the referendum to leave the European Union. In-depth research into such claims is only beginning to emerge but suggests a more nuanced picture. In fact, inequality has not risen significantly in the United Kingdom over the past 15 years, but rather did so sharply in the Thatcher area. The long-term effects of de-industrialisation, a slowdown in income growth from the early 2000s, the impact of the crisis and post-austerity measures on living standards, as well as the scale of immigration from 2004 may all have played a role, next to education levels, which are seen as the most consistent single predictor of how people voted in the referendum.

33. Further social effects of income inequality are also reflected in indicators measuring well-being and trust, such as those used in the European Quality of Life Survey (EQLS) which found that overall happiness and optimism levels had fallen between 2007 and 2011, whilst they were still at their highest in the least unequal countries, such as the Nordic countries or the Netherlands.[42]

34. At this point, I would like to reiterate that it is notably the distribution of income (not the average income) and the social status of an individual within a given society which are seen as determining factors for prosperous and functioning societies. Many social ills can be related back to income inequality (and often poverty resulting from such an imbalance), such as mental and physical health, performance in education, equal opportunities and violence (as an expression of competition over social status and of frustration in case of social failure). Next to measures having redistributive effects, researchers therefore suggest developing new forms of business not focused on maximising profits, turning away from the exclusive growth dogma and towards more sustainable economies, and achieving more equity in income distribution, thus lowering competition over social status and levels of consumption.[43] As rapporteur I would like to underline that not only our economic measures need to change to more transversal approaches (e.g. distributional equality instead of GDP), but that the fundamental paradigms and values of our economies and societies need to be questioned as a matter of urgency.

35. On a more technical level, I would like to underline that some researchers see evident links between income inequality, social cohesion and political processes, whilst others believe that evidence is not yet sufficient because data have not been generated over longer periods of time for specific countries but rather examined for countries with different levels of inequality at a given time. As rapporteur and in the light of the evidence gathered above, I believe that the negative impact of income inequality on economic development and social cohesion as known today is reason enough to intervene swiftly and deeply into current structures and processes. The question remains, however, whether political willingness can be mobilised in the near future.

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38. OECD, Crisis squeezes income and puts pressure on inequality and poverty, Paris, May 2013.
39. Doc. 12948.
40. Gabriela Ramos, op. cit.
41. Professor Brian Nolan, op. cit.
42. Trade Union Advisory Committee (TUAC) to the OECD, June 2015 (see footnote 27 above).
43. Liana Fix, Gleichheit ist Glück. Warum gerechte Gesellschaften für alle besser sind. Zusammenfassung des Buches von Kate Pickett und Richard Wilkinson (The Spirit Level: Why Equality is Better for Everyone. Summary of the book by Kate Picket and Richard Wilkinson). Friedrich Ebert Stiftung, *Internationale Politikanalyse*, Berlin, June 2010.

36. Finally, to anticipate potential counter-arguments against the present report, listing the consequences of widening income inequality is not contradictory to accepting that some degree of inequality may provide incentives for people to excel, compete, save, and invest. However, should inequalities remain at such excessive levels and continue to grow in front of our eyes? And are people truly provided with equal opportunities in the current economic context and structures as many pretend? Inequality is regularly presented as an engine for growth when it derives from differences in effort and investment. However, the levels of inequality observed nowadays do not confirm this, but obviously have negative effects for all of us. Politicians must recognise that reducing inequalities of various kinds is about improving the social, economic and political fabric of whole societies, and must act accordingly by orienting national legislation and policies towards societal structures and procedures which create more equity.

5. Policy responses required

37. Various measures that could have an effect on reducing income inequality have been touched upon above and arise from the research undertaken by major economic organisations over the past few years. It is clear that the matter needs to be approached from different angles: 1) the one of income generation (e.g. through global business strategies or international and national tax policies and systems); 2) the one where income distribution is defined by setting wages for various socio-professional categories (e.g. minimum wages), including through collective bargaining; and 3) the one where resources are (re-)distributed to households (e.g. through participation in labour markets or various types of social benefits).

38. ILO researchers believe that upholding and strengthening the middle class and limiting inequalities can be best achieved through progressive taxation (redistribution), social protection and services (fostering female employment) and education (supporting secondary education across social strata).[44] This, in my view, already points to some of the essential elements of a comprehensive strategy against income inequality that the Assembly should submit to member States in a resolution.

39. Further evidence gathered by the ILO most recently points out that social dialogue and collective bargaining play a major role for income distribution, because they are part of the national wage-setting mechanisms. Evidence on this link from various countries was provided during the ILO/EU Conference on "Inequalities and the World of Work. What Role for Industrial Relations and Social Dialogue?" held in Brussels on 23 and 24 February 2017, which I attended on behalf of the Assembly. At this conference, an overwhelming majority of representatives of governments, employers' federations and trade unions agreed on the significance of a well-functioning social dialogue for the achievement of better results for the workforce, for example in terms of minimum wages and working conditions. Whilst there was great variety across Europe in practice, some outstanding examples underlined the importance of social dialogue, such as Belgium where an almost 100% of collective bargaining coverage has always kept levels of inequality relatively stable. ILO findings also show that strong social dialogue institutions lead to a reduction of the gender pay gap. Other countries, such as Greece, still have to rebuild systems which were abolished under pressure of creditors during the last crisis, with the known negative effects on wages and unemployment.

40. Strengthening collective bargaining should indeed be considered as one of the most important means of reducing levels of inequality: unions and collective bargaining are known to have a largely equalising effect by raising wage floors and creating more equal conditions between groups of workers (e.g. women and men, high-skilled and low-skilled workers, workers with unlimited and temporary contracts, etc.). Besides, in the context of overall social policies, unions also tend to better lobby for redistributive policies.[45] The urgent need to uphold and strengthen social dialogue (including collective bargaining) was already underlined by the Assembly most recently in Resolution 2146 (2017) on reinforcing social dialogue as an instrument for stability and decreasing social and economic inequalities.

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44. According to the presentation by Daniel Vaughan-Whitehead, op. cit., and ILO: Long-term trends in the world of work: what effects on inequalities and middle-income groups?, op. cit.

45. Susan Hayter, ILO Senior Specialist on Labour Relations and Collective Bargaining, posted on 3 March 2015 on http://iloblog.org.

41. Economic analysts in all countries and various organisations are currently seeking policies and strategies to halt or reverse the rise in income inequality and to promote inclusive growth and development. Most of them agree that national institutions and measures are crucial and should follow some common lines:[46]

– market income distribution across individuals and households will be essential. Means of intervention will include sufficiently high minimum wages, robust collective bargaining arrangements and the regulation of top executive wages (e.g. through incentives, public procurement rules, etc.);

– income from capital and wealth contributes to inequality, so promoting a broader distribution of wealth via more effective taxation of capital transfers from parents to their children or the introduction of a capital endowment for all would help address this challenge;

– investing in education and upgrading skills should be seen as an essential part of broader investment strategies aimed at improving the capacities of the future workforce (next to equal access to health care and social benefits). Technological change should be instrumentalised to increase the productivity of low- and middle-skilled workers instead of replacing them;

– re-distribution through taxes and transfers remains an essential component of effective strategies addressing inequality, e.g. by turning to more progressive income taxes, by reversing the shift from direct to indirect taxes, and by increasing taxes on property, capital and corporate profits. Enhanced international co-operation to combat tax evasion can fight shifting tax bases across borders;

– social protection nets need to be strengthened in terms of coverage and adequacy, and certain social insurance schemes improved, (child and family benefits for example). Innovative approaches such as basic income schemes are considered a promising route by some.[47] [48]

42. In order to address the matter of income inequality in the most effective and comprehensive manner, action will be needed at various levels: at the international level, the joint fight against tax evasion and tax havens needs to be pursued. At the European Union level, a strong signal would be given if income inequality was explicitly addressed as a common challenge in the European Pillar of Social Rights currently under negotiation. In a Council of Europe context, governments should make sure that socio-economic rights are kept at the top of agendas and work programmes of various bodies, as they are closely linked with other human rights categories and trends, such as the rise in xenophobia and racism, as the Assembly has recently shown on several occasions.[49] At the national level, the main layer of intervention, a number of policy measures are required to create more equal conditions of income and wealth creation and distribution. Even the local level has its role to play in adapting national policies to the needs of local communities and to promoting local policies that influence access to opportunities.[50]

6. Conclusions and recommendations

43. As Francis Fukuyama noted, the current form of globalisation is eroding the middle class base on which most liberal democracies rest,[51] thus putting at risk entire democratic and peaceful societies. If we do not change some of the fundamental principles and structures underlying our current economies and patterns of wealth and income distribution, we will see inequalities of all kinds worsen, with negative effects for all of us. Given that those currently in possession of wealth and power are defending their interests more effectively than the disadvantaged, we need to change fundamental socio-economic and governance structures in Europe along the lines specified in the above draft resolution.

44. In accordance with evidence presented above, I would strongly recommend that all Council of Europe member States develop comprehensive strategies against income inequality based on different and complementary levels of intervention; next to more strategic elements and specific measures needed in each national context, these should include targeted action related to wage-setting and employment policies, labour market institutions and tax policies, and bold structural reforms in these areas.

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46. Professor Brian Nolan, op. cit.
47. Basic income schemes will be dealt with in a report on “The need for a citizenship income” currently being prepared by Ms Nunzia Catalfo (Italy, NR).
48. Thomas Picketty, A Practical Vision of a More Equal Society, review of the book *“Inequality: What Can Be Done?”* by Anthony B. Atkinson.
49. Such as most recently through Resolution 2103 (2016) on preventing the radicalisation of children and young people by fighting the root causes.
50. Gabriela Ramos, op. cit.
51. Francis Fukuyama, “The Future of History”, op. cit.

45. Differences in income between social strata, socio-economic groups and countries have always existed, and are inevitable and acceptable to a certain extent. There has been a consensus that those who work more or harder, or are better qualified, receive better remuneration than those working part-time or occupying lower-skilled jobs. However, nowadays, many are in a position where their excessive income does not meet any justification (such as top executives and major shareholders in the financial sector), whereas others who are disadvantaged will find it difficult to lift themselves up from their current socio-economic situation – they are trapped in "cycles of disadvantage". Others are working hard already, but do not receive fair remuneration for their work; they belong to the growing class of the "working poor".

46. In my view, first of all, an open dialogue is needed on the level of income inequality wished for in our societies; with the main question being: "How much inequality are we prepared to accept"? From there on, some of the fundamental determinants of participation in society and economic processes then need to change, first through education and training, thus providing more people with a greater level of control over their own economic situation, then through good governance and transparency of economic decision-making, thus providing people with better insight and democratic control of economic processes. Evident forms of injustice, such as the gender pay gap, need to be urgently addressed and overcome. Moreover, progress made in fighting income inequality needs to be made "measurable", not least to hold political and economic decision makers accountable for their action (or non-action). In the future, we should give more weight to quantifiable objectives, such as Gini coefficients to be reached in specific countries over the next few years, or ratios of income distribution between top and bottom salaries in specific companies or branches. This report is meant to show the way towards action required in strategic areas: social dialogue, good governance, accountability and structural reforms.

47. Finally, I would like to underline that, in putting forward recommendations to national governments and parliaments I do not wish to undermine modern economic processes. As a long-standing activist of the European movement of the unemployed, thus fully aware of the functioning and complexity of economic processes, I am convinced that income inequality not only threatens social cohesion but has serious economic implications for the "wider health and sustainability of our economies" as only recently recalled by the OECD. I am further convinced that by looking at the issue of income inequality, we only touch the tip of the iceberg. With the above considerations, we have not yet looked into more specific challenges, such as the link between income inequality and child poverty, effects on people's health or their exposure to environmental degradation; this would clearly exceed the scope of the present text.

48. This report is therefore meant as a contribution and a first step towards strengthening modern economies by making them more sustainable, to striving for greater social cohesion and to protecting democratic systems as protected by Council of Europe values and standards. Even the relatively short insight into the matter of income inequality undertaken by the present memorandum, shows that socio-economic matters are closely linked to the situation of human rights in Europe; they should therefore definitely remain high on the agenda of the Council of Europe and its various bodies, including the Parliamentary Assembly.