Invited Reader Comment on:

Karl Aiginger and Alois Guger (2013). Stylized Facts on the Interaction between Income Distribution and the Great Recession. Economics Discussion Papers, No 2013-25, Kiel Institute for the World Economy. http://www.economics-ejournal.org/economics/discussionpapers/2013-25

The objective of the paper is to analyse the potential links between income inequality and macroeconomic resilience. There is an emerging consensus that rising inequality has been a contributing cause of the financial crisis after 2007 (van Treeck and Sturn, 2012, and van Treeck, forthcoming, for surveys). Against this background, the paper's focus on the relationship between pre-crisis country-specific patterns of inequality and macroeconomic performance during the crisis is innovative and interesting.

The main findings of the paper may be summarized as follows:

- There is no clear link between either the pre-crisis level or change of overall inequality as defined by the authors and output performance during the crisis, for a sample of 37 countries.
- There is tentative evidence of a positive link between the pre-crisis change in the Gini coefficient of household disposable income and output performance during the crisis (2008-2010).
- There is tentative evidence of a negative link between the pre-crisis change in the adjusted share of wages in national income and output performance during the crisis.
- Both correlations are no longer statistically significant when the current account balance for 2007 is controlled for.

The authors themselves point to a number of reasons why their tentative results should be treated with caution, including poor data quality/availability. A main conceptual problem is, of course, that the very different policy reactions to the crisis are not controlled for. In particular, output performance has obviously been very poor in those countries which were affected strongest by the European debt crisis and ongoing fiscal austerity. While this likely has dominated any potential effects of pre-crisis patterns of income inequality, it does not rule out a broader importance of inequality for macroeconomic resilience. Nevertheless, the stylized facts presented by the authors remain interesting.

Beyond these general remarks, I can make only a few specific comments:

- It would be interesting to know the precise definition of the "wage share" employed by the authors. They note that the "adjusted wage share" has increased for Iceland, Greece, Portugal, Spain and Turkey in 1995-2007. However, the adjusted wage share reported by Eurostat's AMECO database has decreased in each of these countries with the exception of Iceland.
- Why not include top household income shares in the list of inequality measures? Much of the literature on the inequality-crisis nexus has focused on top income shares, as opposed to broader measures such as the Gini (see van Treeck, forthcoming).
- It is quite likely in my view that, as argued by the authors, much of the potential effects of inequality on macroeconomic resilience is linked to the current account position. Again, it would seem to be important to look at top income shares as a measure of inequality (see Kumhof et al., 2012; van Treeck and Sturn, 2012).

References

Kumhof, M.; Lebarz, C.; Ranciere, R.; Richter, A. W. & Throckmorton, N. A. (2012), Income inequality and current account imbalances, IMF Working Papers (12/08), International Monetary Fund.

van Treeck, T. (forthcoming): Did inequality cause the U.S. financial crisis? Journal of Economic Surveys.

van Treeck, T. & Sturn, S. (2012): Income inequality as a cause of the Great Recession? A survey of current debates, Conditions of work and employment series No. 39, International Labour Organization.