

Introduction to the Special Issue: Inequality and the Great Recession

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Started in 2008, the *Great Recession* has produced a significant contraction in output, investment and consumption, across a number of countries and regions (Balls, 2014). A growing body of literature is attempting to better understand the causes and the mechanisms through which the crisis propagated across economic systems and over time, going beyond the well-known financial triggers and putting under scrutiny the role of monetary, fiscal, and regulatory policies, labour market dynamics, productivity gains, etc. –e.g. Christiano (2014) and Taylor, J. B. (2014). The study of the consequences of the crisis on the welfare of the population has brought together economists and psychologists (Greenglass, 2014), and has witnessed a major research effort by medical researchers. For example, Reeves *et al.* (2014) find a substantial rise in what they call ‘economic suicides’ during the Great Recessions, throughout Europe and North America; they estimate that the Great Recession is associated with at least 10,000 additional suicides between 2008 and 2010, triggered by job loss, debt and foreclosure. Cagney *et al.* (2014) find that in the United States the increase in neighborhood-level foreclosure emerge as a predictor of depression in older adults, in line with the idea that the effects of economic crises are typically first experienced through deficits in emotional well-being. More generally, Althouse *et al.* (2014) find that the Great Recession coincided with substantial increases in concerns people developed about their health.

The aim of this Special Issue of *Economics and Business Letters* is to bring together different perspectives on economic inequalities at the time of the Great Recession, and how, during the latter, countries, regions and groups have been unequally affected. A Special Issue on inequality is very timely, for a number of reasons. The interest in economic inequality has grown a great deal in recent years, also thanks to the publication of books addressing the general public –e.g. Wilkinson and Pickett (2009), Milanović (2010), Collins (2012), and Stiglitz (2012). In March this year, the appearance of Piketty’s *Capital in the 21st Century* was nothing far from an academic earthquake. His empirical evidence points to a steady increase in wealth inequality in the past decades, which leaves little room for the well-known Kuznets’ (1955) hypothesis –evidence against the Kuznets Curve was also provided by Fields (2001), amongst others. Piketty also highlights how the increase in inequality is fostered by a rate of return on capital which exceeds the rate of growth of the economy –on average 4-5% and 2-3%, respectively. Wealth originating in the past enables the owner to grab an ever growing

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share of national wealth, and in this way “*the past tends to devour the future*” [p. 378]. This analysis has fuelled discussions over the role played inheritance in creating a society, like ours, which according to distinguished advocates of the Piketty argument such as Paul Krugman and Joseph Stiglitz increasingly tends to resemble an oligarchy and betrays the American-Dream ideal.¹ Additional recent evidence of increasing inequality is provided by Bosmans *et al.* (2014) in terms of population-weighted between-country inequality in the period 1980–2009 and by Anderson and Esposito (2014) in terms of within-country inequality in the so-called BRICS countries (Brazil, Russia, India, China and South Africa) between the early 1990s and the first years of the crisis.

This Special Issue contains five articles which look at inequality from very different angles. In *The Great Recession and U.S. Partial Discrimination Orderings by Race*, Bishop, Lee and Zeager show how the impact of the crisis in the United States has been heterogeneous along the racial axis. They employ first-order discrimination curves to study the relative economic advantage of one racial subgroup relative to another. They find statistically significant shifts at lower percentiles in the distribution of incomes, with blacks experiencing gains relative to Hispanics at the 5th percentile in 2006-2009, and losses relative to whites and Hispanics at the 5th and 10th percentiles in 2009-2012. The papers by Philipp Kroeger and by Javier Olivera use data from the European Social Survey to explore changes in the demand for redistribution. Kroeger’s *Demand for Redistribution in the Wake of the Great Recession* stresses how the crisis increased the sense of vulnerability among middle and higher income groups, fostering their interest in redistribution. In *Preferences for Redistribution after the Economic Crisis*, Olivera analyses the effects of the crisis on individual preferences for redistribution and shows a highly significant increase in demand for redistribution in a total of 19 out of 23 countries; by means of a Oaxaca decomposition, he further explores this variation and points to a crucial role played by unemployment in shaping social preferences. Unemployment in Europe, and in particular youth unemployment, is the focus of the paper *Youth Unemployment in the EU15: Regional and National Inequalities Throughout the 2008 Economic Crisis* by Chiappero-Martinetti, Peruzzi and Spreafico. The paper illustrates a marked polarization between Germany on the one hand, which during the crisis recorded continuously declining youth unemployment rates, and Spain, Greece, Portugal and Italy on the other, which experienced persistently rising rates; between these two extremes, countries such as Ireland, Luxemburg, Denmark, Finland and the U.K. at first experienced rising youth unemployment rates but from 2011 managed to reverse this trend. The paper also reveals significant within-country inter-regional differences and cross-country regional similarities in youth unemployment rates that are often neglected, and discusses the challenges posed by unemployment in terms of socio-economic policies and European cohesion. Finally, in *Diversified nutritional impact of the global food price crisis* De Matteis focuses on low- and middle-income countries and analyses the impact of a crisis which was concomitant with the Great Recession, namely the 2007-2008 food crisis, which eroded the purchasing power of those at the lower end of the income distribution working as a driver of economic and social inequalities.

It will be appreciated that this collection of articles provides a multifaceted contribution to the understanding of socio-economic inequalities during the Great Recession, in terms of topics/types of evidence (from objective standard of living data to subjective preferences), in terms of variables of interest (from income to unemployment and food) and in terms of geographical coverage (from OECD to developing countries). It has to be said that it is still early days for a comprehensive and conclusive evaluation of the changes in inequality during

¹ Interviews, public lectures and participation in round tables on this topic by the two Nobel Laureates are easily accessible over the internet.

the Great Recession as well as of the implications these changes had on socio-economic outcomes. However, a key message of this Special Issue is that the Great Recession had heterogeneous effects on individuals and societies, with the weakest, unfortunately, bearing the greatest burden.

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