

Stagnant growth and income class structure in European countries

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In recent years there has been increasing debate about the causes and consequences of the sluggish growth and the risk of secular stagnation in economically advanced countries. Some authors point out possible links between secular stagnation and income inequality, in both directions of causality. Taking as a reference point the theoretical literature on the relationship between economic growth and income distribution, this study examines the extent to which different levels of economic growth are associated with the income class structure (lower, lower-middle, upper-middle and upper classes) in European countries, focusing on the primary income distribution occurring at the outset through the markets. We use data from ECHP and EU-SILC databases to compute the size and income share of market income classes from 1994 to 2016. We find that market income polarisation tends to increase in recession periods as the size and income share of the middle class decrease, while the opposite occurs in periods with strong economic growth rates. Nevertheless, when growth rates are modest the patterns are much less defined, pointing other factors related the policy and institutional framework operating simultaneously and interactively in the processes of growth and income distribution. Some policy and institutional implications are discussed in order to tackle the concerns of secular stagnation and inequality simultaneously.

Key words: income inequality, income class structure, secular stagnation, economic growth