



OECD Centre for Opportunity and Equality

Evidence-based, policy-oriented research on inequalities

Increasing inequalities

Vienna, 2 October 2017

*Statistics Day 2017
Social statistics in and for a changing Europe*

Michael Förster, OECD

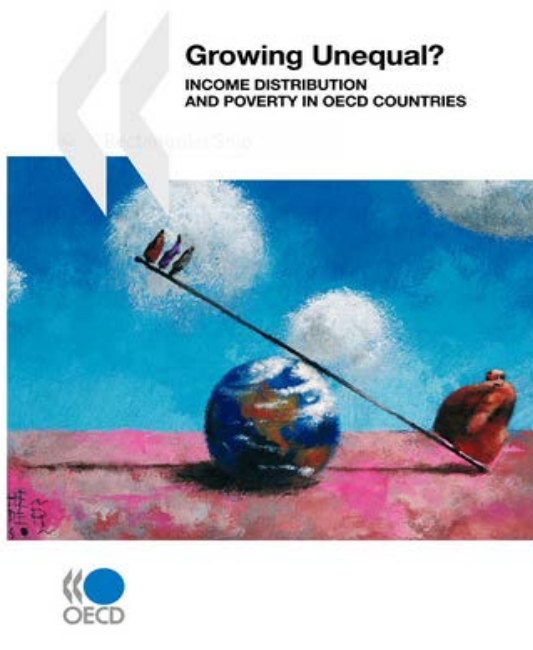


Inequality – in the heart of international policy discourse and policy debate



- *“Inequality can no longer be treated as an afterthought. We need to focus the debate on how the benefits of growth are distributed”* (A. Gurría, OECD)
- *“This is the first time that the World Bank Group has set a target for income inequality”* (Jim Yong Kim, World Bank)
- *“Reducing excessive inequality is not just morally and politically correct, but it is good economics”* (C. Lagarde, IMF)
- *“The crisis has added to the long-term trend of rising inequalities”* (J-C. Juncker, EC)

2008



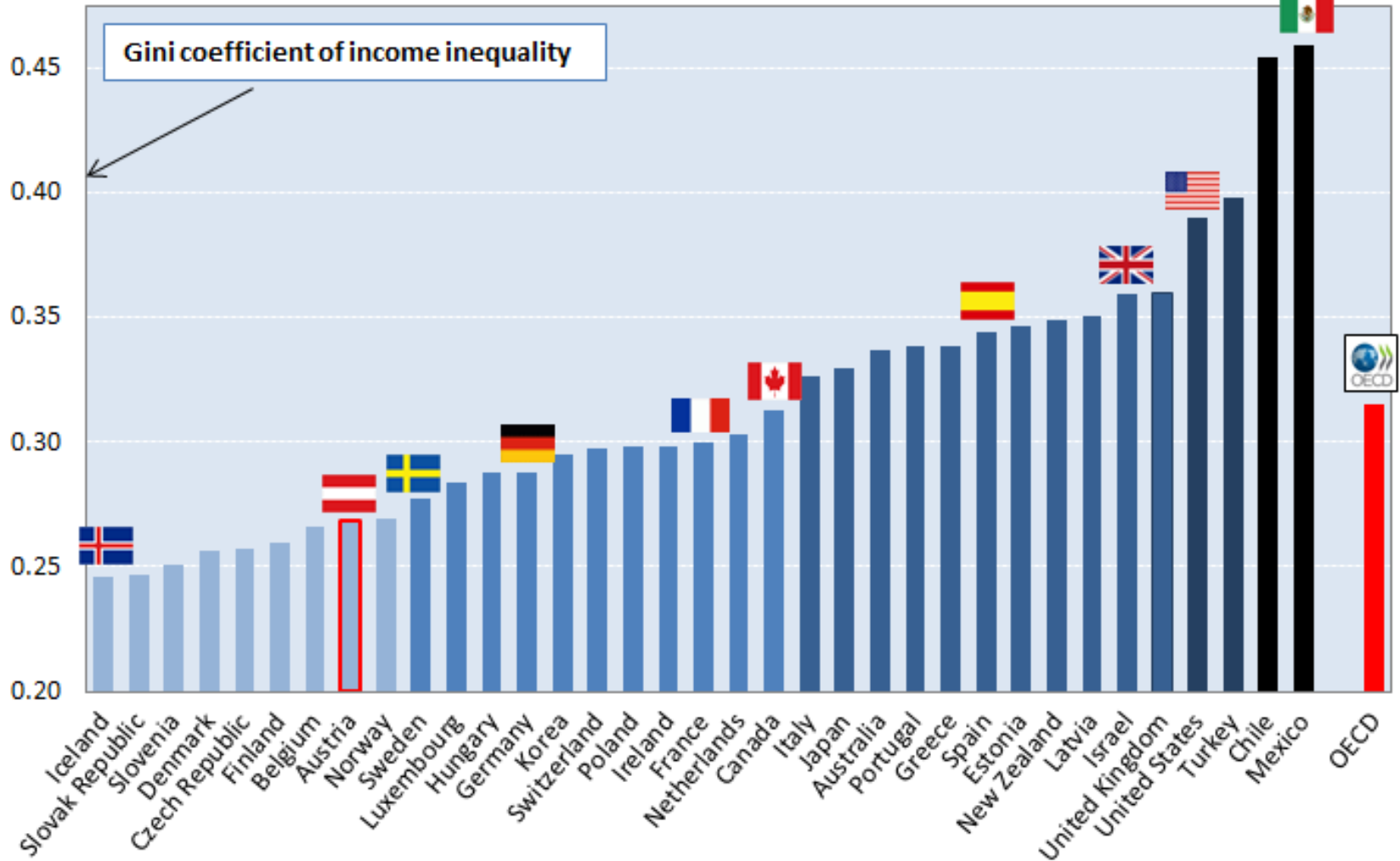
2011



2015



Large country differences in levels of *income* inequality



Source: OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm), as at 1-Oct-2017

Note: the Gini coefficient ranges from 0 (perfect equality) to 1 (perfect inequality). Income refers to cash disposable income adjusted for household size.

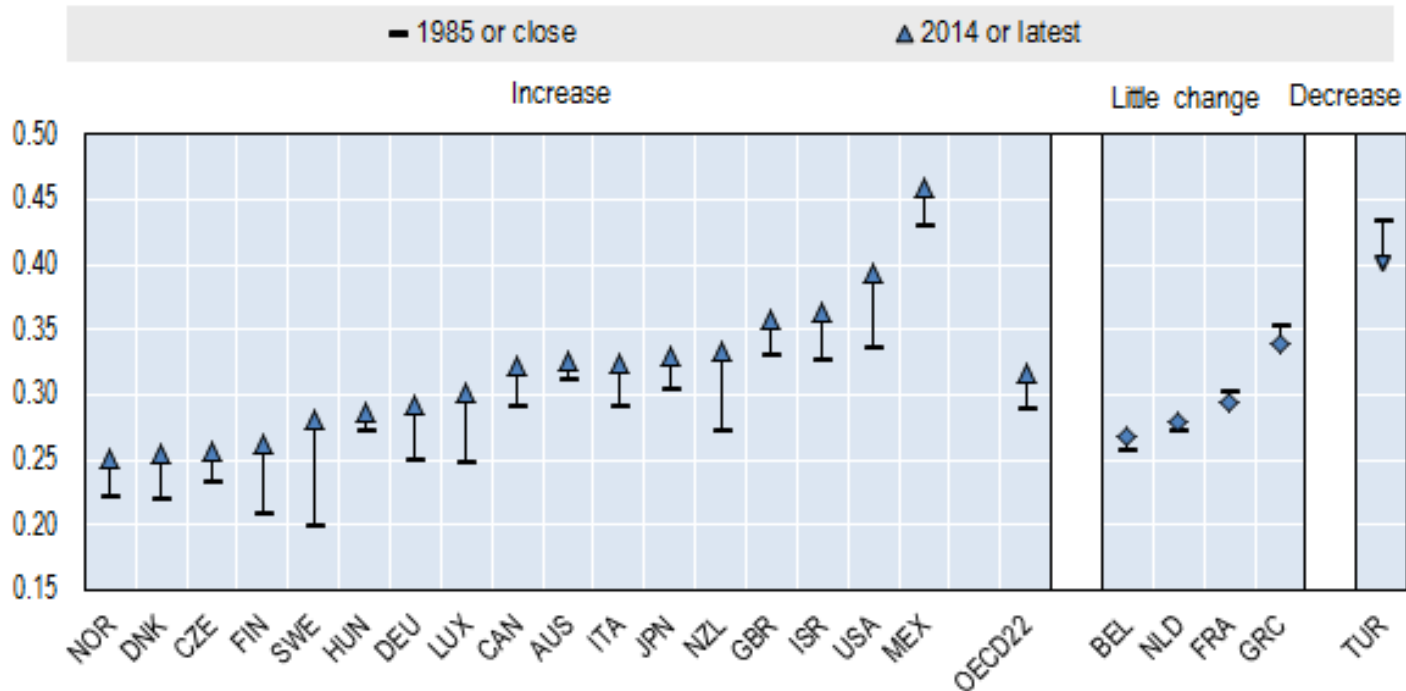
Data refer to 2015 or latest year available.

A long-term rise in *income* inequality



- The gap between rich and poor at its highest level since 30 years
- The richest 10% earn 9.4 times more than the poorest 10%
- This is up from a ratio of 7:1 (1980s); 8:1 (1990s); 9:1 (early 2000s)

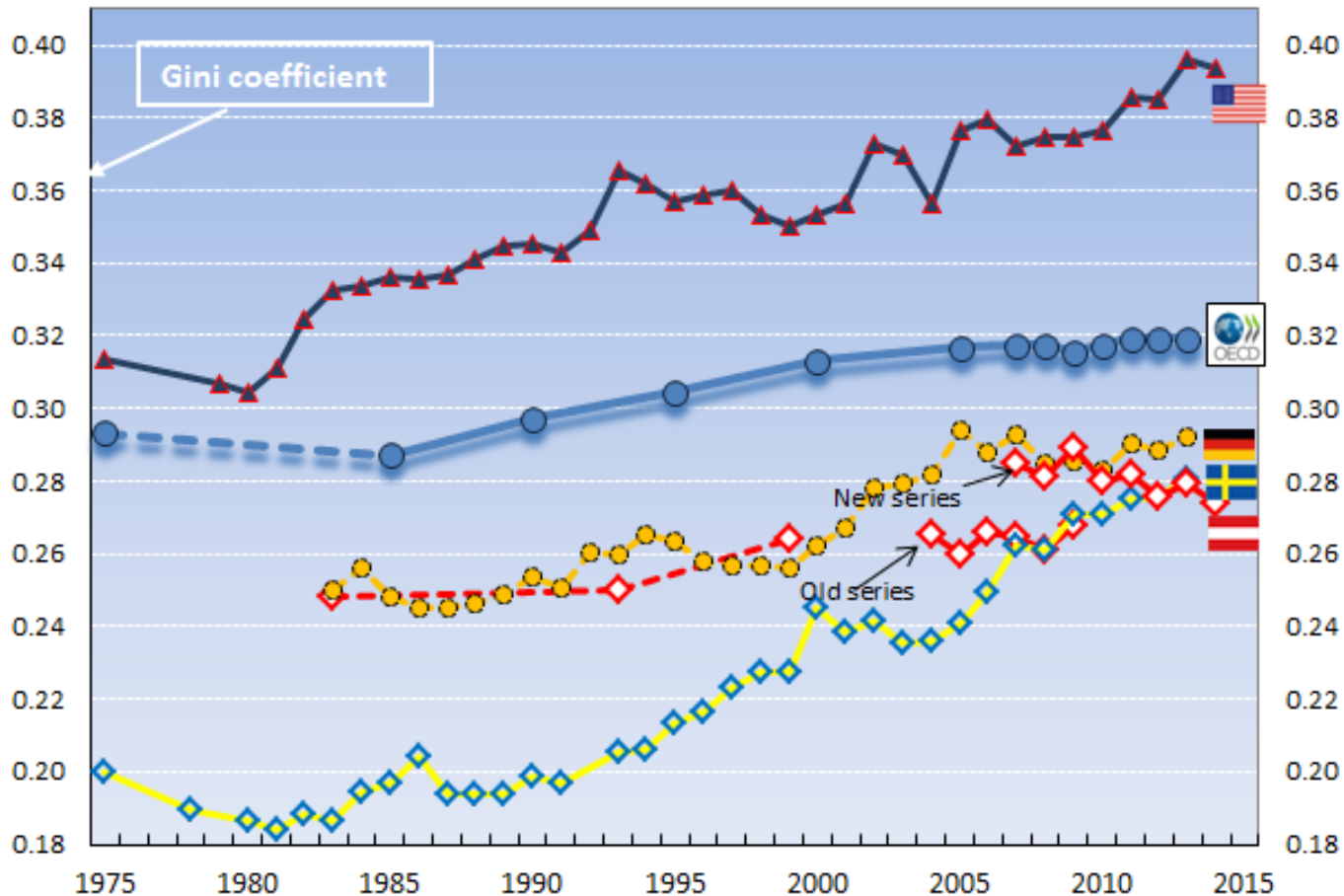
Gini coefficients of income inequality, mid-1980s and 2014



Rather than continuous long-term trends, “episodes” of inequality increases



Long-term trends in inequality of disposable income (Gini coefficient)

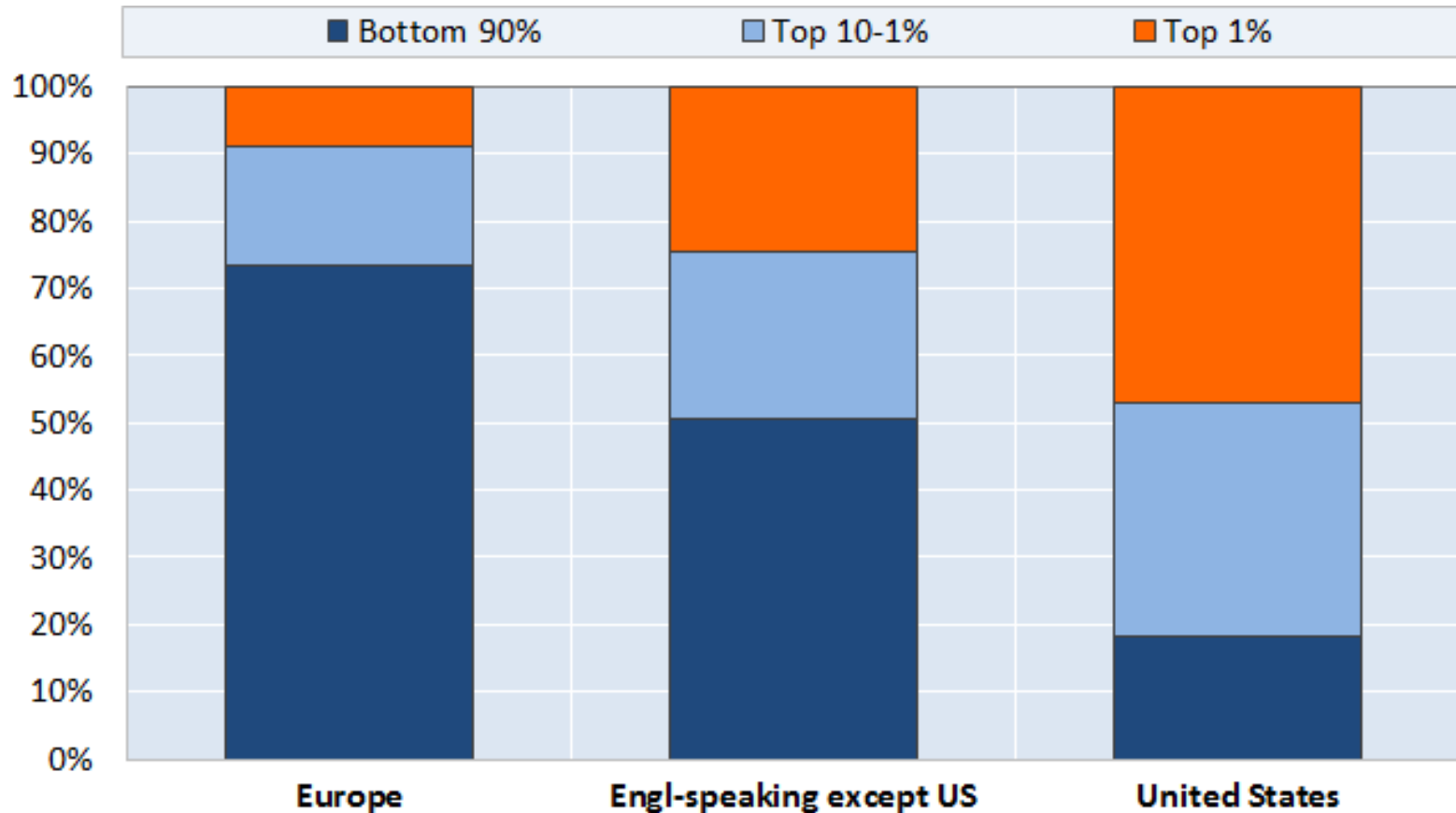


Source: OECD (2015), “In It Together”, <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm> OECD Income Distribution Database, www.oecd.org/social/income-distribution-database.htm.

Note: Income refers to disposable income adjusted for household size. 2013/14 data are provisional.



Share of income growth going to income groups from 1975 to 2007



Source: OECD 2014, *Focus on Top Incomes and Taxation in OECD Countries: Was the Crisis a Game Changer?* (<http://www.oecd.org/els/soc/OECD2014-FocusOnTopIncomes.pdf>), Based on World Top Income Database.

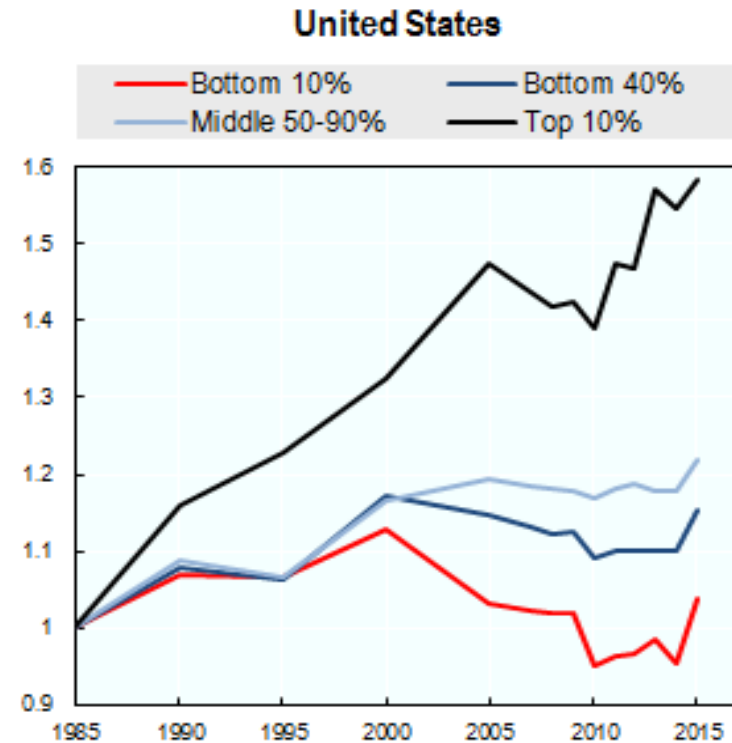
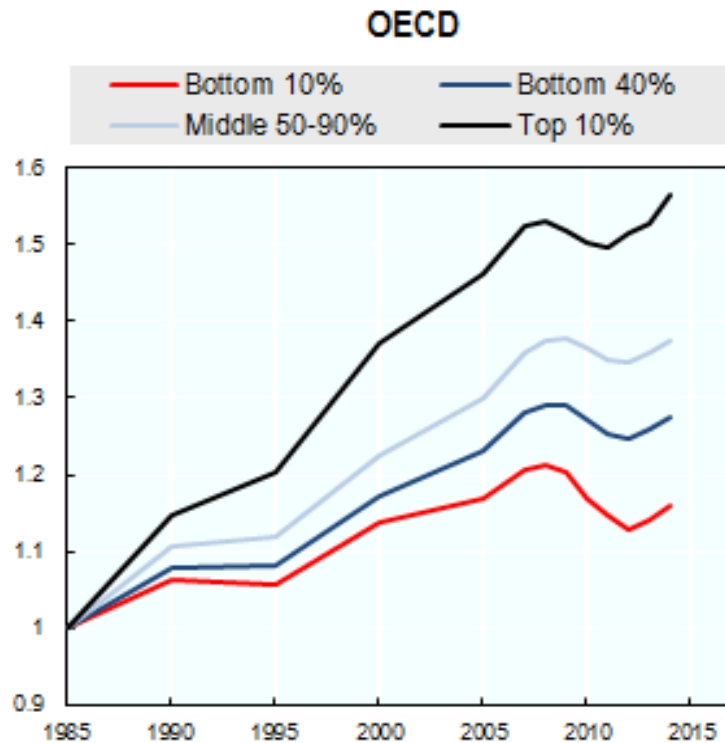
Note: Incomes refer to pre-tax incomes, excluding capital gains

But the rise of income inequality is, not only, about the top of the distribution



→ When looking at the long run, lower and lowest incomes were increasingly left behind

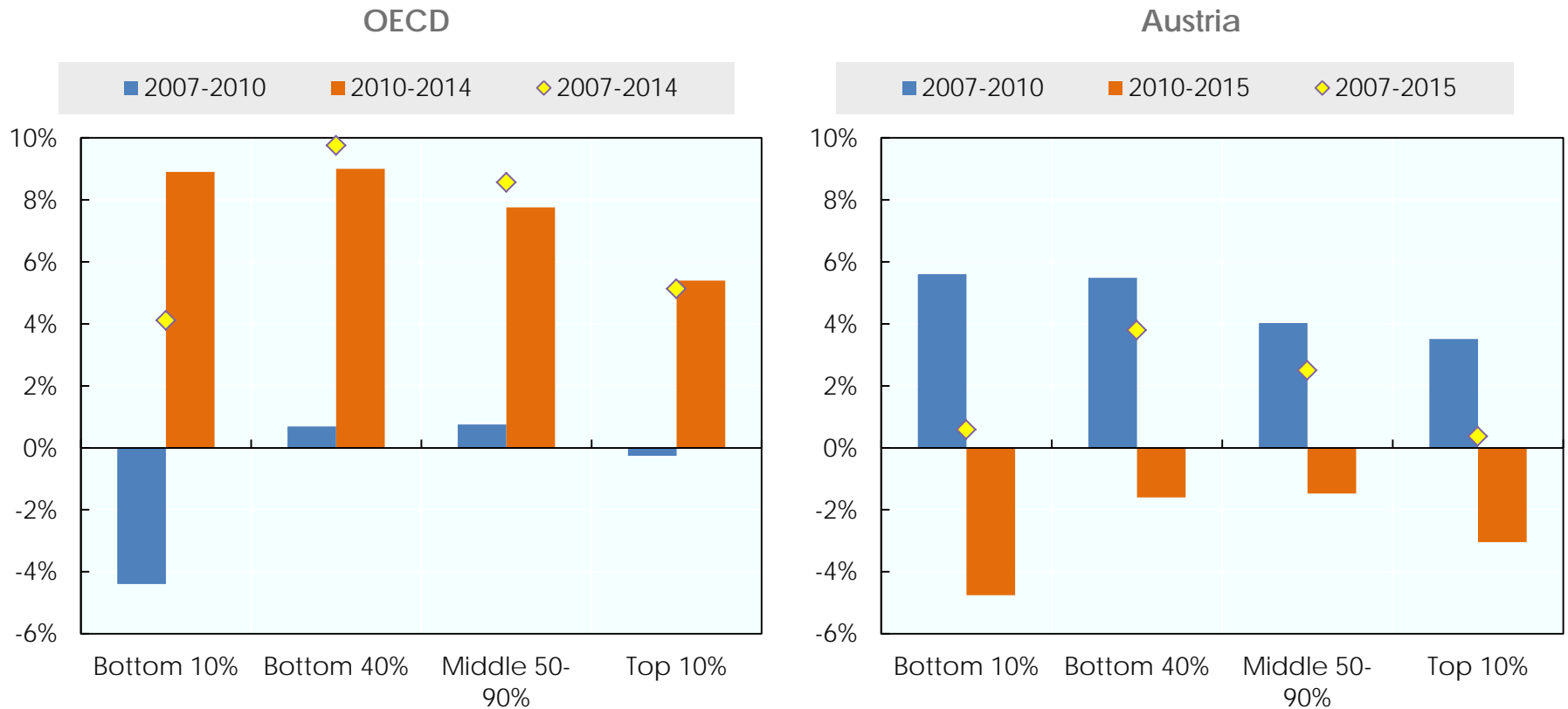
Trends in real household incomes at the bottom, the middle and the top, 1985 = 1



Different trends in income growth during the crisis and since the (weak) recovery



Average disposable income growth during the crisis and since the recovery





Direct drivers

- Changes in employment patterns and working conditions
- Weaker **redistribution** via the tax/benefit system



Indirect effects

- Skill-biased technological change
- **Globalisation** (trade, FDI)

Institutional effects

- Changes in product and labour market **regulations** and **institutions**



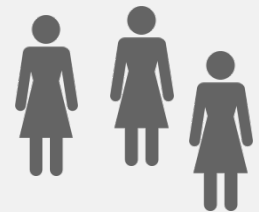
Lesser culprit

- Changing **demography** and family structures



Off-setting factors

- Increase in **education**
- **Female** labour market participation





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Ad 1). Changes in employment structures and working conditions

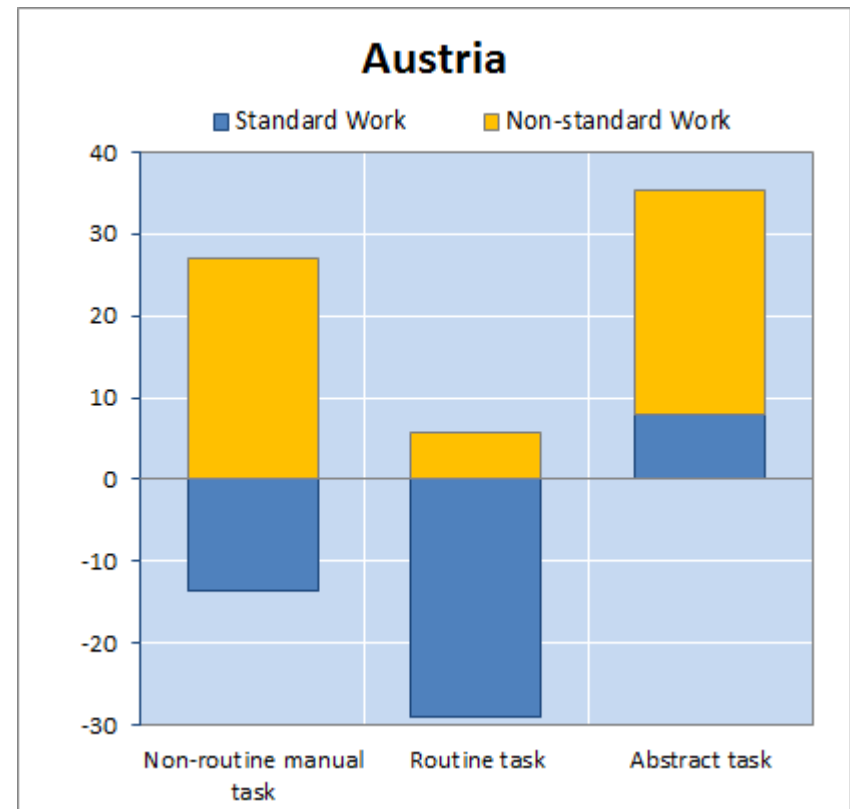
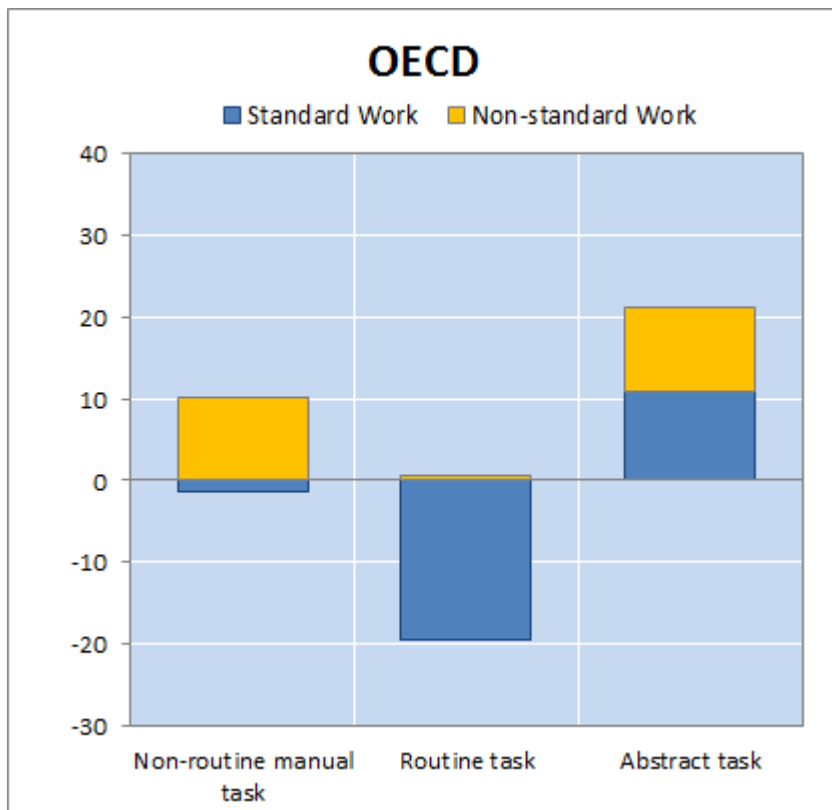


Driven by structural change and changes in institutions, new employment patterns contributed to inequality:

- **Non-standard work arrangements increased:**
 - Today, one third of jobs are “non-standard”, and 43% of working households include a non-standard worker
 - More than half of all jobs created since 1995 were non-standard jobs



Percentage change in employment shares by task category, 1995/98-latest available year



Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm> Note: Abstract occupations (ISCO88: 12-34); Routine (ISCO88: 41-42, 52, 71-74, 81-82 and 93); Non-routine manual (ISCO88: 51, 83 and 91). The overall sample restricted to workers aged 15-64, excluding employers as well as students working part-time.

New employment patterns contributed to inequality



- Non-standard work arrangements increased:
 - Today, one third of jobs are “non-standard”, and 43% of working households include a non-standard worker
 - > 50% of all jobs created since 1995 were non-standard jobs
- Those jobs provide less job quality:
 - hourly wages (-30% for temp work);
 - job security;
 - training;
 - job strain;
 - social protection (esp. “new self-employed”).
- “Stepping-stone” effects do exist, but mostly for prime-age and older workers
- Poverty risks are high when ns workers live in households with other ns workers, or with non-employed people

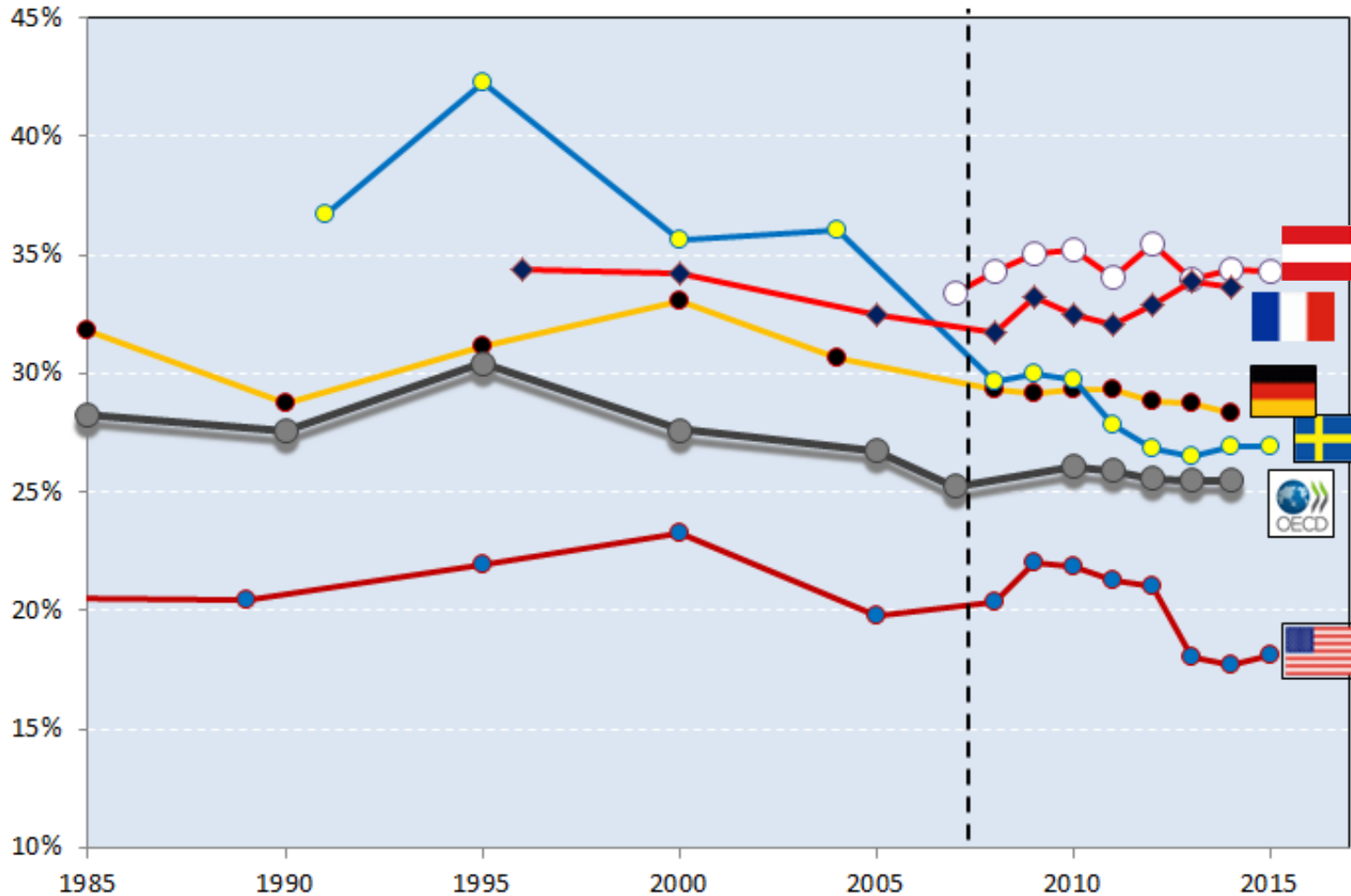


Gini coefficient of disposable and market income: impact of taxes and transfers, working-age population, 2015



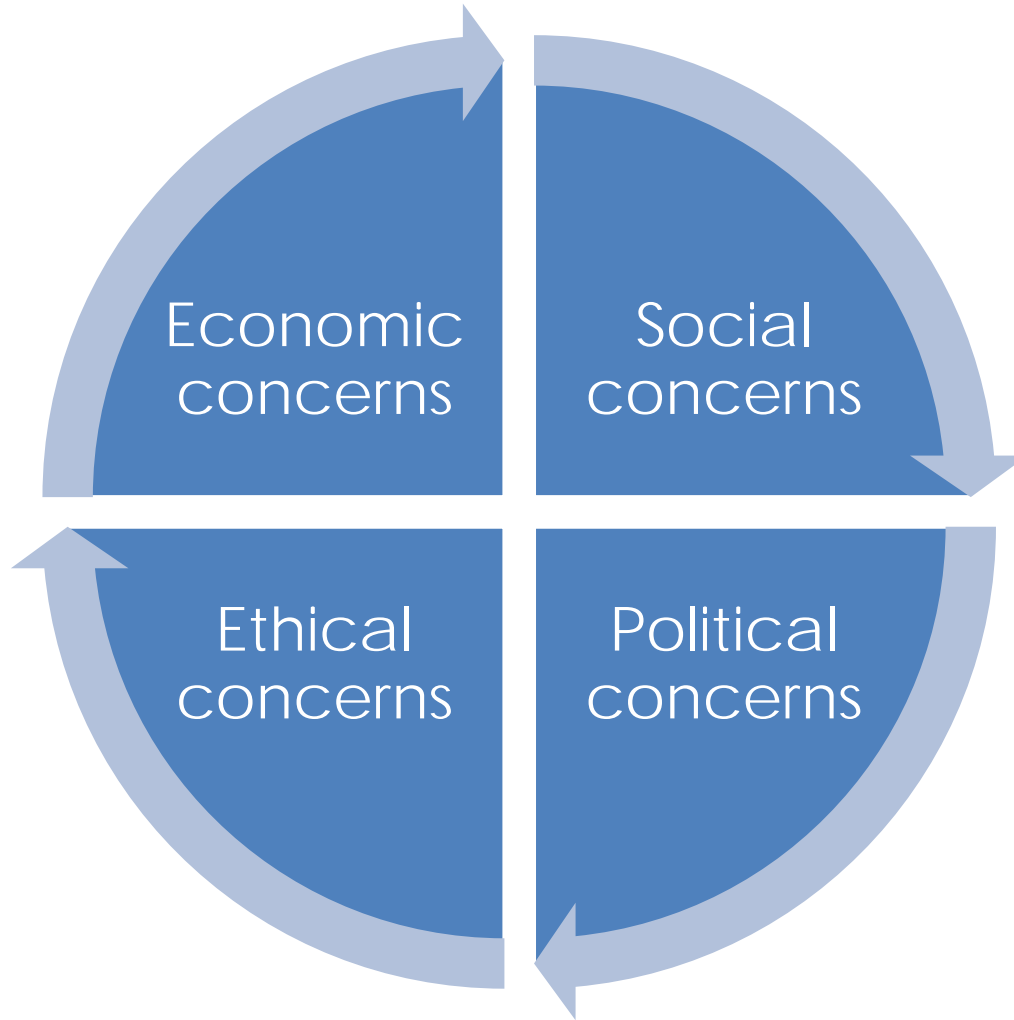


Trends in market income inequality reduction, working age population



Source: OECD Income Distribution Database, www.oecd.org/social/income-distribution-database.htm.

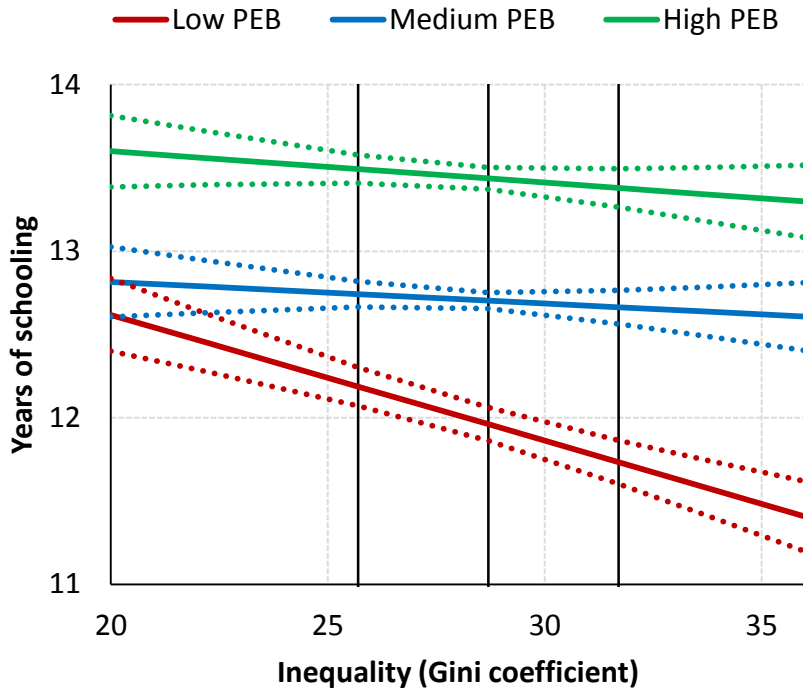
Consequences of high inequality



Higher inequality hinders skills investment by the lower middle class and lowers social mobility

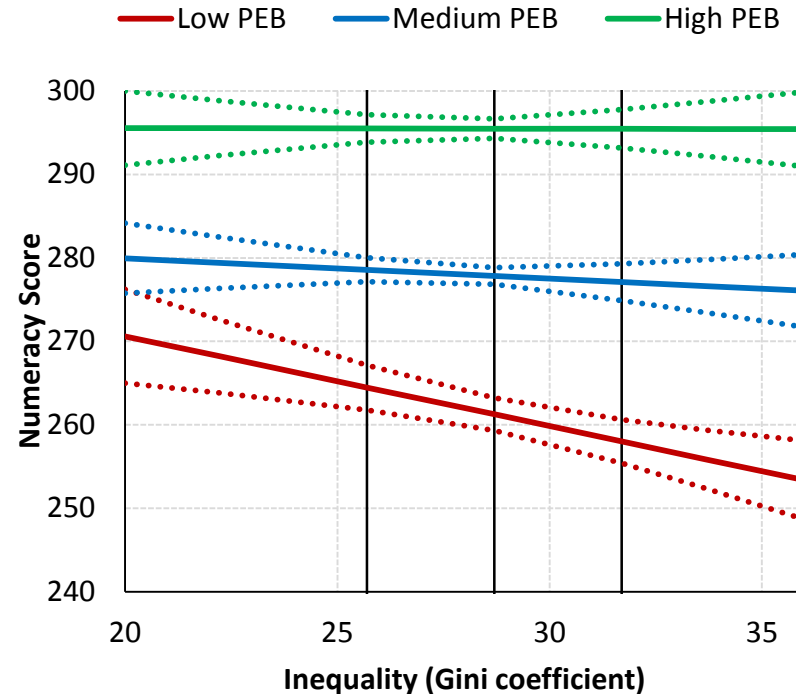


Average years of schooling by parental educational background (PEB) and inequality



Source: OECD (2015), "In It Together"

Average numeracy score by parental educational background (PEB) and inequality



Increasing inequality by ~5-6 Gini pts. (the current differential Austria and Italy) is associated with less average schooling of low PEB individuals by ~half a year

Note: Low PEB: neither parent has attained upper secondary education; Medium PEB: at least one parent has attained secondary and post-secondary, non-tertiary education; High PEB: at least one parent has attained tertiary education. The bars indicate 95% confidence intervals. <http://oe.cd/cope>



- Some country groups fare better with regard to social mobility in all dimensions while the ranking of others depends on the particular dimension

Dimension of mobility	Earnings	Occupation	Education	Health
Nordics	high	high	high	high
LACs/EEs	low	low	low	-
Eur central (AT, CH, DE, HU, LU)	low	low to avg	low	varies
Eur South	high (exc. IT)	low	low	avg
FR	low	low to avg	avg	avg
US	low	high	high	?
KO, AS	Avg	high	high	?

Designing policy packages to tackle high inequality and promote social cohesion



- 1 Foster **women's** participation in the labour market, and economic life
- 2 Promote **employment** and **good-quality jobs**
- 3 Strengthen quality **education** and **skills** development
- 4 Improve the design of **tax and benefit** systems for a more efficient **redistribution**

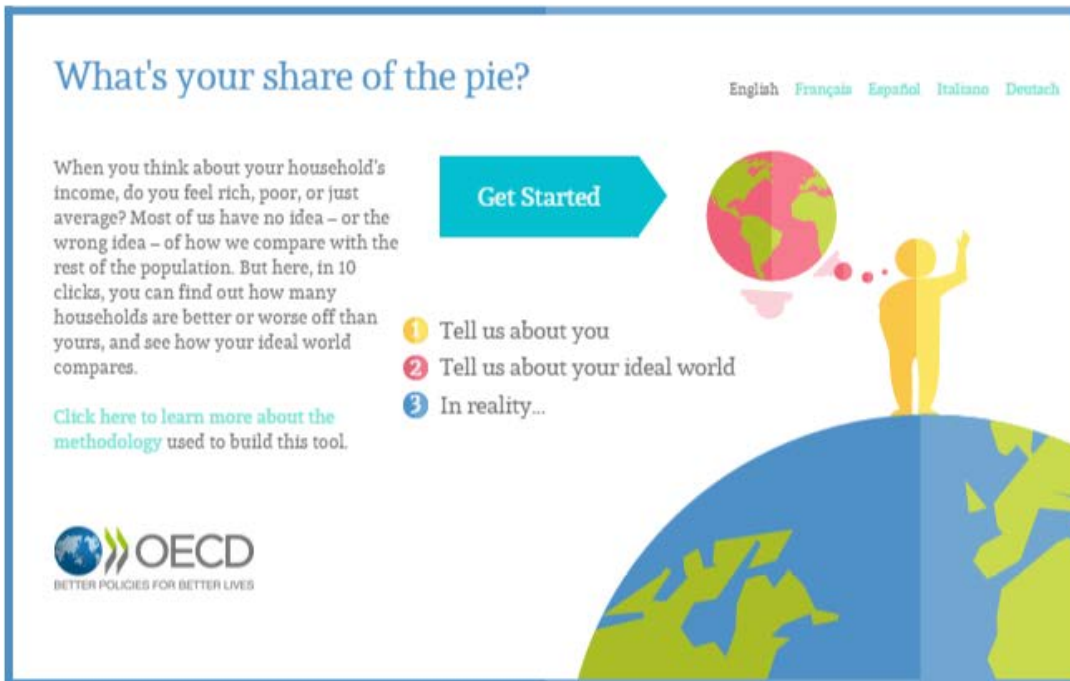
Thank you for your attention!



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www.oecd.org/social/inequality-and-poverty.htm

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