



INCOME INEQUALITY WITHIN AND BETWEEN COUNTRIES

Christian Kastrop
Director of Policy Studies
OECD Economics Department

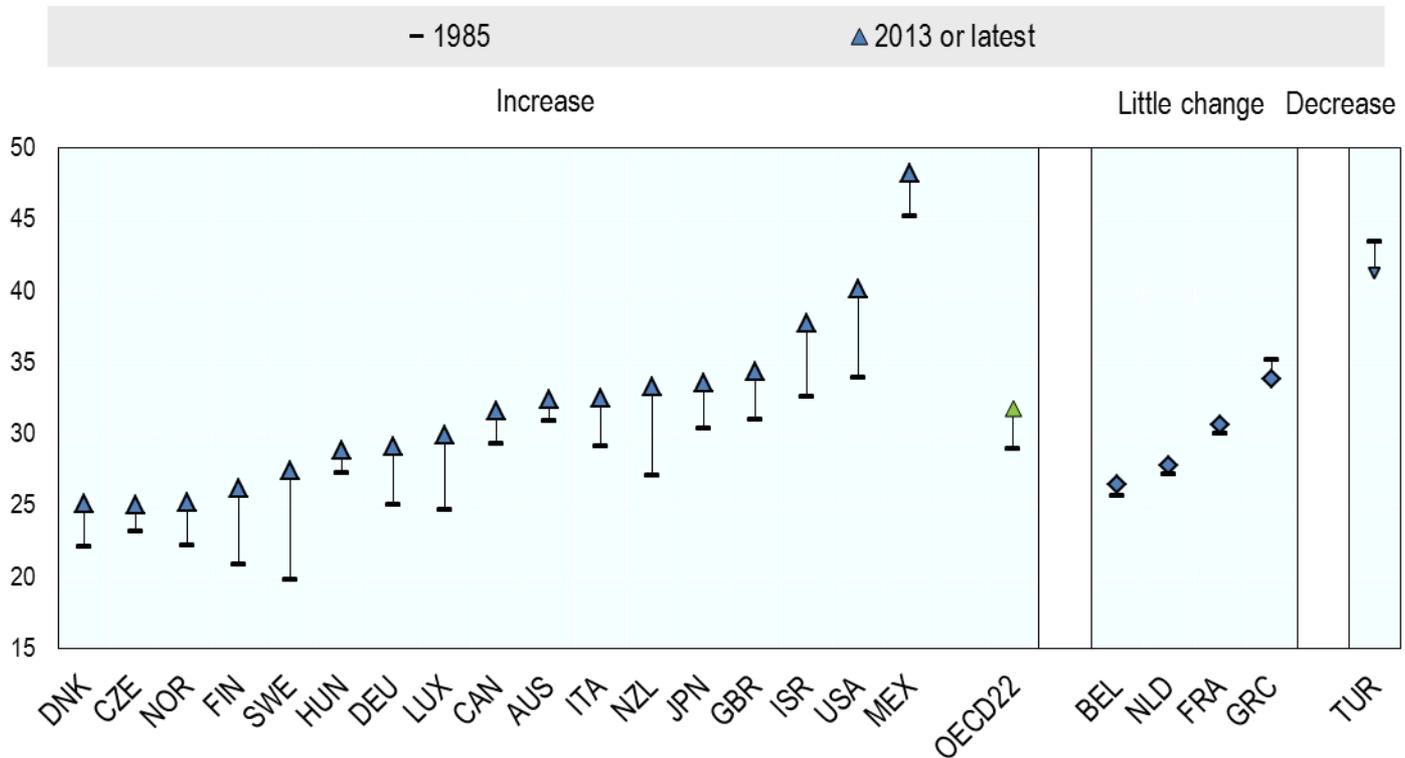
IARIW general conference
Dresden
August 22, 2016



Upward trend in income inequality in many OECD countries...

Gini coefficient, mid-1980s to latest available year

Household disposable incomes (after taxes and transfers)

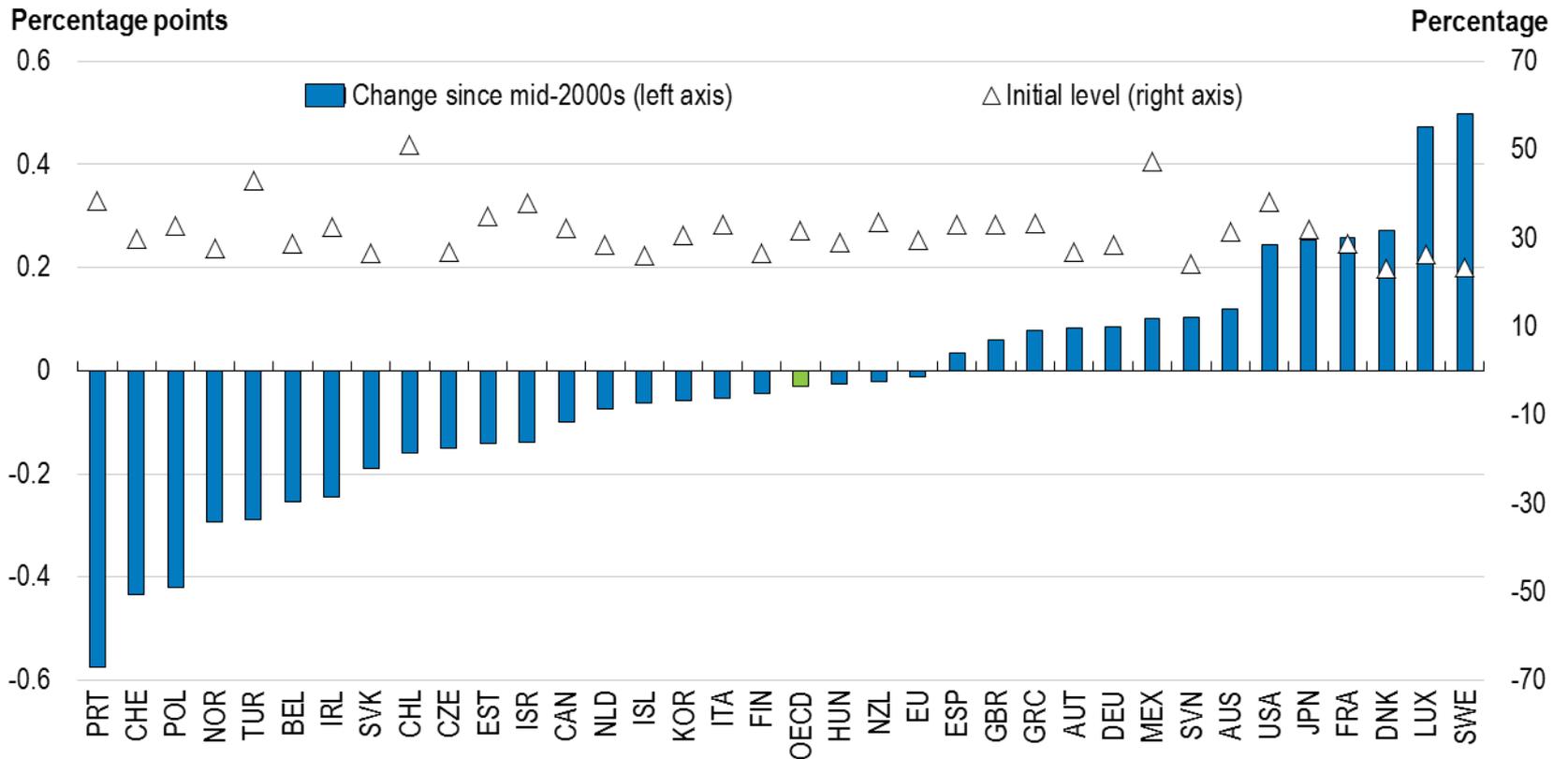


Source: OECD Income Distribution Database



... but considerable cross-country variation since mid-2000s, partly reflecting the crisis

Average annual change in Gini coefficient, mid-2000s to latest year
Household disposable incomes (after taxes and transfers)



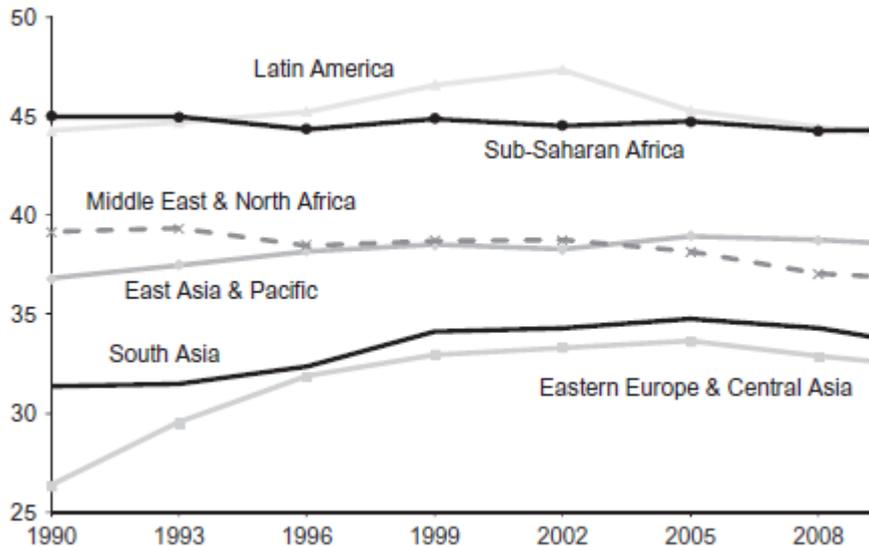
Source: OECD Income Distribution Database



Emerging economies: decreasing absolute poverty and emerging middle class

Gini coefficient

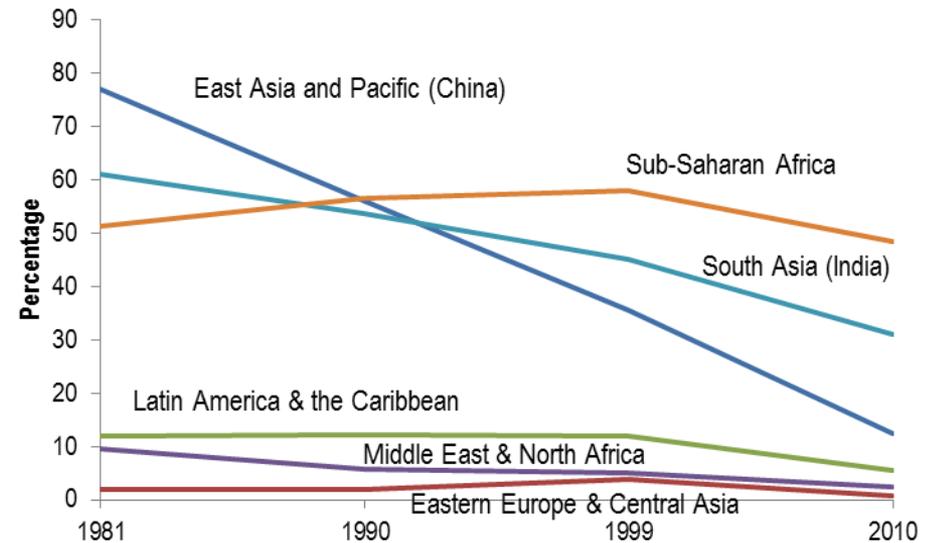
Household consumption



Note: Unweighted average by region.

Poverty headcount rate

*Household consumption
Below \$1.25 a day*



Note: Population-weighted average by region.

Source: Alverado and Gasparini (2015): Recent Trends in Inequality and Poverty in Developing Countries, in: *Handbook of Income Distribution, Vol. 2*



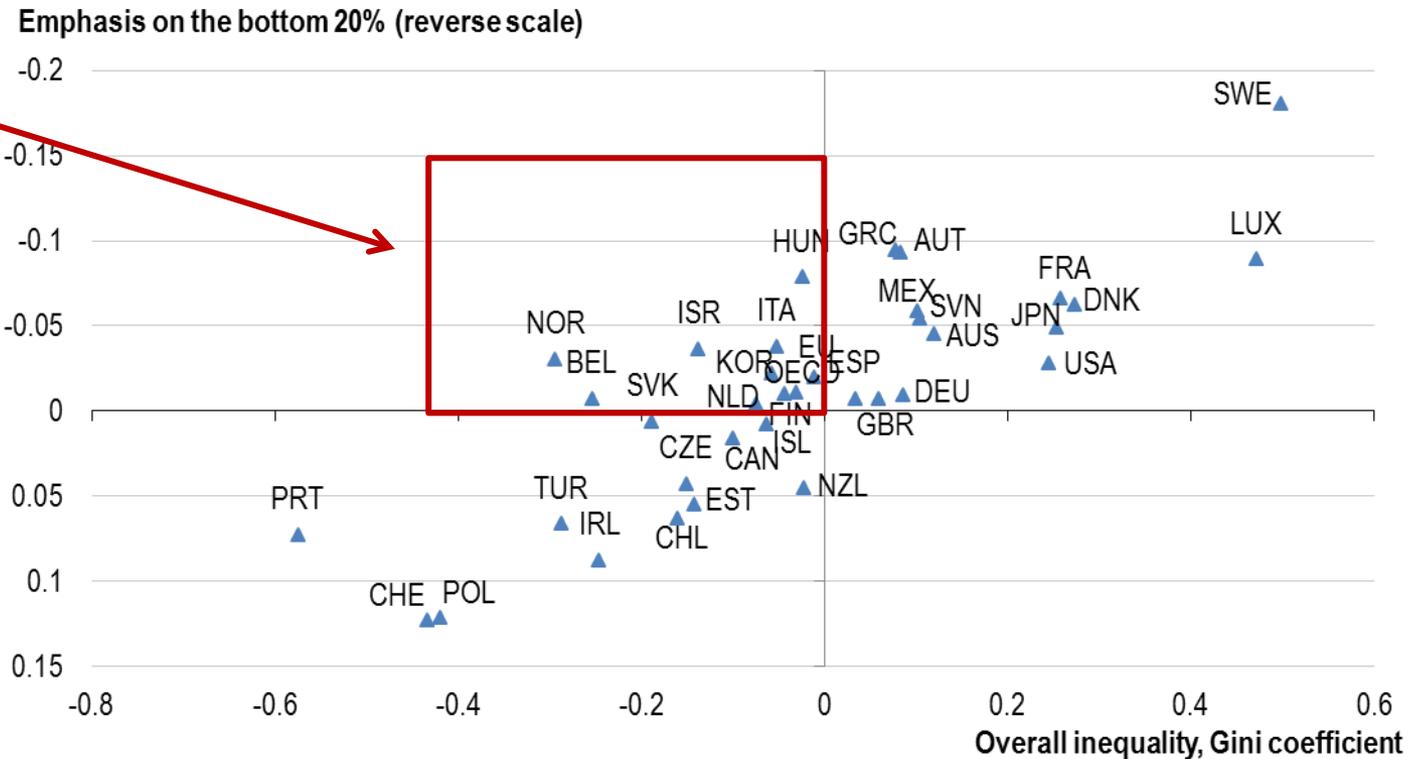
Overall inequality measures insufficient (1): Poorest households were left behind in OECD countries

Reduction in overall inequality

But income share of the bottom 20% decreased at the same time

Gini vs Income share held by bottom 20%

Average annual change from mid-2000s to latest available year





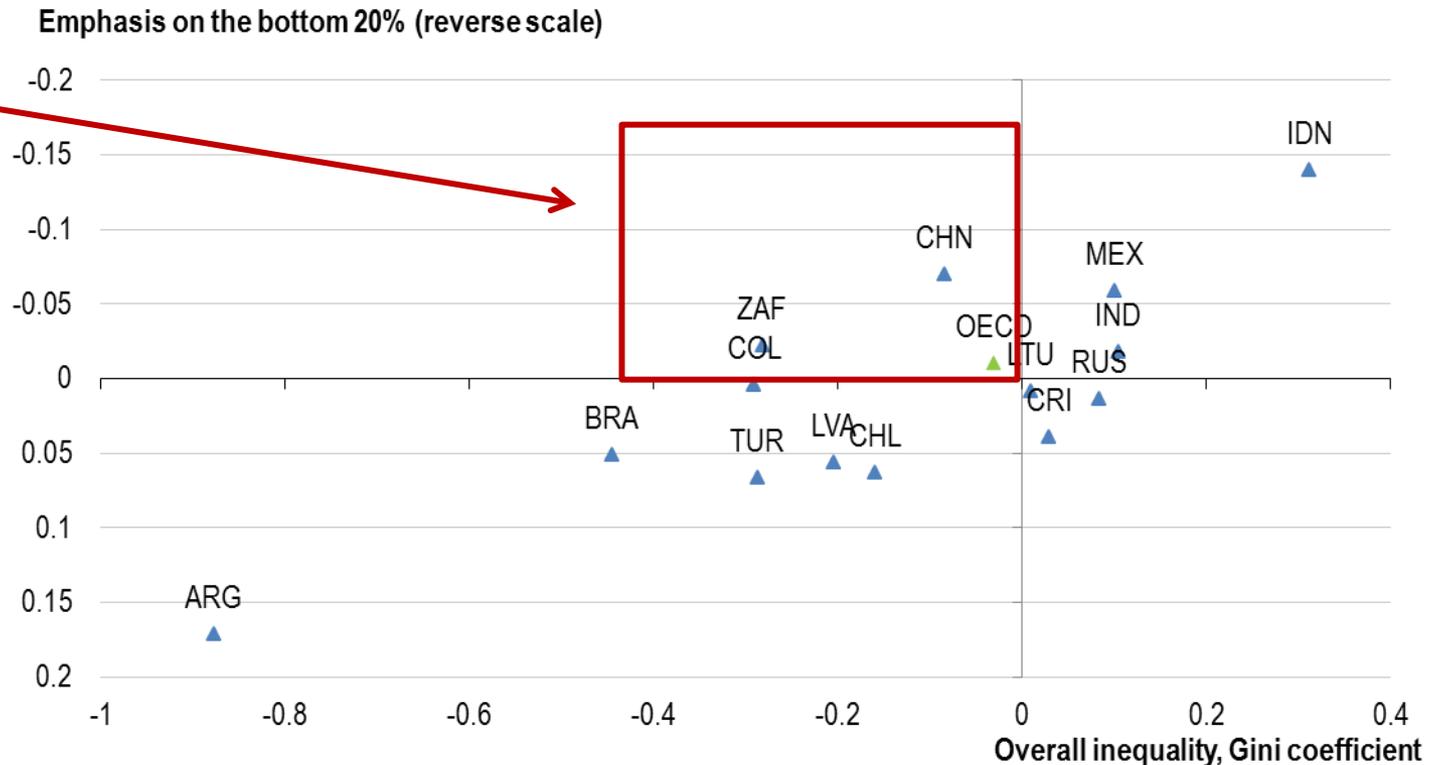
Overall inequality measures insufficient (2): Poorest households were also left behind in number of emerging economies...

**Reduction in
overall inequality**

**But income
share of the
bottom 20%
decreased at
the same time**

Gini vs Income share held by bottom 20%

Average annual change from mid-2000s to latest available year

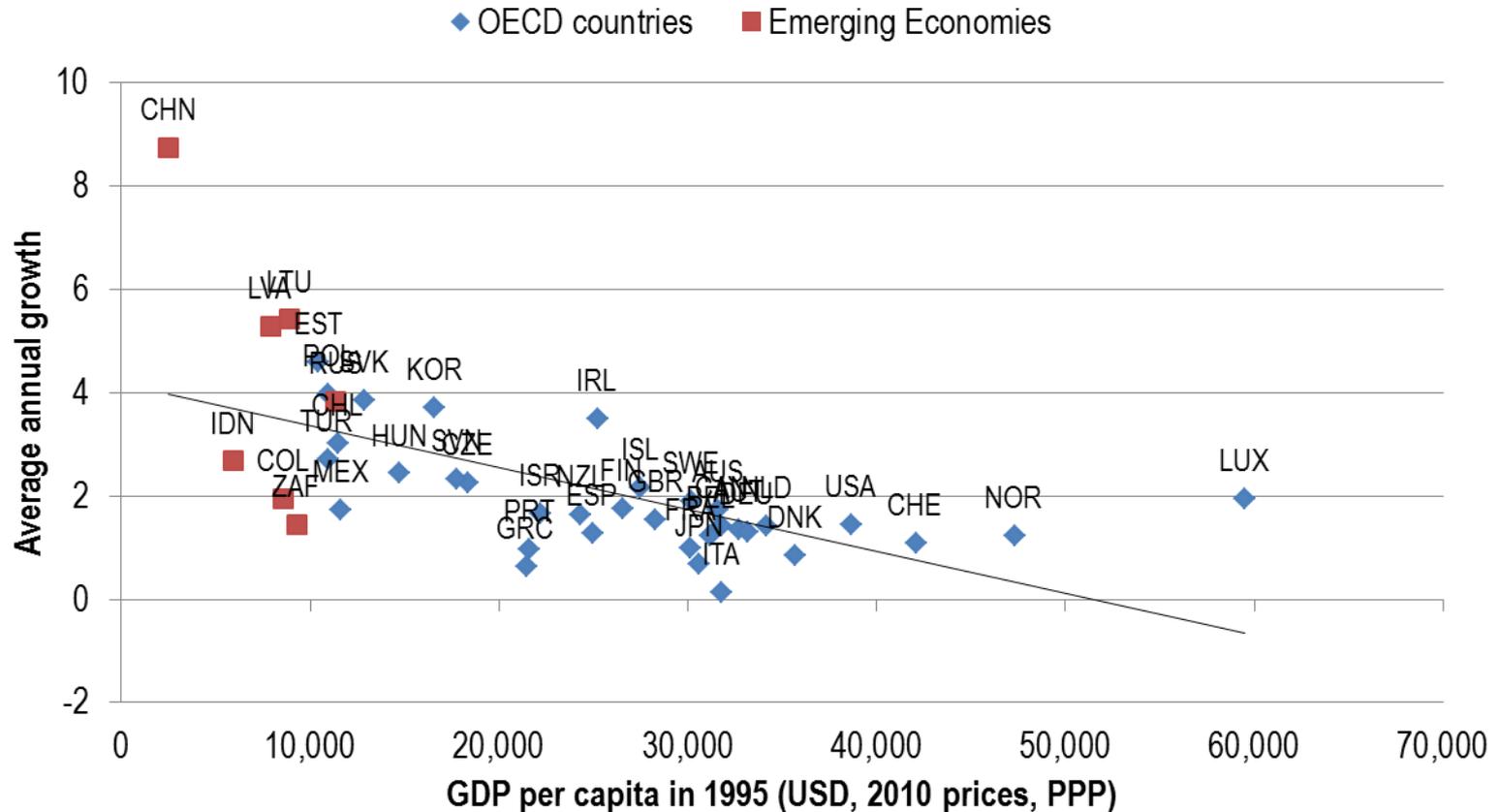




Decreasing inequality *between* countries

Convergence in GDP per capita

Average annual growth from 1995 to 2015





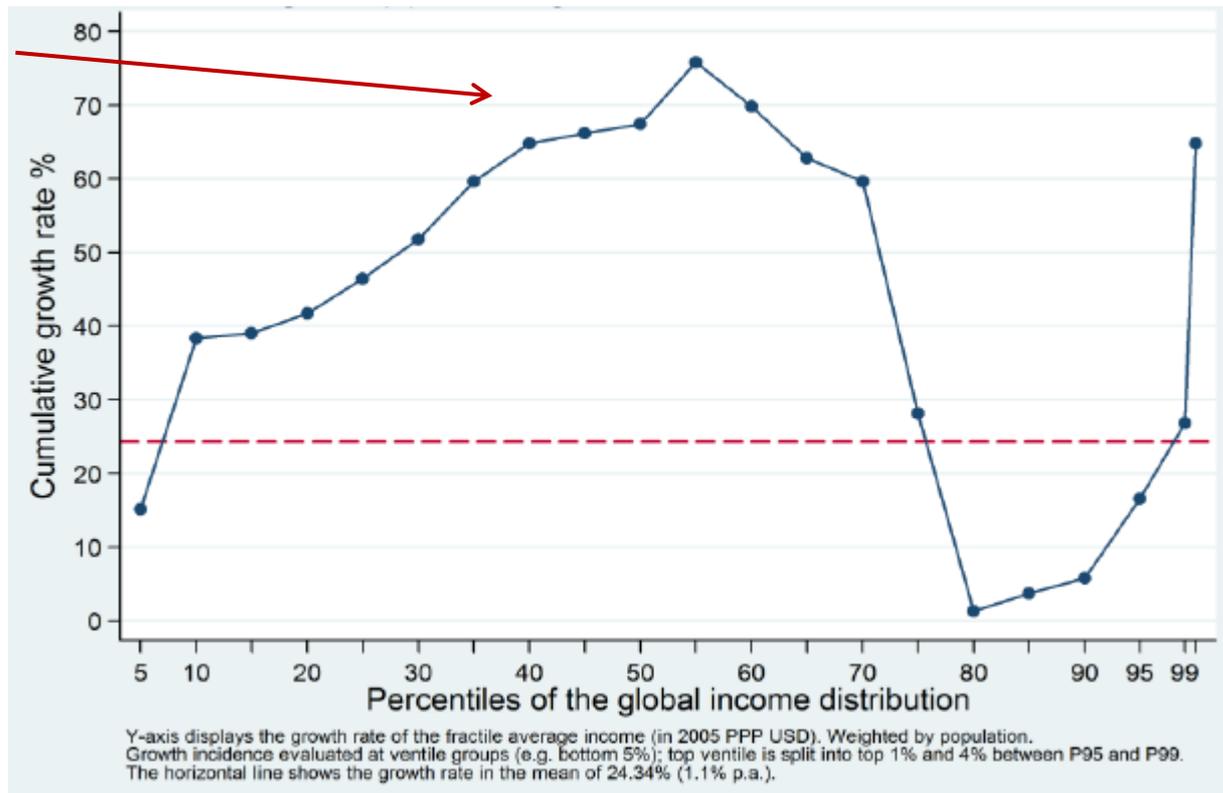
Beyond country borders (1): The global income distribution at the world level

Growth across the income distribution for the world population

Cumulative growth from 1988 to 2008

Strong income growth in Asia (mainly China)

World Gini
1988: 72.2
2008: 70.5



Global top 1%

Average growth

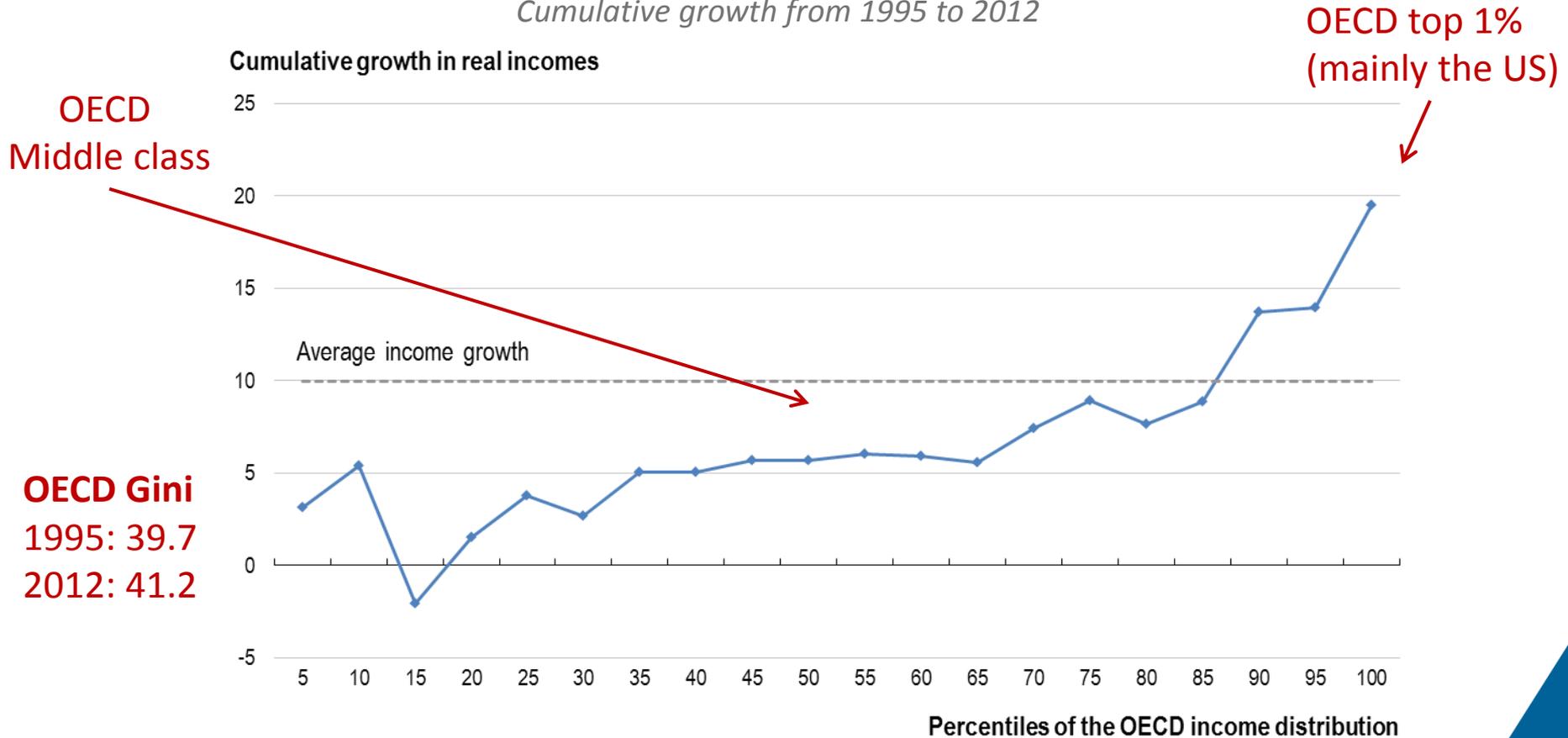
Source: Lakner and Milanovic (2015), "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession", *The World Bank Economic Review*



Beyond country borders (2): The global income distribution at the OECD level

Growth across the income distribution for the OECD population

Cumulative growth from 1995 to 2012



Source: OECD staff calculations based on the OECD Income Distribution Database and OECD Population Data.



Income inequality trends: summing up

- **OECD countries**
 - Widespread increase over the last three decades
 - But most of the increase took place in the 1980s & 1990s
 - Large heterogeneity, e.g. top 1% surge in the United States
 - Poorest households were left behind even where overall inequality declined
- **Emerging economies**
 - Increase in the 1980s & 1990s, decline in the 2000s
 - Emerging middle class
 - Absolute poverty much reduced by economic growth
 - But increases in inequalities at the bottom of the distribution
- **Between countries**
 - Income convergence reduces inequality between countries
 - The “global” middle class is emerging; the OECD middle class is (at best) stagnating
 - China and India strong engines



What is causing the trend rise in inequality within OECD countries?

- **Demographic factors**
 - Household structure & Family formation
 - Ageing?
- **Technology and Globalisation**
 - Changing demand for skilled and unskilled workers
(skill-biased technological change & computerisation of routine tasks)
 - Trade integration & Outsourcing
- **Policies and institutions**
 - Tax and benefit reforms
 - Labour, product and financial market deregulation
 - More non-standard work
 - Declining union density
- **Counteracting factors**
 - Upskilling (education)
 - Female labour force participation



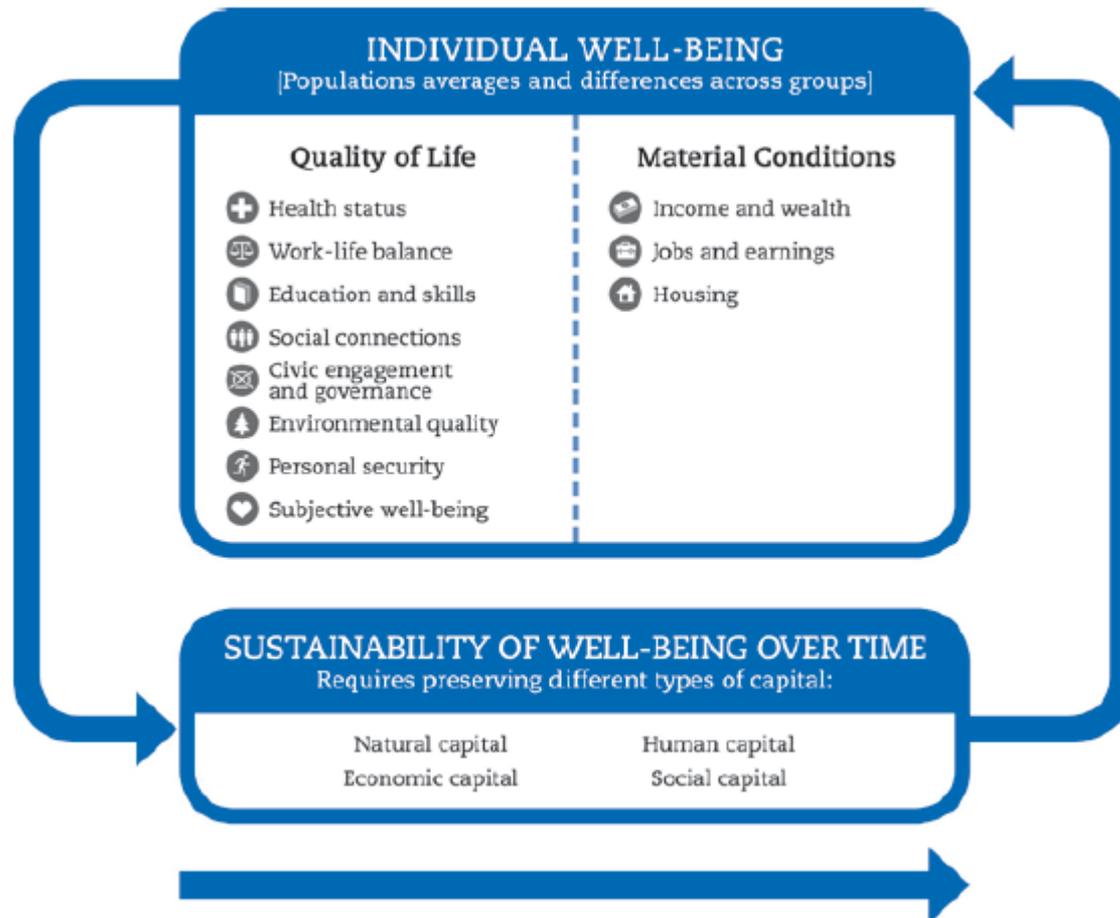
Current and future challenges

- Slowdown in productivity growth
- Low productivity – high inequality. A nexus?
→ **Promoting productivity and equality:
a twin challenge**
- Pressure on tax-benefit systems
- Population ageing
- Migration (Europe)



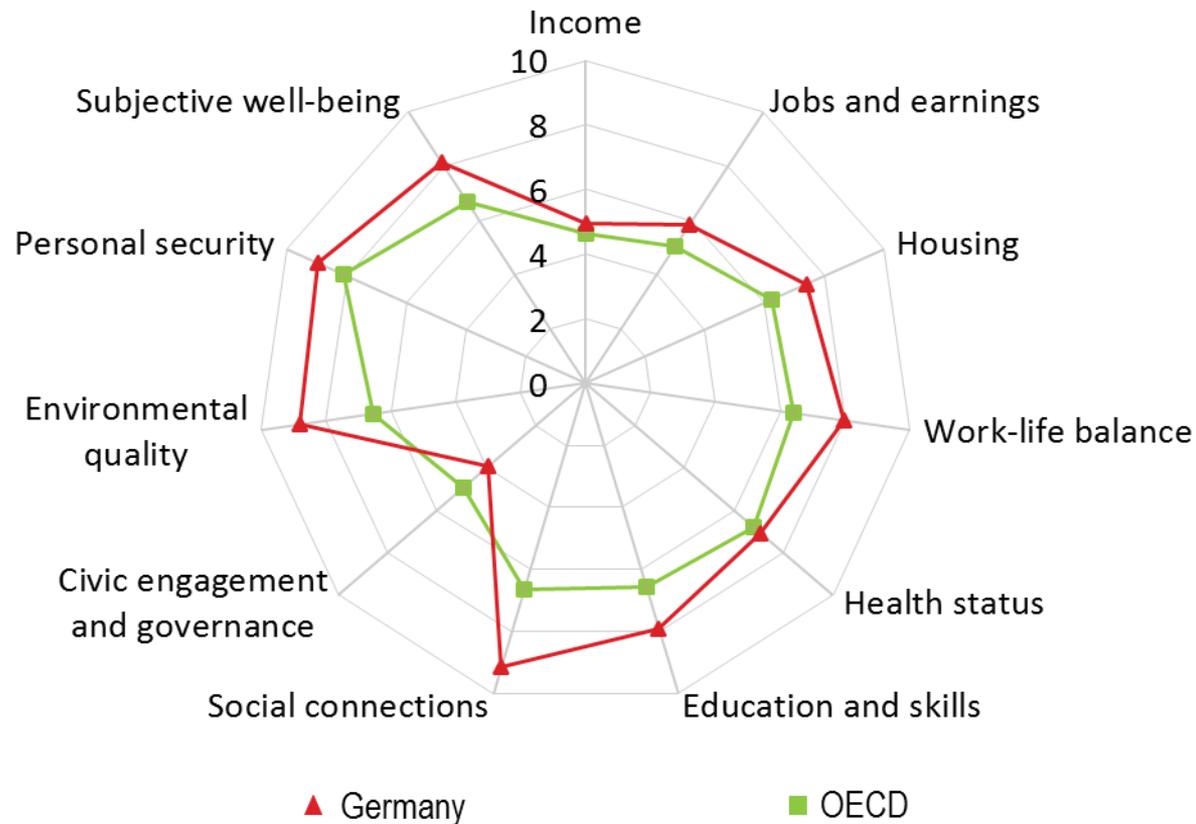
But income inequality is just one aspect of living standards...

How's Life? The OECD approach to measuring well-being





Well-being in Germany





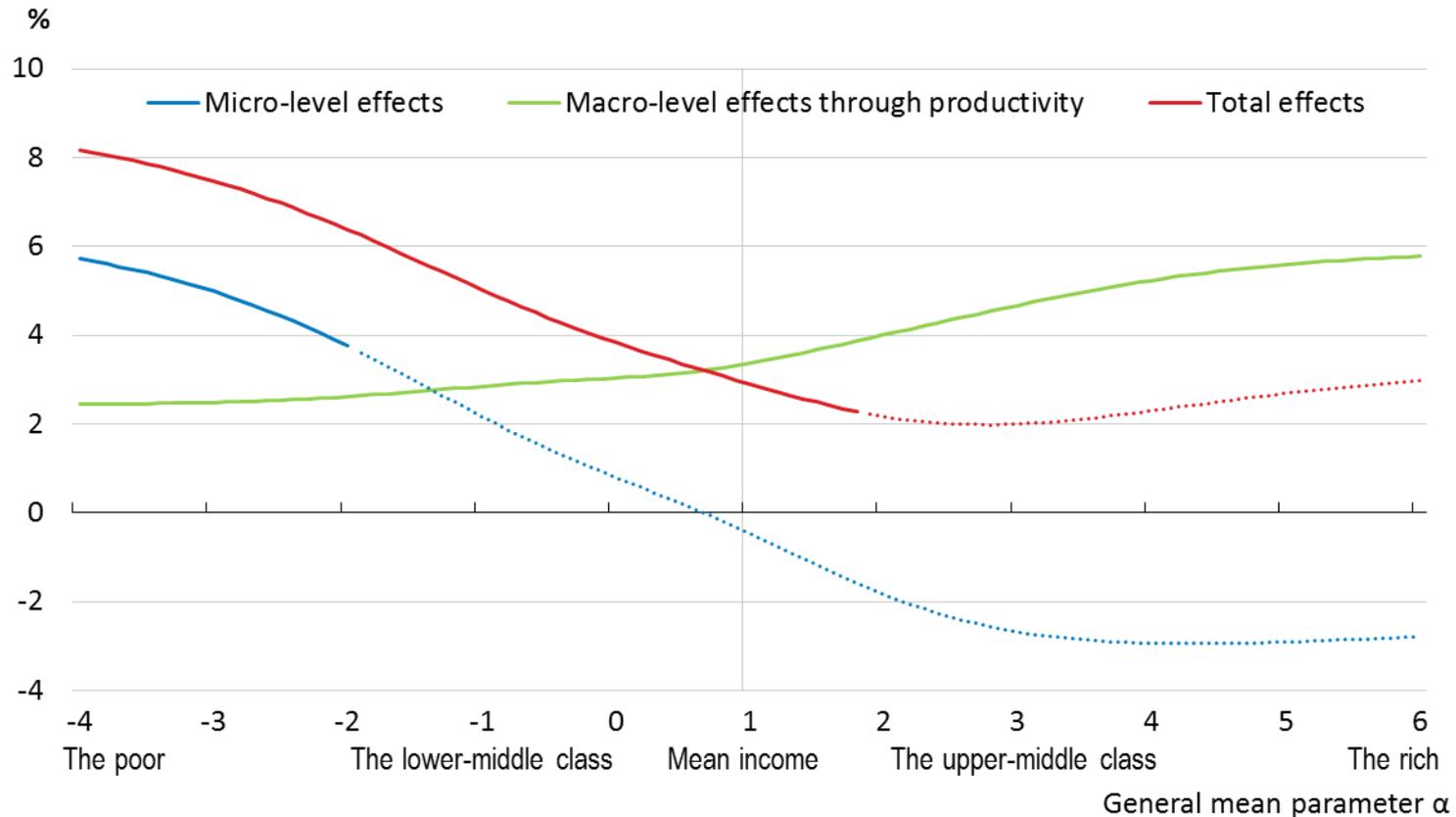
The challenge: Identifying policy and non-policy drivers of well-being

OECD Inclusive Growth Framework

- Multidimensional living standards
 - Going beyond GDP and income
 - Currently 3 dimensions: Household income, unemployment and health status
- Emphasis on distribution
 - Opportunities for people to contribute to and benefit from growth
 - Beyond overall inequality measures, going granular
- Policy relevance
 - Identifying pro-growth and pro-equity structural policies



Effects of more education spending across the household income distribution



How to read this figure: An increase in government spending on education (in per cent of GDP) by 1 percentage point is estimated to increase household disposable incomes by 2-8% on average from the poor to the middle class. This total effect can be decomposed along a micro-level effect and macro-level effect through labour productivity. Non-significant estimates (at the 10% level) are indicated by dots on general mean curves.



Three major policy pillars to foster inclusive growth

1. Promoting outcomes & equity in **education and skills**, from early on throughout the lifecycle
2. Lifting **jobs quantity and job quality**, tackling labour market exclusion and segmentation
3. Reforming **tax and transfer systems** to serve both growth and redistribution objectives, addressing associated potential trade-offs



But much more work and research needed...

- Measurement
 - Dynamic aspect: well-being over the lifecycle
 - Non-income dimensions
- Better understanding of policy drivers
 - Trade-offs/complementarities between equity and efficiency?
- Interlinkages
- ...



References

- Causa, O., et al. (2015), “Can Pro-Growth Policies Lift All Boats? An Analysis Based on Household Disposable Income”, OECD Journal: Economic Studies, OECD Publishing.
- Causa, O. et al. (2014), “Economic Growth from the Household Perspective: GDP and Income Distribution Developments Across OECD Countries”, OECD Economics Department Working Papers, No. 1111, OECD Publishing.
- “Promoting productivity and equality”, Chapter 2, *OECD Economic Outlook*, Vol. 2016 Issue 1.
- “From GDP to average household income: A look at the transmission channels”, Chapter 3, *OECD Going for Growth 2016*, *OECD publishing*.
- [Inclusive Growth - Organisation for Economic Co-operation and Development](#)
- [Economic Policy Reforms: Going for Growth - OECD](#)