INCOME INEQUALITY WITHIN AND BETWEEN COUNTRIES

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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*

Poverty headcount rate
*Household consumption Below $1.25 a day*

Note: Unweighted average by region.

Note: Population-weighted average by region.

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

Gini vs Income share held by bottom 20%
Average annual change from mid-2000s to latest available year

Reduction in overall inequality

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

Emphasis on the bottom 20% (reverse scale)
Decreasing inequality *between* countries

Convergence in GDP per capita

*Average annual growth from 1995 to 2015*

- **OECD countries**
- **Emerging Economies**

Source: OECD National Accounts
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

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*

- **OECD Gini**
  - 1995: 39.7
  - 2012: 41.2

- **OECD top 1%** (mainly the US)

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

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

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

Source: Causa et al. (forthcoming), The distributional impact of structural reforms, OECD Economics Department Working Papers
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

• ...

But much more work and research needed…
References


• “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