

In It Together

Why Less Inequality Benefits All

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In It Together. Main Results

- Inequality has reached record highs in most OECD countries
 - Poorer households are losing ground. But it is not only about poverty – it is about the bottom 40%
 - The rise in non-standard forms of work contributed to higher inequality
 - High wealth concentration limits investment opportunities
 - Rising inequality drags down economic growth and harms opportunities and social mobility
 - More women in the workforce means less household income inequality
- It needs policies for more and better jobs; investment in skills and education; and more efficient redistribution via taxes and benefits

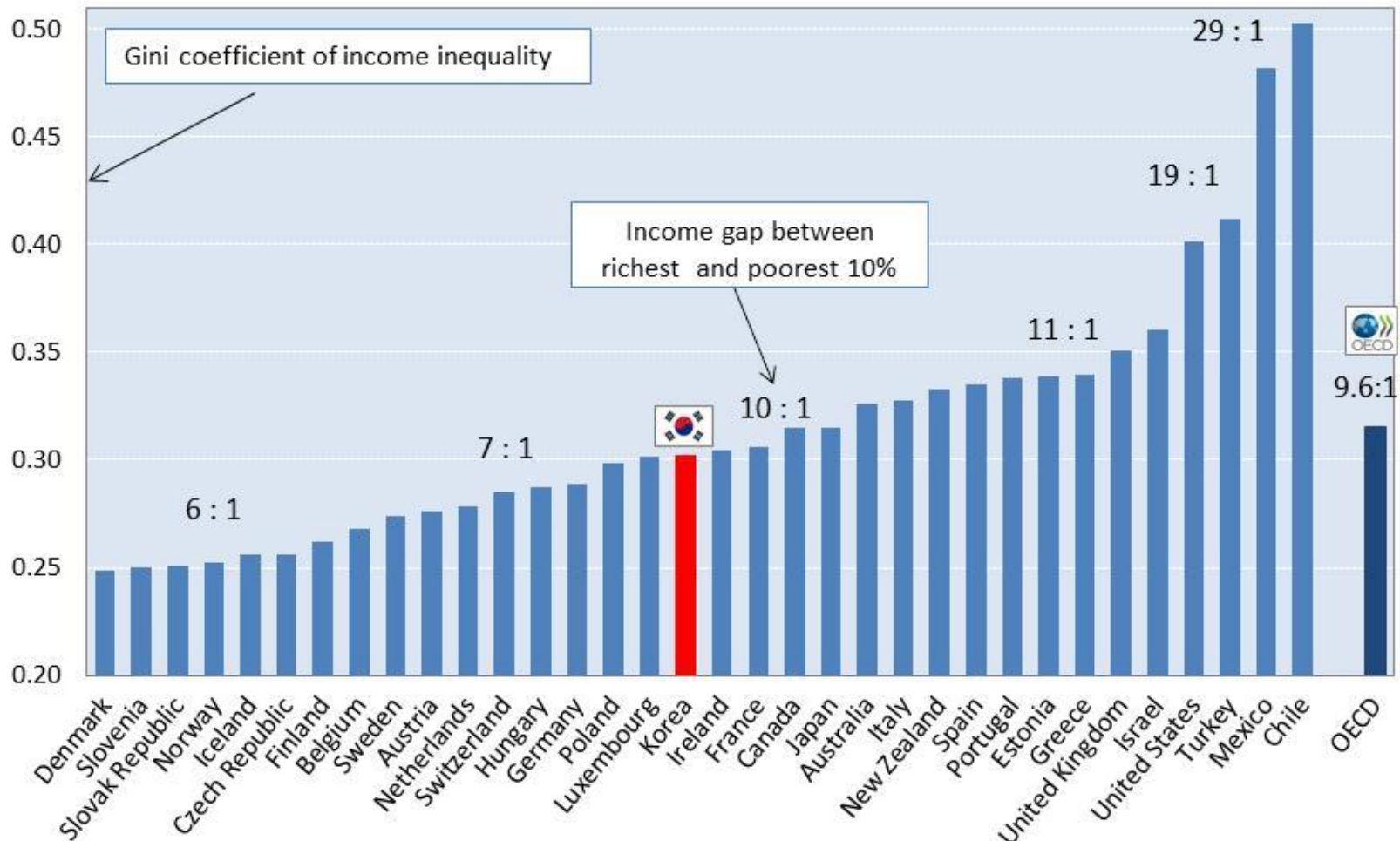


Income inequality in OECD countries: Outline of the presentation

1. **Taking stock:** How do inequality levels compare and how have inequalities developed over the longer run? Was the crisis a game changer?
2. **Explaining:** What are the major underlying forces behind increases in inequality?
3. **Why do we care:** The economic case of the consequences of high and rising inequalities
4. **What can be done:** Which policies are most promising to tackle inequality and promote equal opportunities?



Large country differences in levels of income inequality






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

Note: the Gini coefficient ranges from 0 (perfect equality) to 1 (perfect inequality). Gaps between poorest and richest are the ratio of average income of the bottom 10% to average income of the top 10%. Income refers to cash disposable income adjusted for household size. Data refer to 2013 or latest year available.



It is not just about income: Wealth is much more unequally distributed

Share of income and wealth going to different parts of the income and wealth distribution, respectively, around 2013

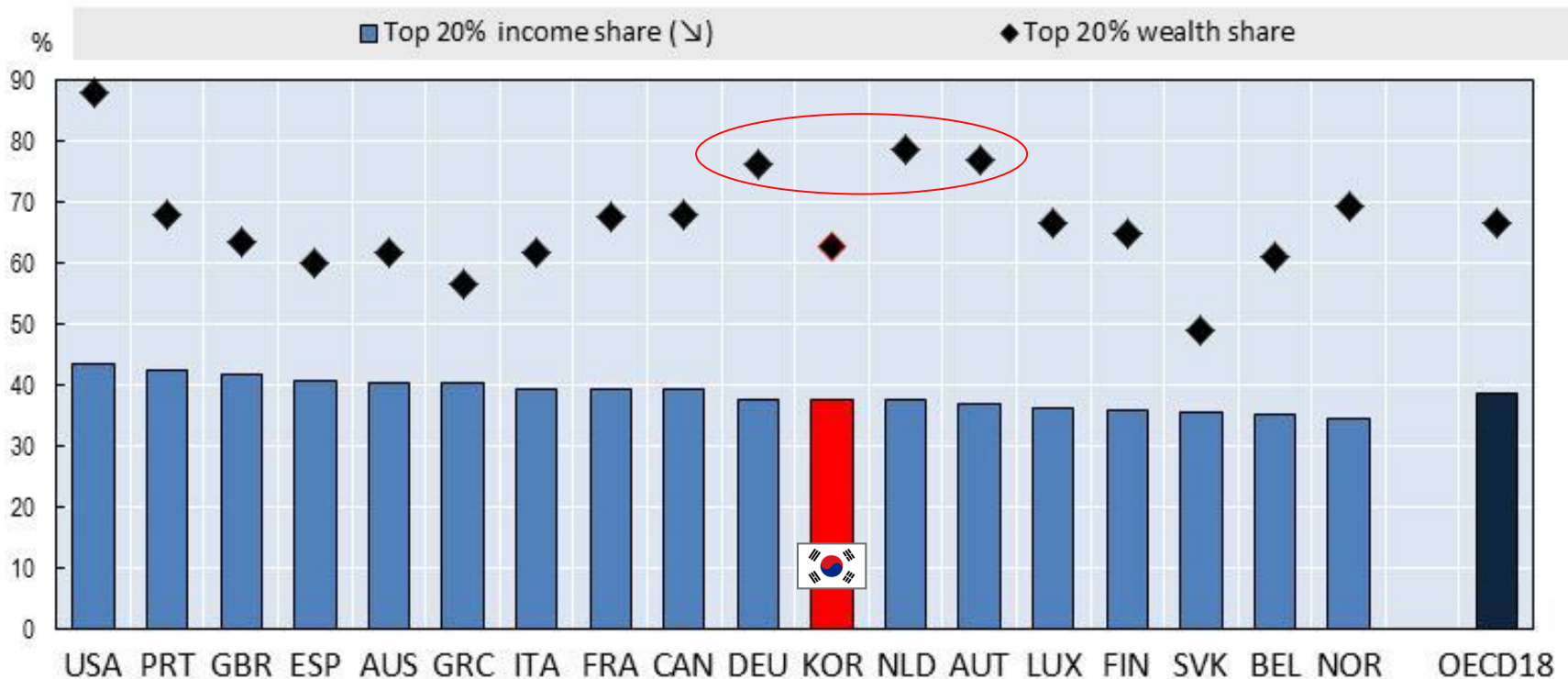
	OECD 		USA 		KOREA 	
	income	wealth	income	wealth	income	wealth
top 10%	25%	50%	29%	76%	22%	(52% ?)
next richest 50%	55%	47%	55%	24%	58%	(43% ?)
bottom 40%	20%	3%	16%	0%	20%	5%

Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>.
 OECD wealth questionnaire and ECB-HFCS survey and OECD Income Distribution Database (www.oecd.org/social/inequality.htm)
 Note: Income refers to disposable household income, corrected for household size. Wealth refers to net private household wealth.
 No data available for top decile in Korea (figures in brackets are assumptions based on estimates from Global Wealth Report 2014)



Countries with high wealth concentration are not (always) those with high income concentration

Share of top 20% of household disposable income and top 20% of household net wealth, 2013 or 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>

OECD Wealth Distribution Database and OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm).

Note: Income refers to disposable household income, corrected for household size. Wealth refers to net private household wealth. Data refer to the shares of the richest 10% of income earners (bars) and of the richest 10% of wealth holders (diamonds), respectively.



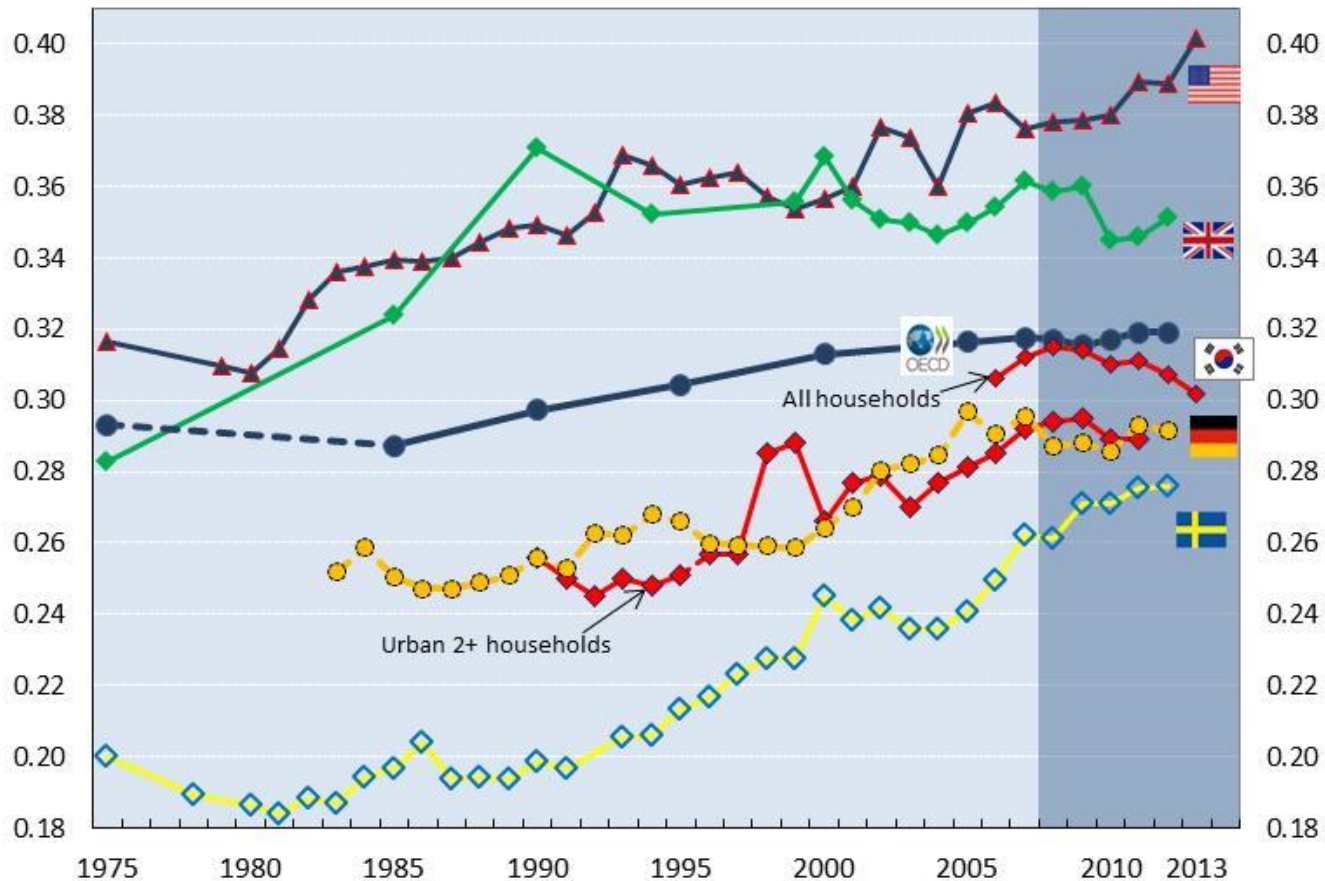
Over the long run, income inequality increased in a large majority of OECD countries

- The gap between rich and poor is at its highest level since thirty-forty years
- The richest 10% earn almost 10 times more than the poorest 10%
- This is up from a ratio of 7:1 (1980s); 8:1 (1990s); 9:1 (early 2000s)
- Inequality increased in good times, and it increased in bad times
- Inequality increased in egalitarian and less egalitarian countries alike



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.

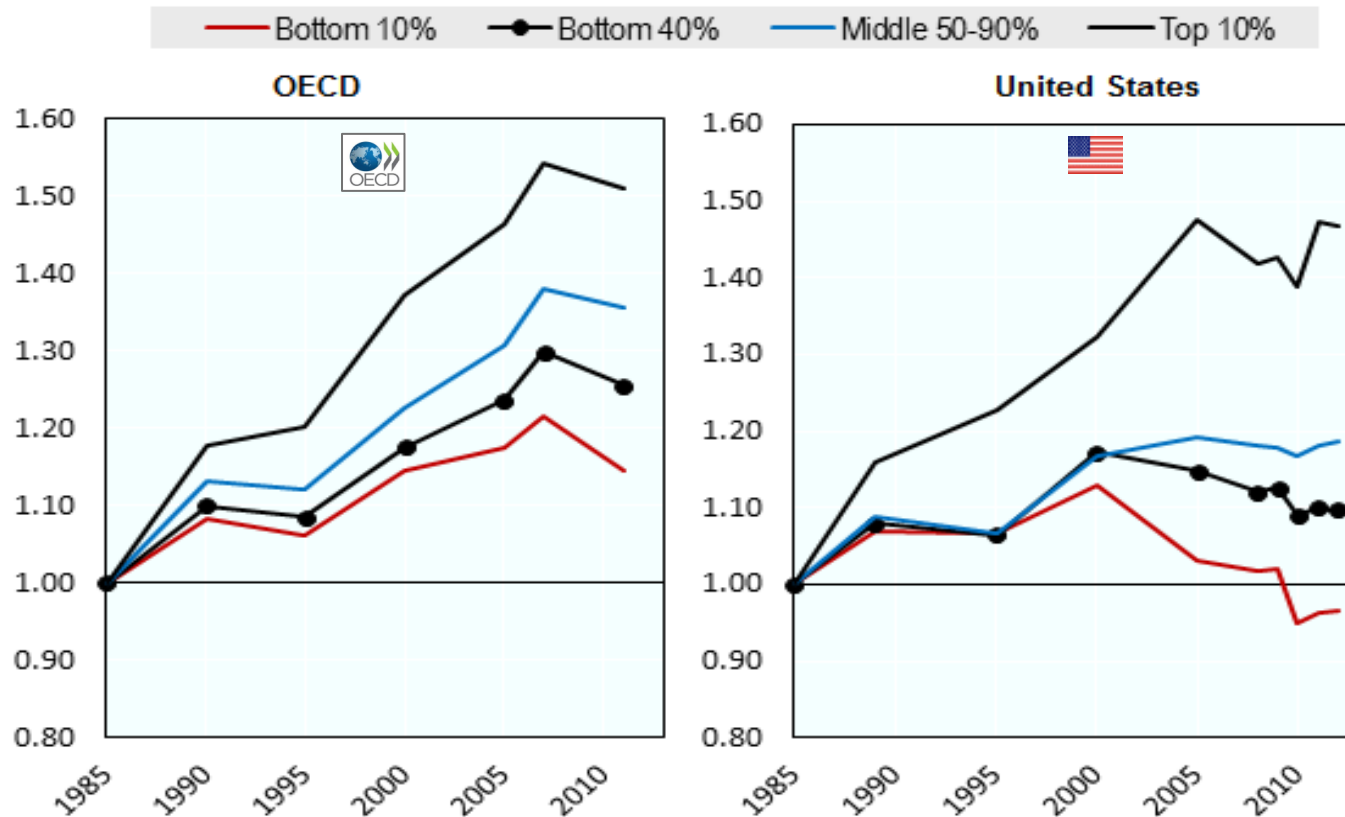
Note: Income refers to disposable income adjusted for household size.



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

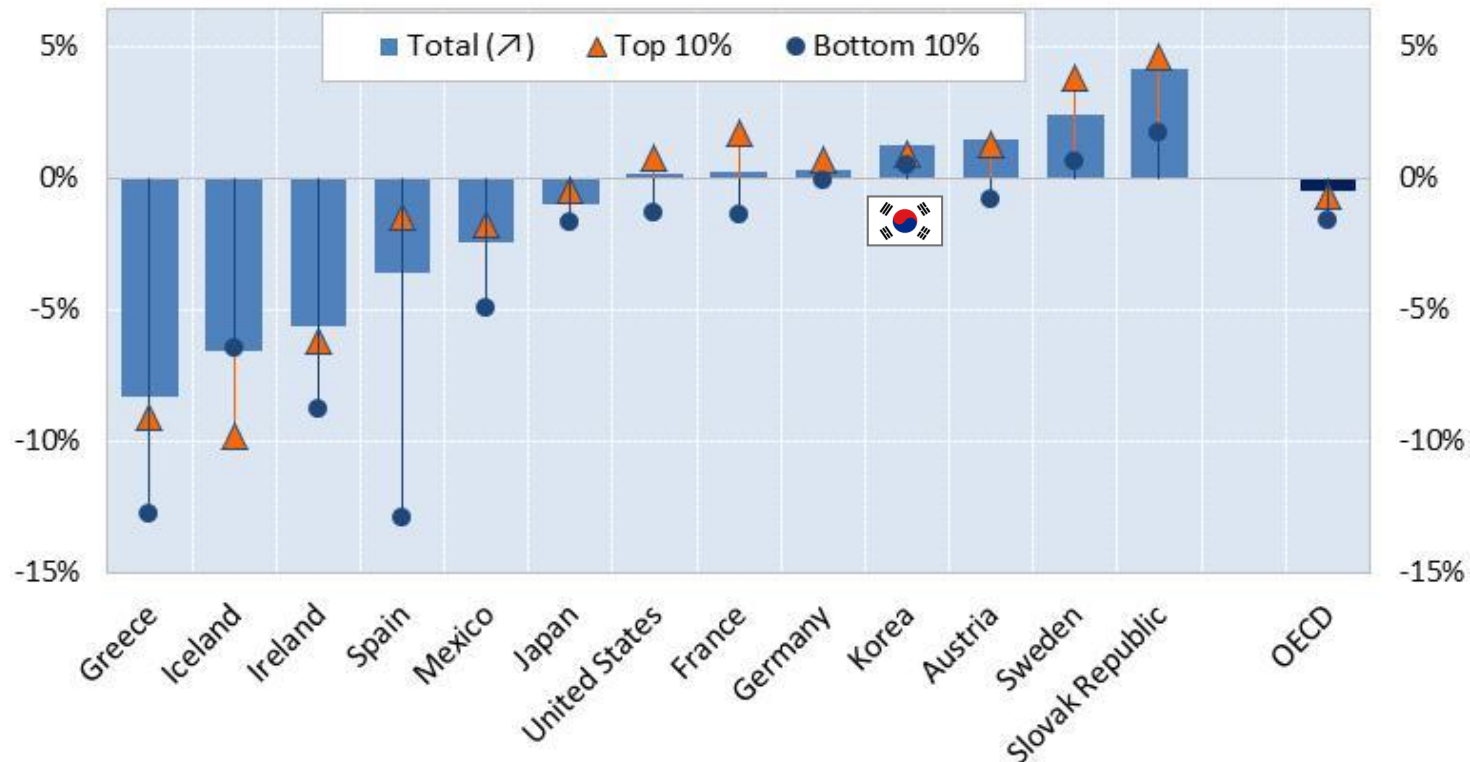




So was the crisis a game changer?

→ .. also during the crisis, in a majority of countries incomes of the poorest households fell behind in relative and, often, in absolute terms

Annual percentage changes in household disposable income between 2007 and 2011

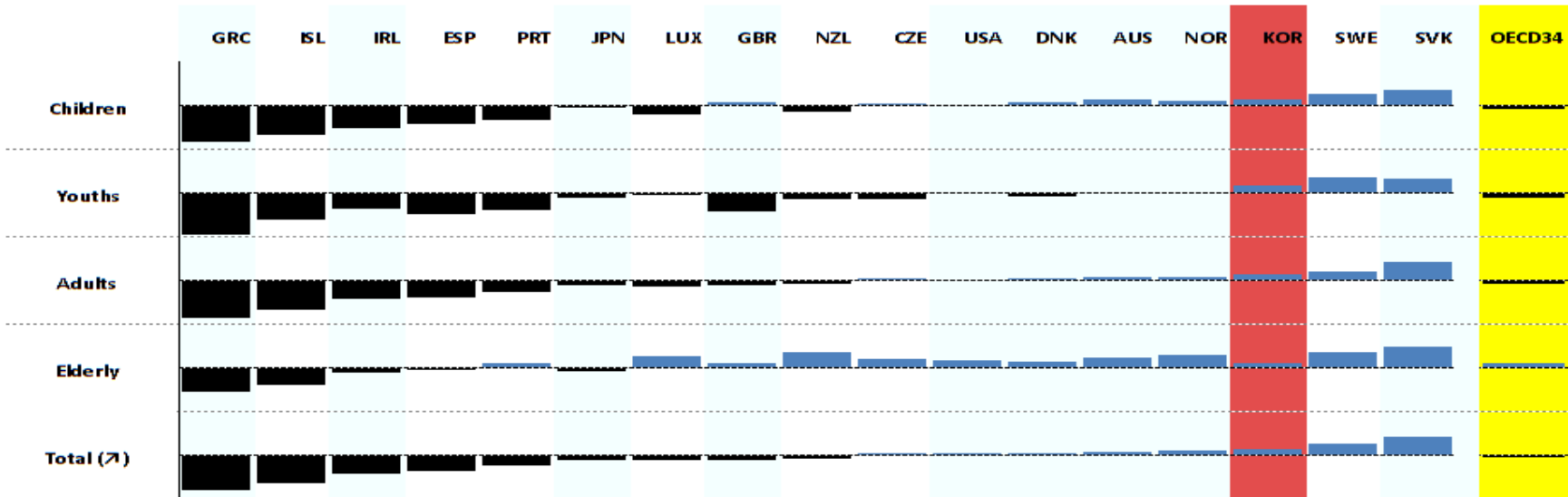


Source: OECD 2014, *Rising Inequality: youth and poor fall further behind*. <http://www.oecd.org/els/soc/OECD2014-Income-Inequality-Update.pdf>
 Note: 2008 – 2011 for France, Germany, Sweden.

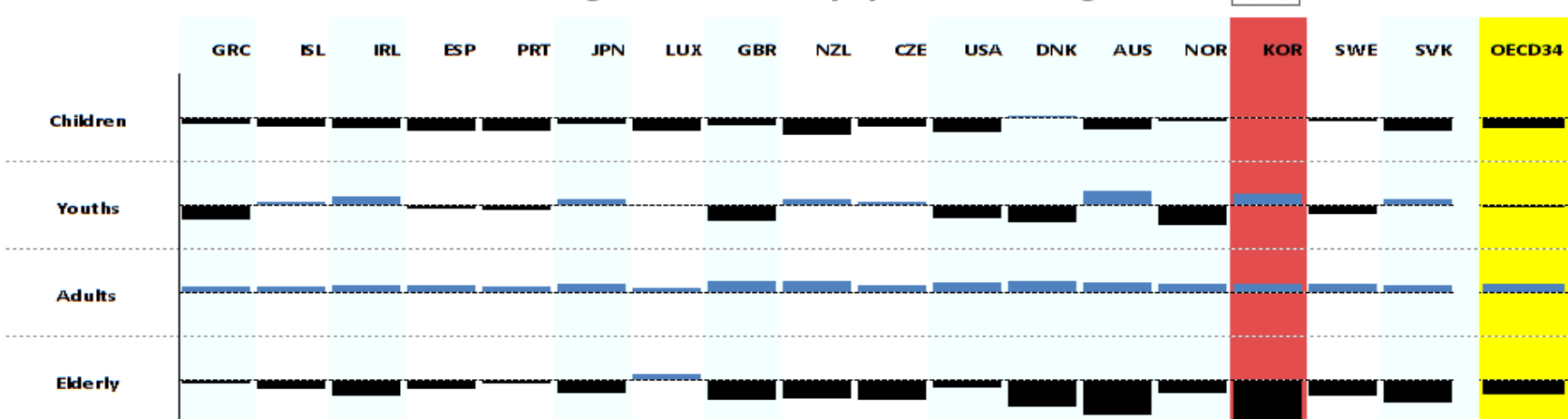


But not all age groups experienced the same income trends

Annual percentage change in household disposable income, 2007 to 2011



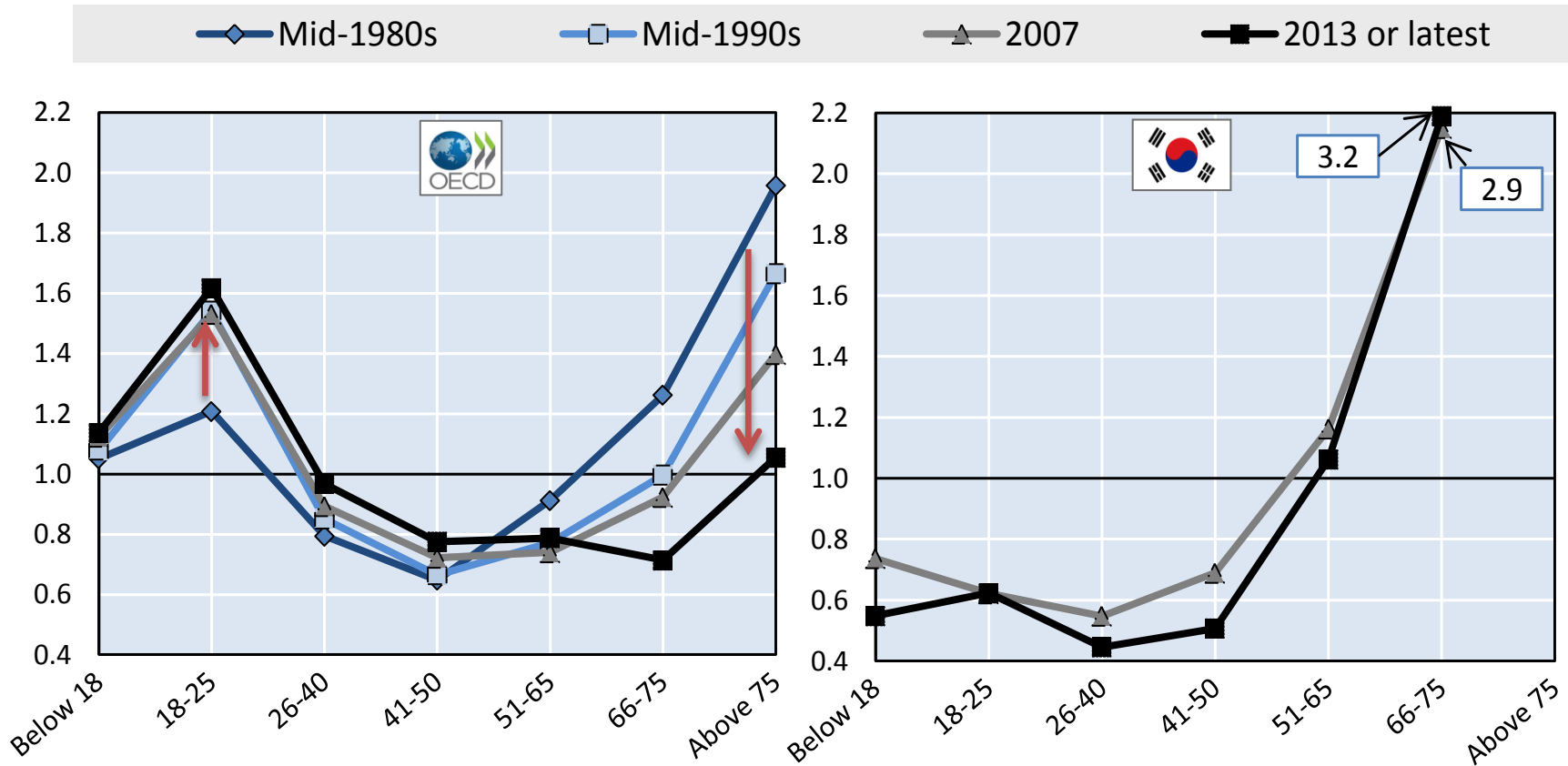
Percentage difference to population average





The risk of income poverty has shifted from the elderly to the young (but not in Korea)

Relative poverty risk by age, poverty rate of entire population in each year = 1



Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>;

Note: OECD un-weighted average for 18 OECD countries for which data are available from the mid-1980s Poverty defined as living in a household which income is below 50% of the median equivalised household income for the entire population



OECD evidence on the main drivers of rising household income inequality

Main culprits

- Changes in employment patterns and working conditions
- Weaker redistribution via the tax/benefit system
- Skill-biased technological change

Indirect effects

- Globalisation (trade, FDI)

Ambiguous effects

- Changes in labour market regulations and institutions

Lesser culprit

- Changing household/family structures

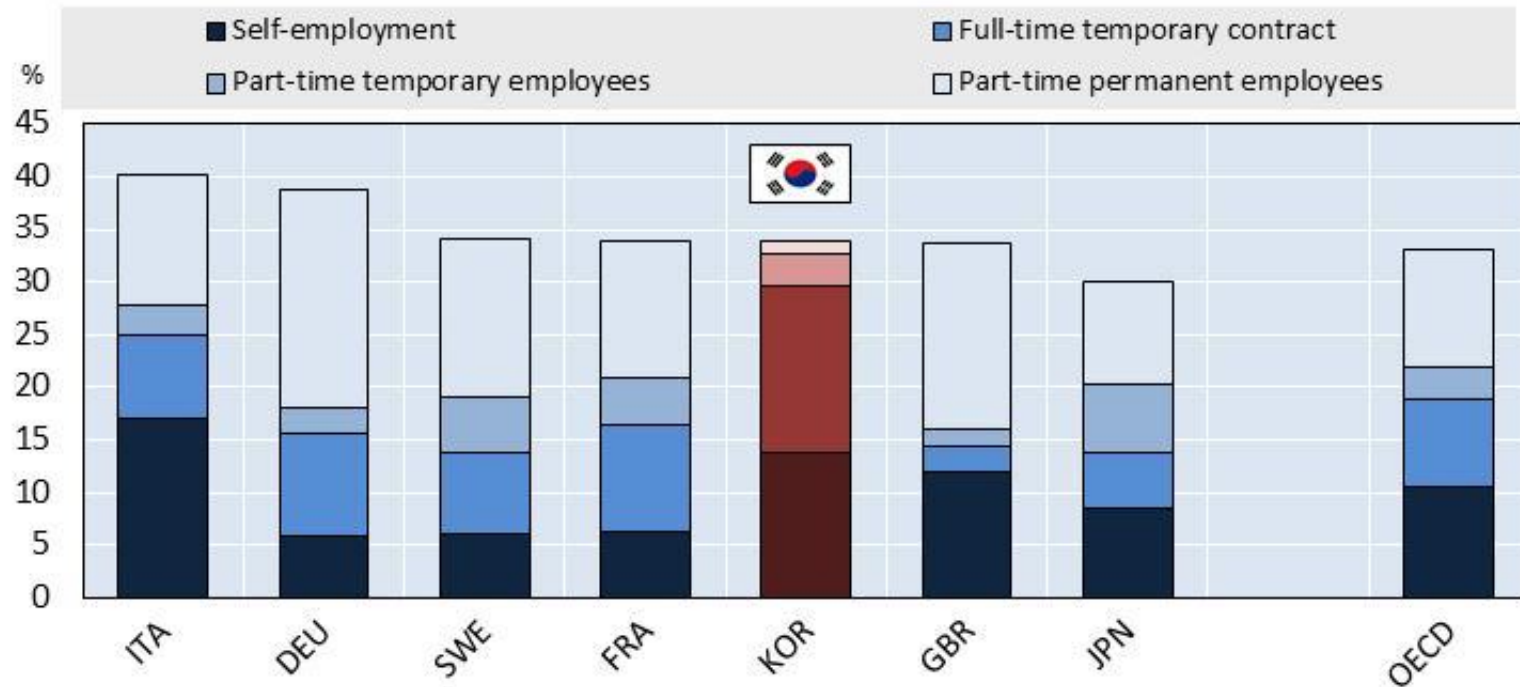
Off-setting factors

- Increase in education
- Higher female employment participation
- Both off-set part of the drive towards rising inequality



Non-standard work became more important – its forms vary across countries

Share of non-standard employment by type, 2013 or close



Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>. Based on analyses from EULFS; KLIPS for Korea, LFS for Japan, HILDA for Australia and LFS for Canada. Note: Sample restricted to paid and self-employed (own account) workers aged 15-64 years old, excluding employers, student workers and apprentices.

→ Across OECD, more than half of all employment created since 1995 were non-standard jobs



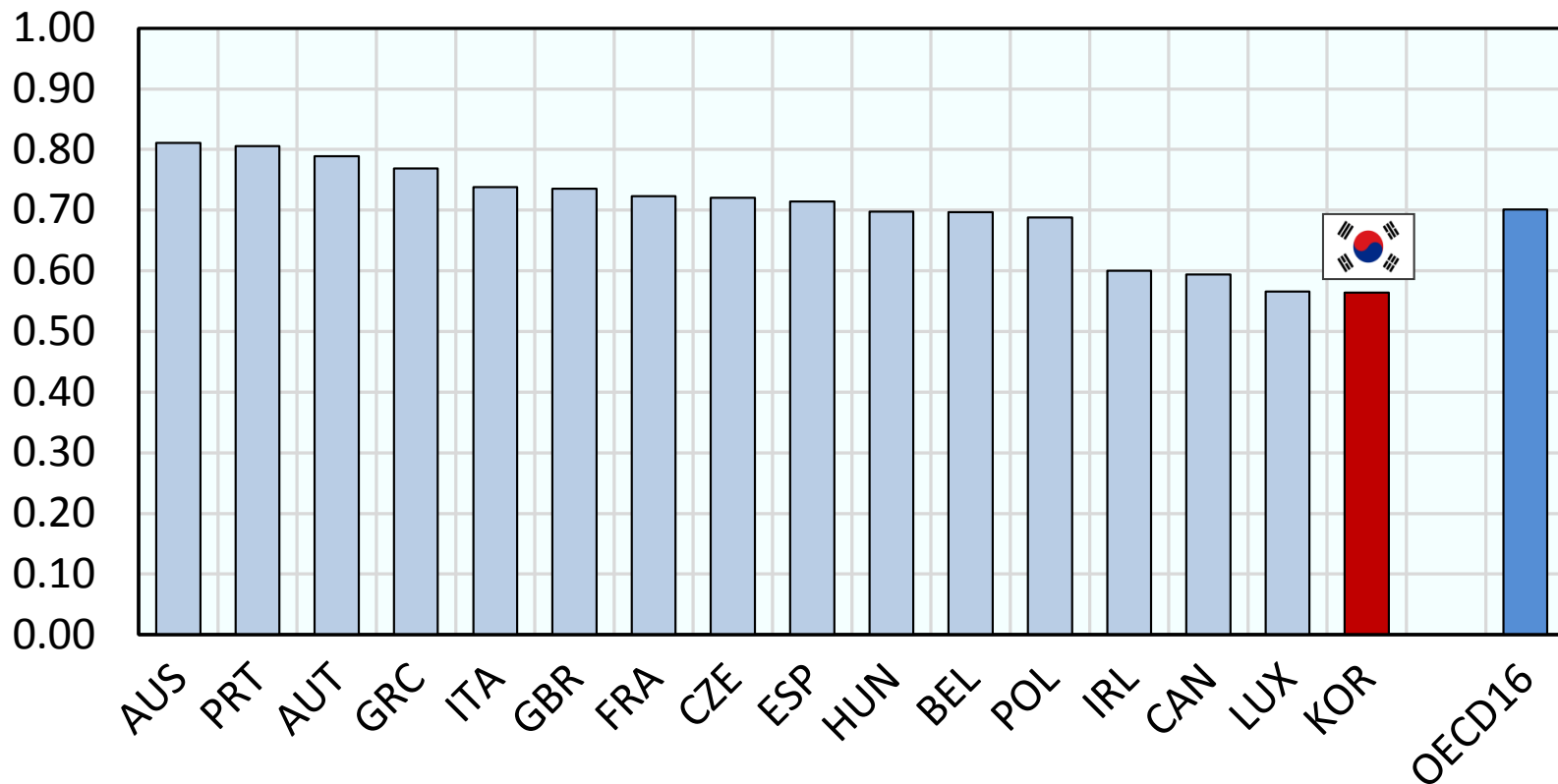
Who are most likely to hold non-standard jobs?

- 28% of men but 40% of women who are working
 - *also* in Korea
- Youth are overrepresented
 - but *not* in Korea where it is elderly: 53% of 50-64 year old workers (OECD: 36%)
- More low-educated than high-educated workers (OECD: 44% vs. 28%)
 - and this difference particularly pronounced in Korea: 60% vs. 20%



Do atypical jobs pay less?

Ratio of median hourly wages of temporary workers
(standard workers = 1)



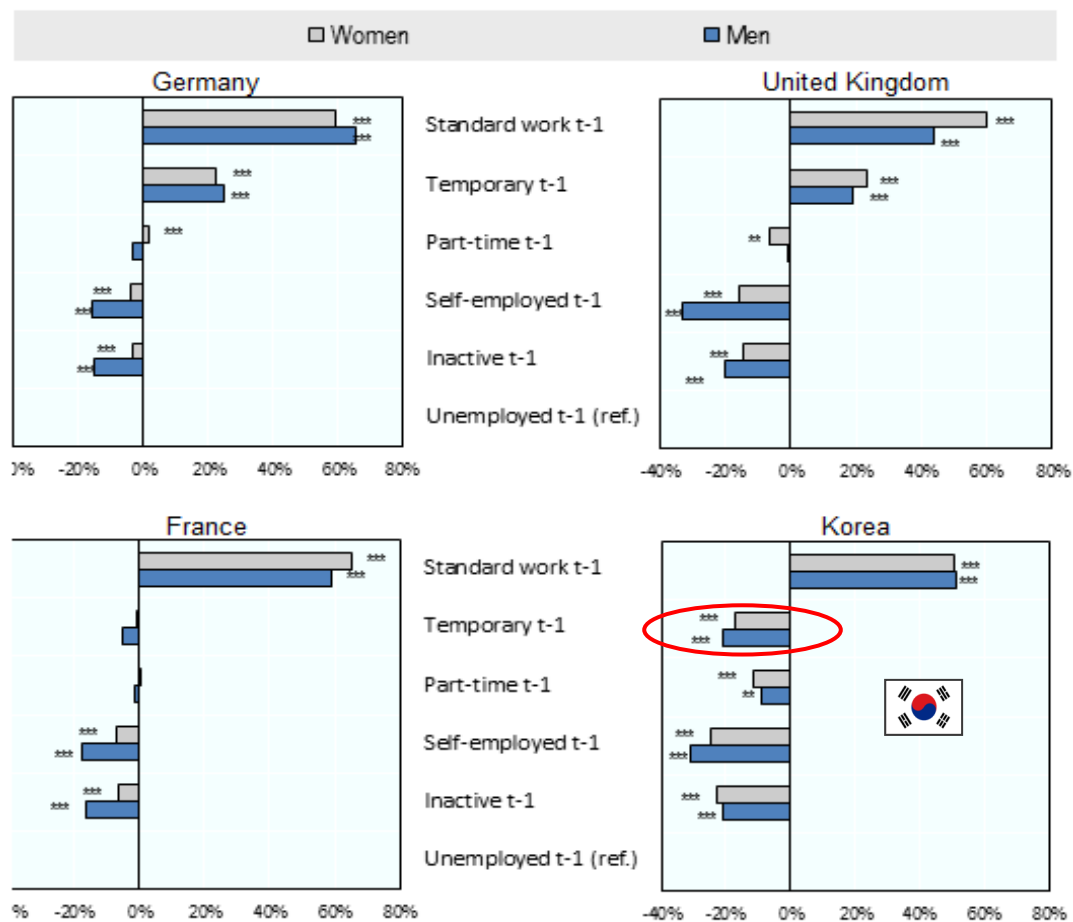
Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>;

Note: FT= full-time, PT=part-time; SE=self-employed ; EU-SILC for EU; KLIPS for Korea, LFS for Japan, HILDA for Australia and LFS for Canada.



In most countries, temporary workers have a better chance than the unemployed to get a standard job— but there are 2 exceptions

Influence of previous labour market status on the probability of having a standard employment



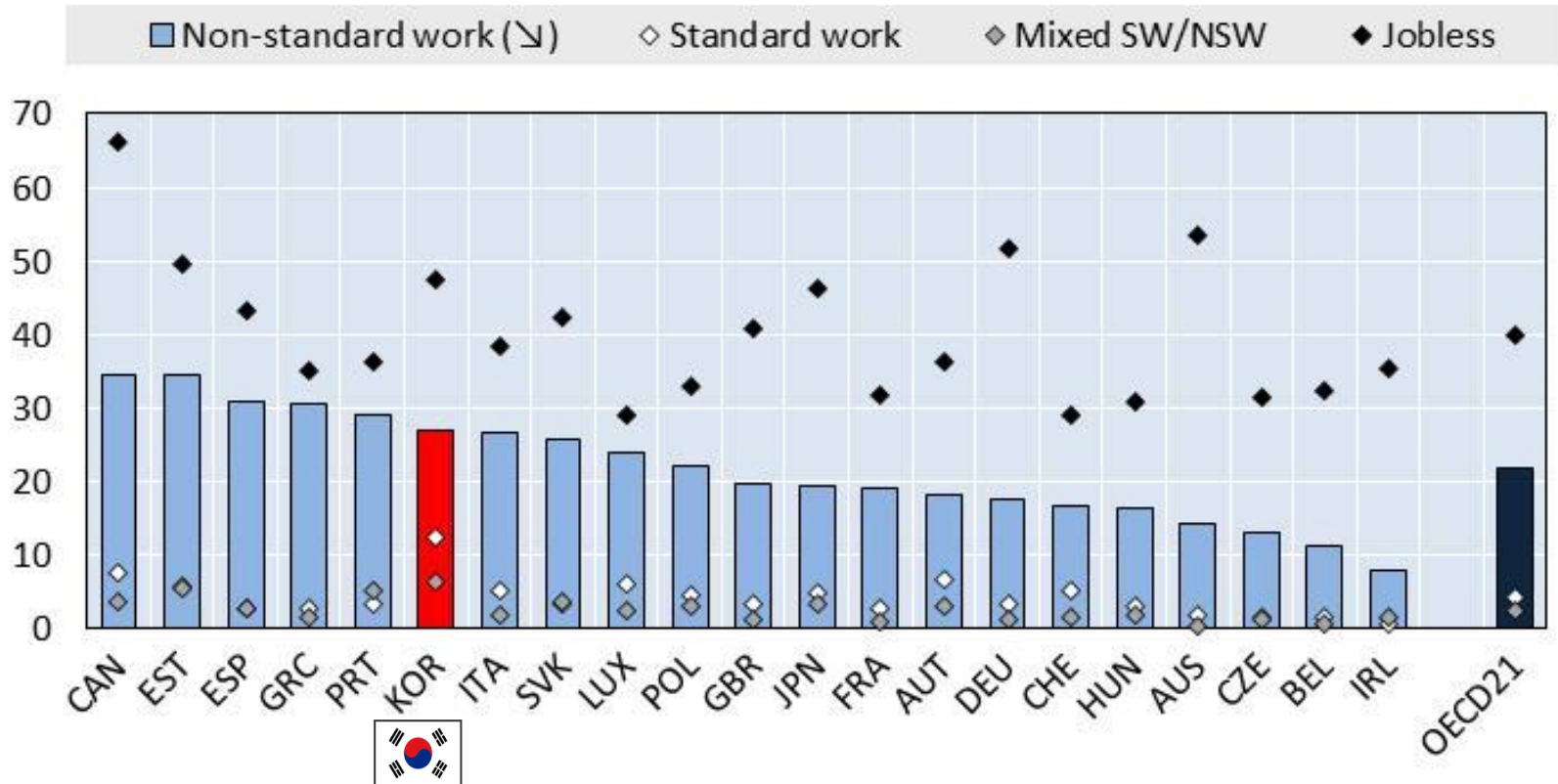
Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>

Note: Marginal effects from lagged employment status on probability of standard employment based on random-effects dynamic probit, controlling for initial conditions. ***, **, *, denote 1%, 5%, and 10% significance, respectively.



The household context matters: where non-standard work is the main source of income, poverty risks are much higher than where there are earnings from standard work

Poverty rates of households for various household employment patterns



Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>

Note: The poverty line is defined at 50% of the median equivalised household income for the entire population. "Standard work" refers to households where all adult members are in standard work or to households with the presence of both standard worker(s) and jobless adult member(s). "Non-standard work" refers to households where either all adult members are in non-standard work or there are only non-standard workers and non-working adult members. "Mixed SW/NSW" refers to households with both standard and non-standard workers. Jobless households refer to households without any worker during the year.



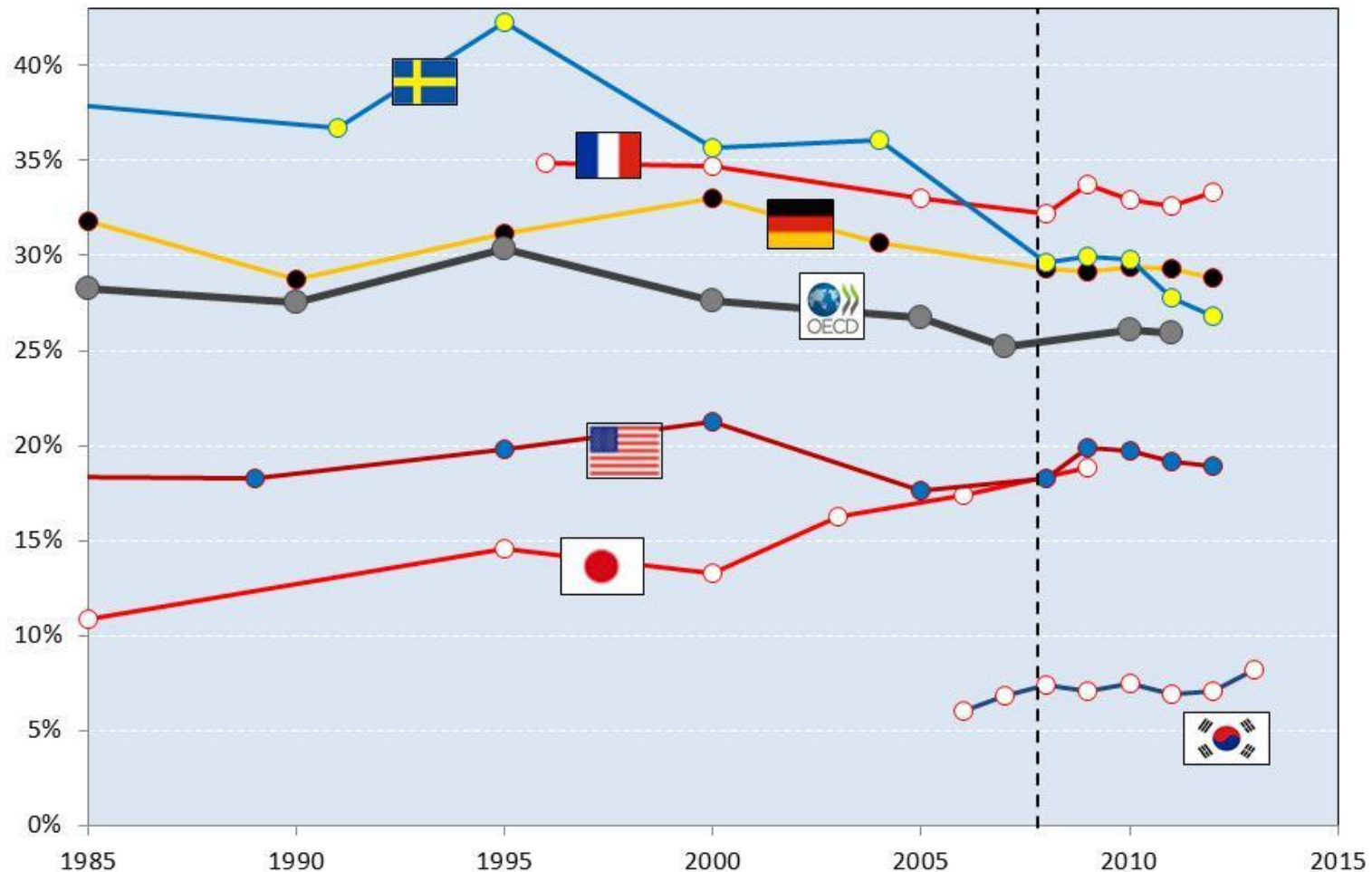
Non-standard work, inequality and poverty: summary

- Non-standard work arrangements have increased, they accounted for more than half of all jobs created since 1995;
- They now represent one third of total employment. 43% of working households include a non-standard worker;
- On several measures of job quality, non-standard workers are worse off than full-time permanent employees: lower hourly wages; higher job insecurity; less training; more job strain;
- This contributed to rising earnings and income inequality;
- Some “stepping-stone” effects for non-standard work exist in most countries (but less so in Korea), with prime-age and older workers facing better chances than younger workers;
- The household constellation matters: poverty risks are much higher where all earnings are drawn from non-standard work.



Since the mid-1990s, redistribution weakened, and took off only temporarily during the first years of the crisis

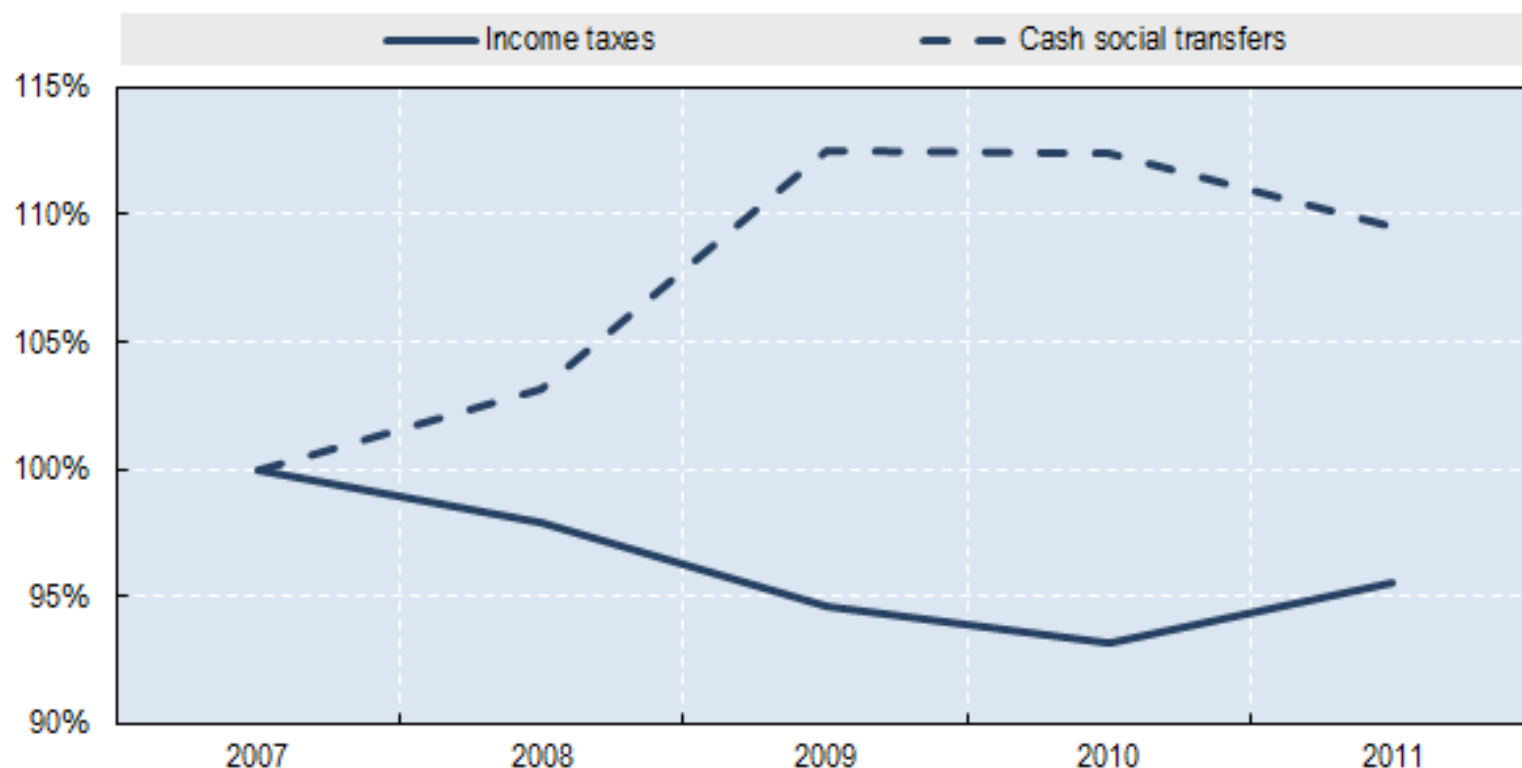
Trends in market income inequality reduction, working-age population





... but net transfer shares in household incomes have started to decline again recently

Share of net transfers (cash benefits and income taxes) in household disposable income, OECD average, 2008-2012





Effects of tax/benefit policy changes on household incomes: two (or 3?) different phases during the crisis

→ In many countries, households tended to gain from the policy changes implemented in 2008/09 and to lose from those in 2010/12. Effects in 2013 were less homogenous.

Simulated overall effect of tax-benefit measures, 11 OECD countries

	2008	2009	2010	2011	2012	2013	2007-2013
Estonia	+	0	-	-	-	+	+
France	-	+	-	-	-	+	+
Germany	-	+	+	-	+	+	+
Greece	+	+	-	--	-	--	--
Iceland	-	-	-	-	-	+	--
Ireland	+	-	-	--	-	-	--
Korea	-	+	0	-	0	+	0
Portugal	+	+	-	--	-	--	--
Spain	+	+	-	-	-	-	-
United Kingdom	+	+	-	-	-	-	-
United States	+	+	0	0	-	-	+
OECD11	+	+	-	-	-	-	-

Source: OECD 2015, "In It Together", Note: + sign indicates a measure that has a positive effect on household income (i.e. a tax cut or benefit rise). - sign indicates a measure that has a negative effect on household income (i.e. a tax rise or benefit cut).



Why do we care about high and rising inequalities?

- Social concerns
- Political concerns
- Ethical concerns
- Economic concerns



(How) Does inequality affect economic growth?

Long standing, controversial debate:

- Inequality might **increase** growth by providing **incentives** to work, invest and take risks; or by increasing aggregate savings
- Inequality might **decrease** growth by inducing missed **opportunities** of investment by the poor (in particular, if they can not borrow money); or by favoring distortionary, anti-business policies.

OECD report uses standardised data to examine

1. the strength and sign of the inequality-growth nexus
2. the link between inequality, social mobility and human capital accumulation



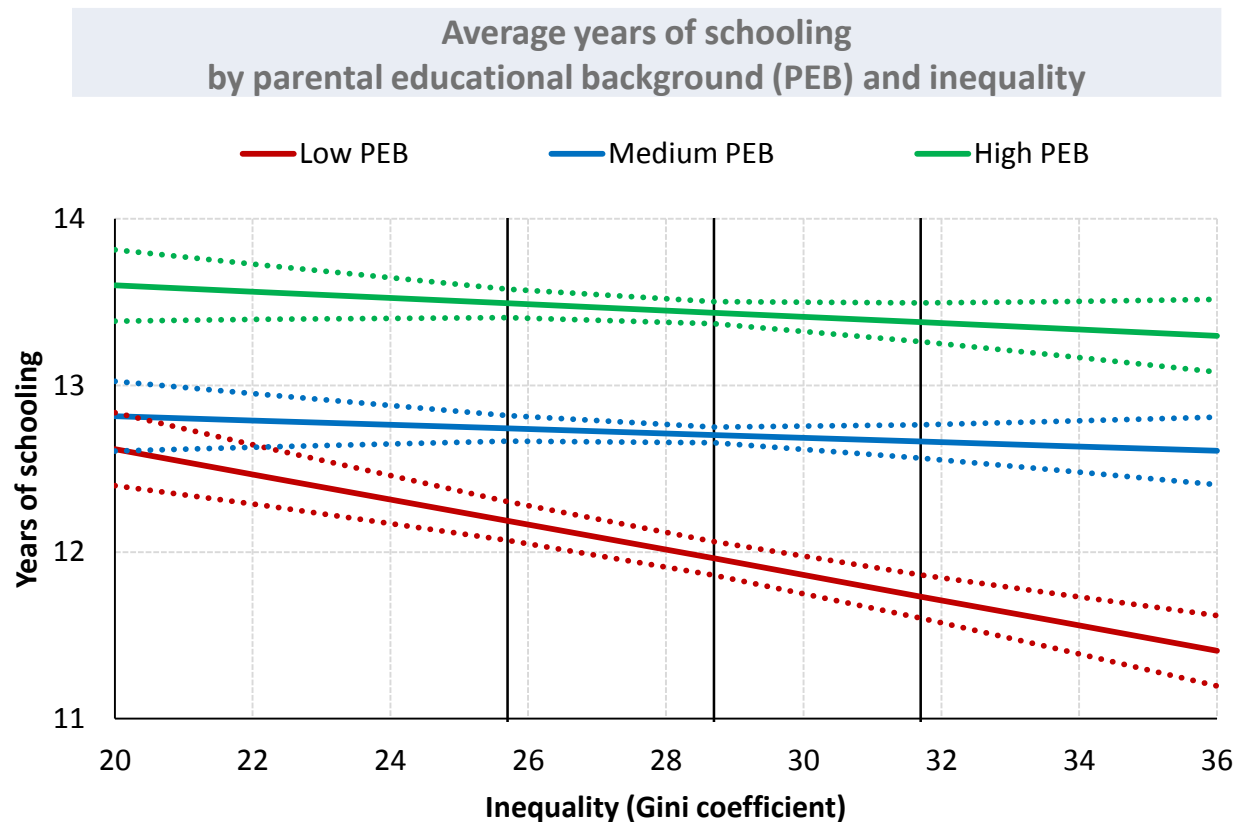
Inequality and growth: main findings

- Higher (net income) inequality *lowers* economic growth in the long-term
 - Increasing income inequality by 1 Gini point lowers the growth rate of GDP per capita by ~0.12 %-points per year, with a cumulative loss of ~3% after 25 years.
 - Actual increase of income inequality recorded between 1985 and 2005 in OECD area is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2000
- This is driven by disparities at the lower end of the distribution, involving lower middle classes, not just the poor. Top inequality is less, if any, relevant for growth;
- Redistribution through taxes and transfers has *not* led to bad growth outcomes



The mechanism: high inequality hinders skills investment by the lower middle class and lowers social mobility

Inequality decreases average years of schooling, but mainly among individuals with low parental education



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

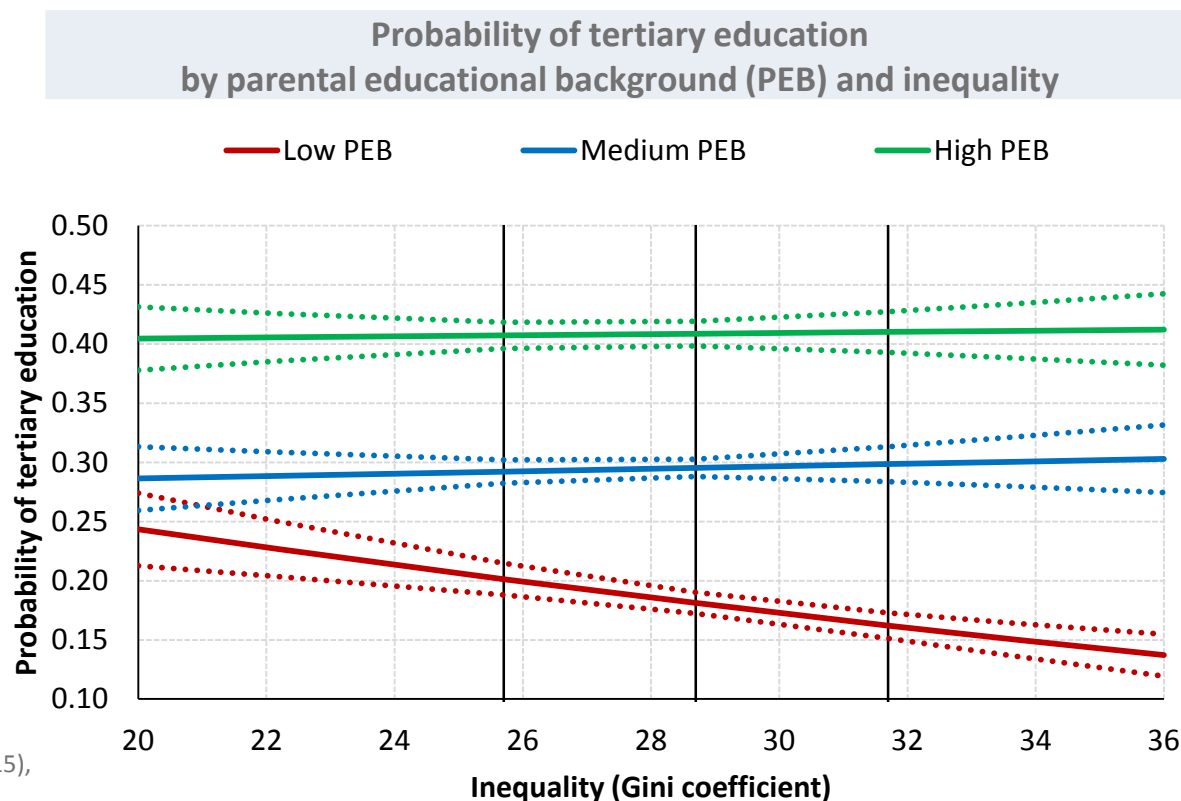
Increasing inequality by ~5-6 Gini pts. (the current Korea - UK differential) lowers the average schooling of Low PEB individuals by ~half a year

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.



The role of inequality and family background for formal education (ii)

Inequality lowers the probability of Tertiary education, but only among individuals with low parental education ...



'Parent's income has become an almost perfect predictor of university access.' Piketty, p.485

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

Increasing inequality by ~10 Gini pts. (Korea-US difference) lowers the probability of tertiary education of Low PEB individuals by ~6 percentage points

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.



Designing policy packages to tackle high inequality and promote opportunities for all

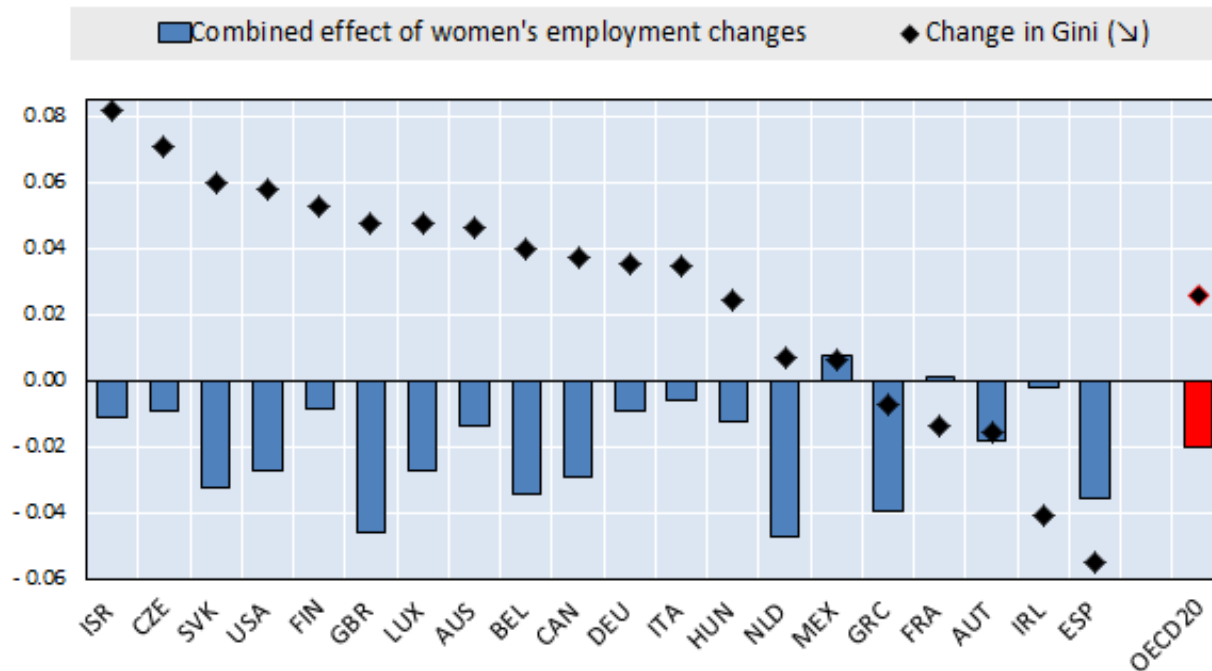
- Foster women's participation in economic life
- Promote employment and good-quality jobs
- Strengthening quality education and skills development and adaptation during the working life
- Improve the design of tax and benefit systems for a more efficient redistribution



Women's employment put a brake on increasing inequality

Inequality would have increased by ca. 5 Gini points rather than ca. 3 points, if women's employment and wage structure had remained the same as 25 years ago.

Contribution of composition and wage structure effects (women) to percentage point changes in Gini of household disposable income, mi-1990s to 2007 or latest available pre-crisis year



Source: OECD (2015), *"In It Together"*, OECD Secretariat calculations from the Luxembourg Income Study (LIS).

Note: Data refer to working-age (25-64) households. Decomposition results are based on Recentered Influence Function (RIF) regressions. Combined effect of women's employment changes include both the composition and wage structure effects, each combining three covariates: participation, work intensity and job skill nature. Data refer to changes from the early/mid-1990s to the latest available pre-crisis year.

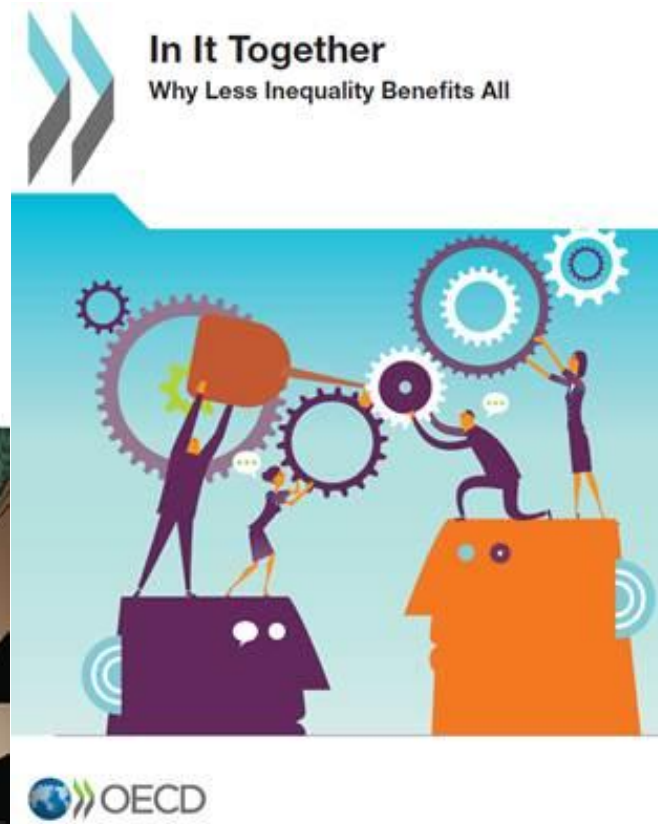
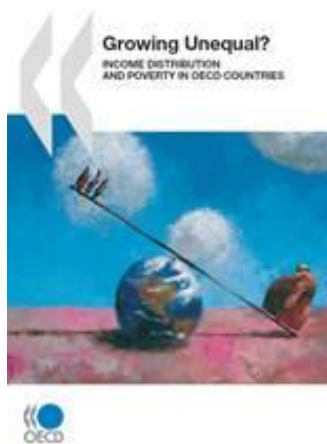


Which policy options for Korea?

- Addressing labour market segmentation
- Improving job quality for non-standard workers (e.g. training opportunities, social insurance coverage)
- Boosting employment, particularly for women, youth and the elderly
- Improving quality of and access to childcare; improve vocational education and training; extend older workers' careers in firms.
- Extending the EITC programmed to more low-earning households
- Increasing the coverage of the National Pension
- Targeting the Basic Old-Age Pension benefit to the lowest-income elderly



Thank you for your attention!



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

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