



INEQUALITY IN THE OECD AREA: TRENDS, CAUSES, CONSEQUENCES AND REMEDIES

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



Inequality is no longer a pure „social policy“ concern

- *“Inequality can no longer be treated as an afterthought. We need to focus the debate on how the benefits of growth are distributed”* (OECD SG Gurría)
- *“Rising inequality is one of the major risks to our future prosperity and security”* (OECD former Chief Economist Padoan);
- *“The combined trends of increased inequality and decreasing mobility pose a fundamental threat to the American Dream”* (US President Obama)
- Three OECD landmark studies in the past 7 years, continuing earlier work:





Income inequality in OECD countries: outline of the discussion

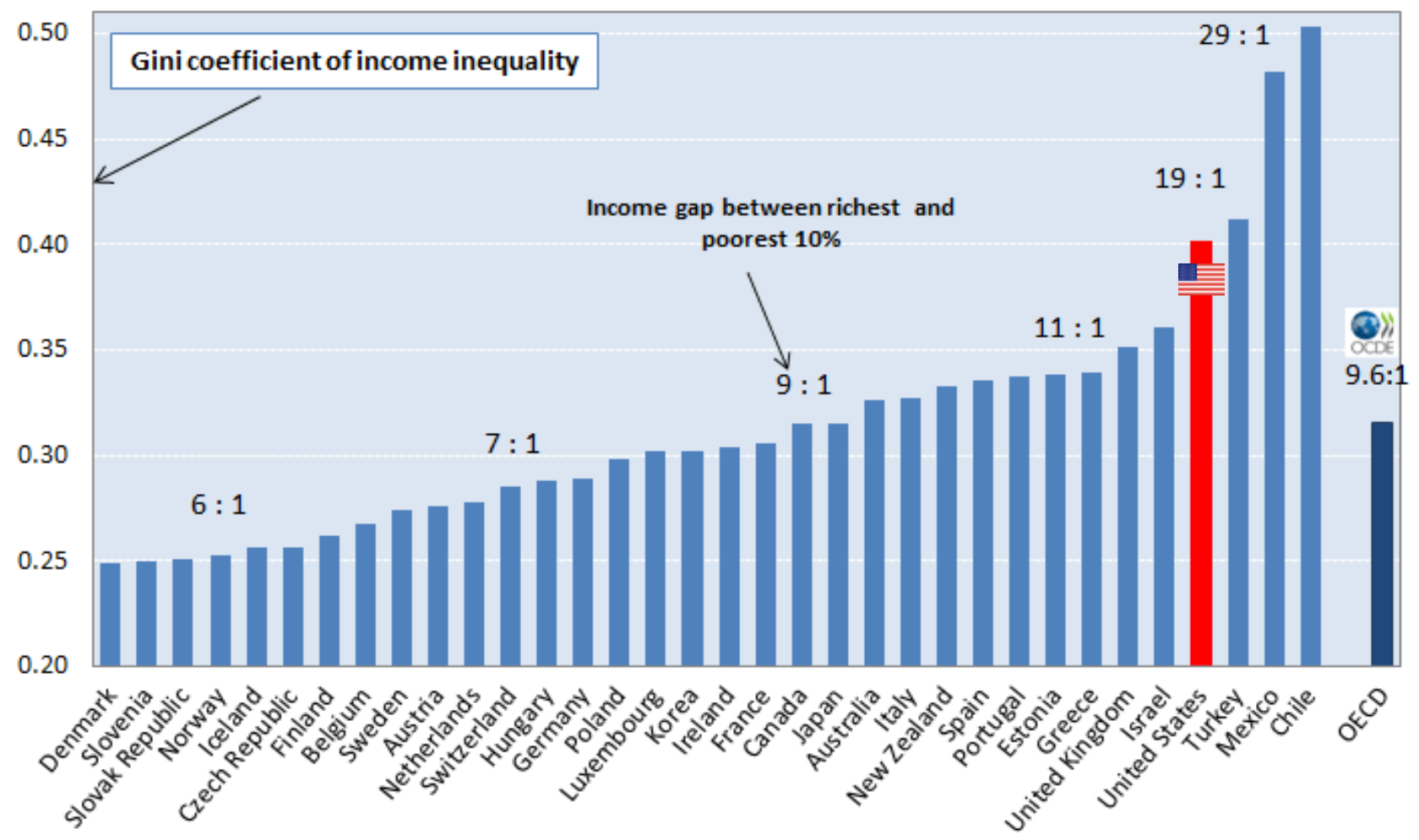
- A1. **TRENDS:** How do inequality levels compare and how have inequalities developed over the longer run? Was the crisis a game changer?
- A2. **CAUSES:** What are the major underlying forces behind increases in inequality?
- B1. **CONSEQUENCES:** Why do we care? What are the links between inequalities, opportunities and economic growth?
- B1. **REMEDIES:** Which policies are most promising to tackle high and increasing inequality?



1st PART: Trends and Causes



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 2012

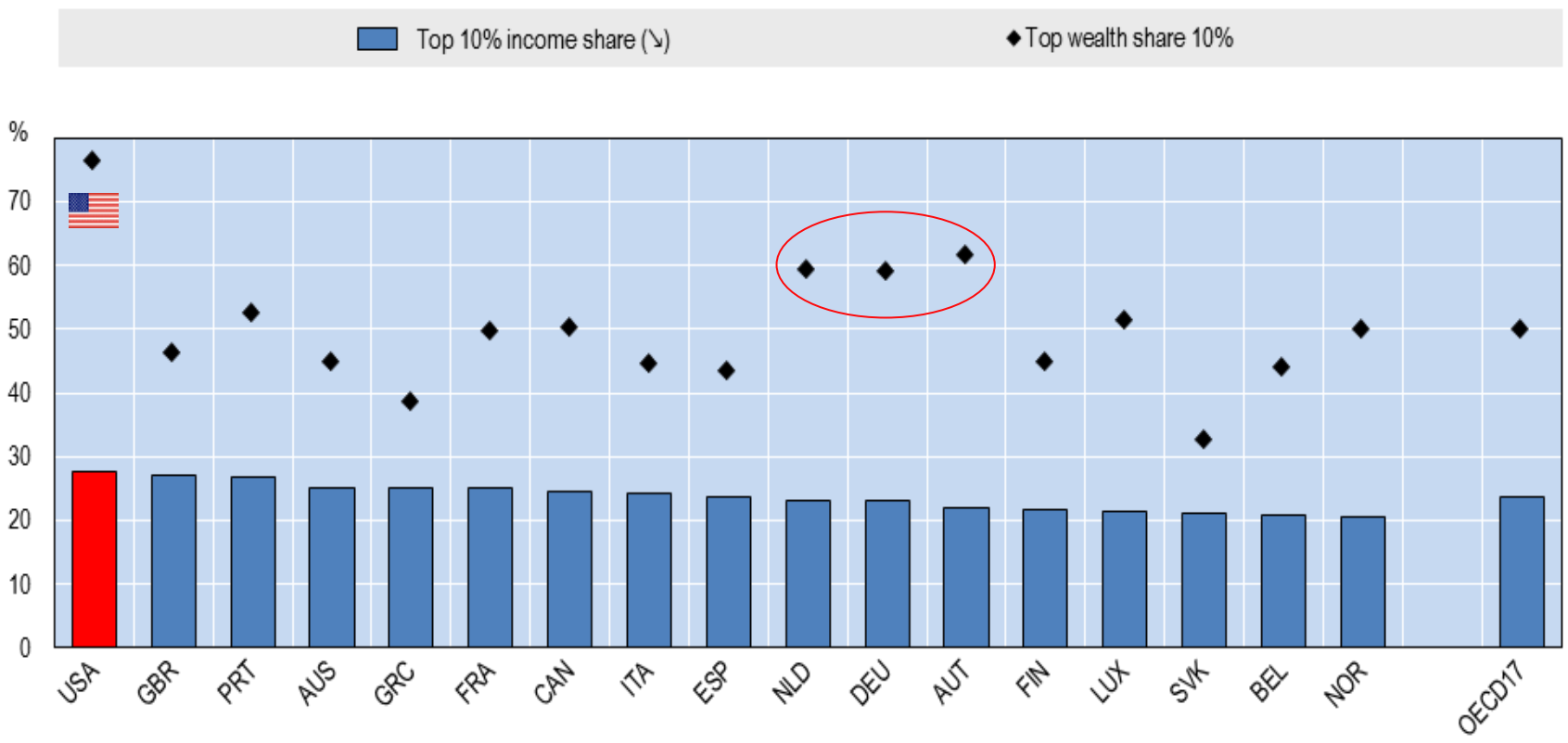
	OECD		USA 	
	income	wealth	income	wealth
top 10%	25%	50%	29%	76%
next richest 50%	55%	47%	55%	24%
bottom 40%	20%	3%	16%	0%

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.



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

Share of top 10% of household disposable income and top 10% of household net wealth, 2012 or latest available year

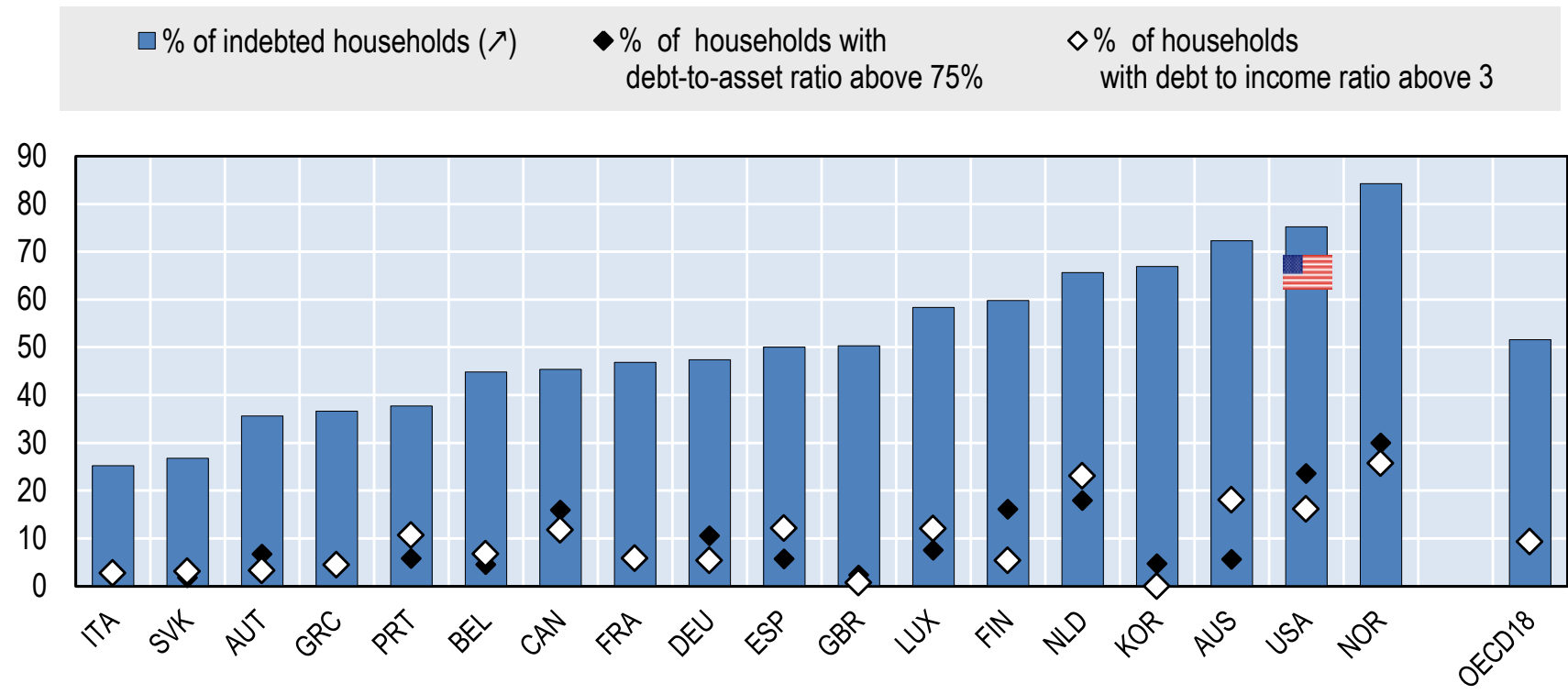


Source: Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>
 OECD Wealth Distribution Database and OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm).

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.

The flipside of wealth: debt and over-indebtedness

Half of all households have debts and one tenth is over-indebted:
Percentage of indebted and over indebted households, 2012 or latest available year



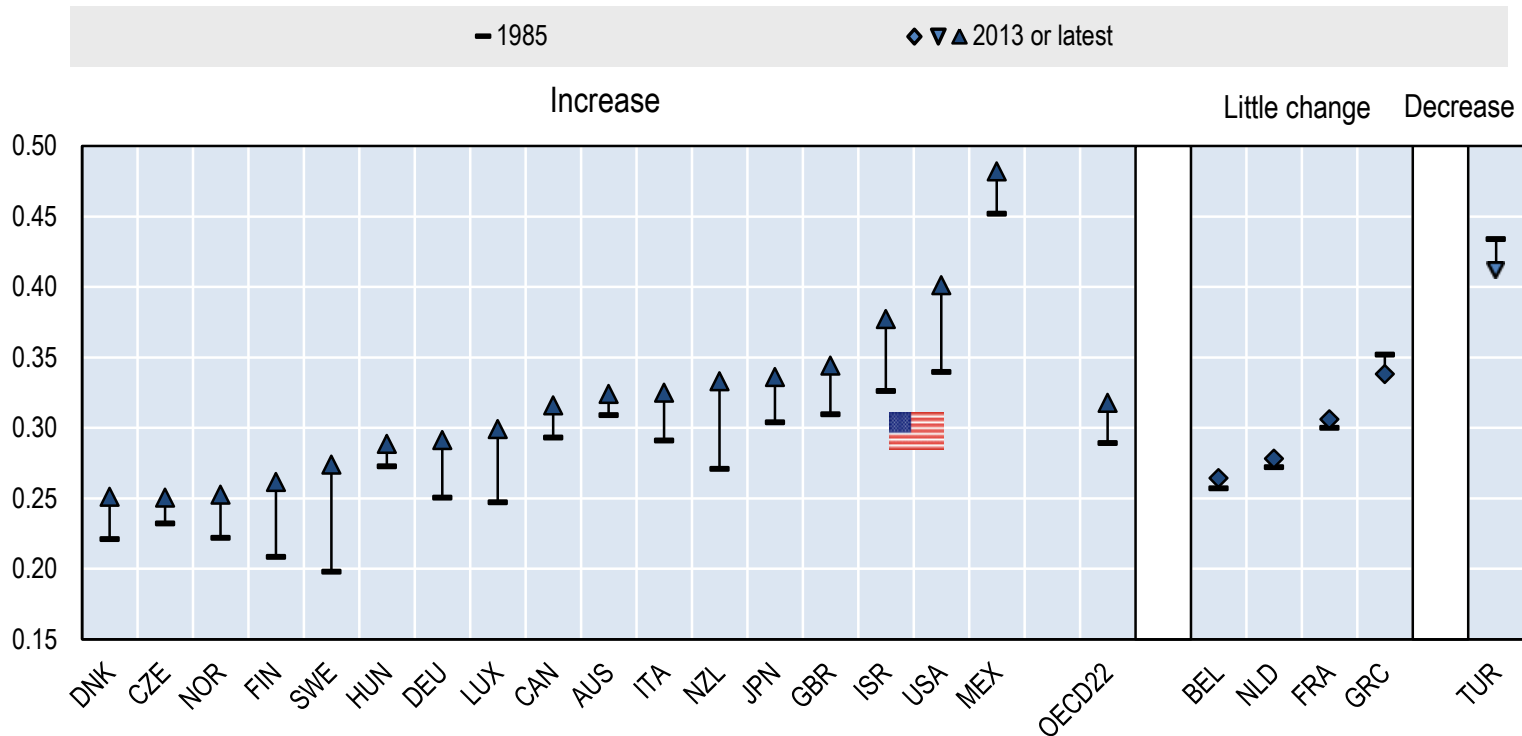
Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>, OECD Wealth Distribution Database and OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm).



A long-term rise in *income* inequality

- The gap between rich and poor at its highest level since 30 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)

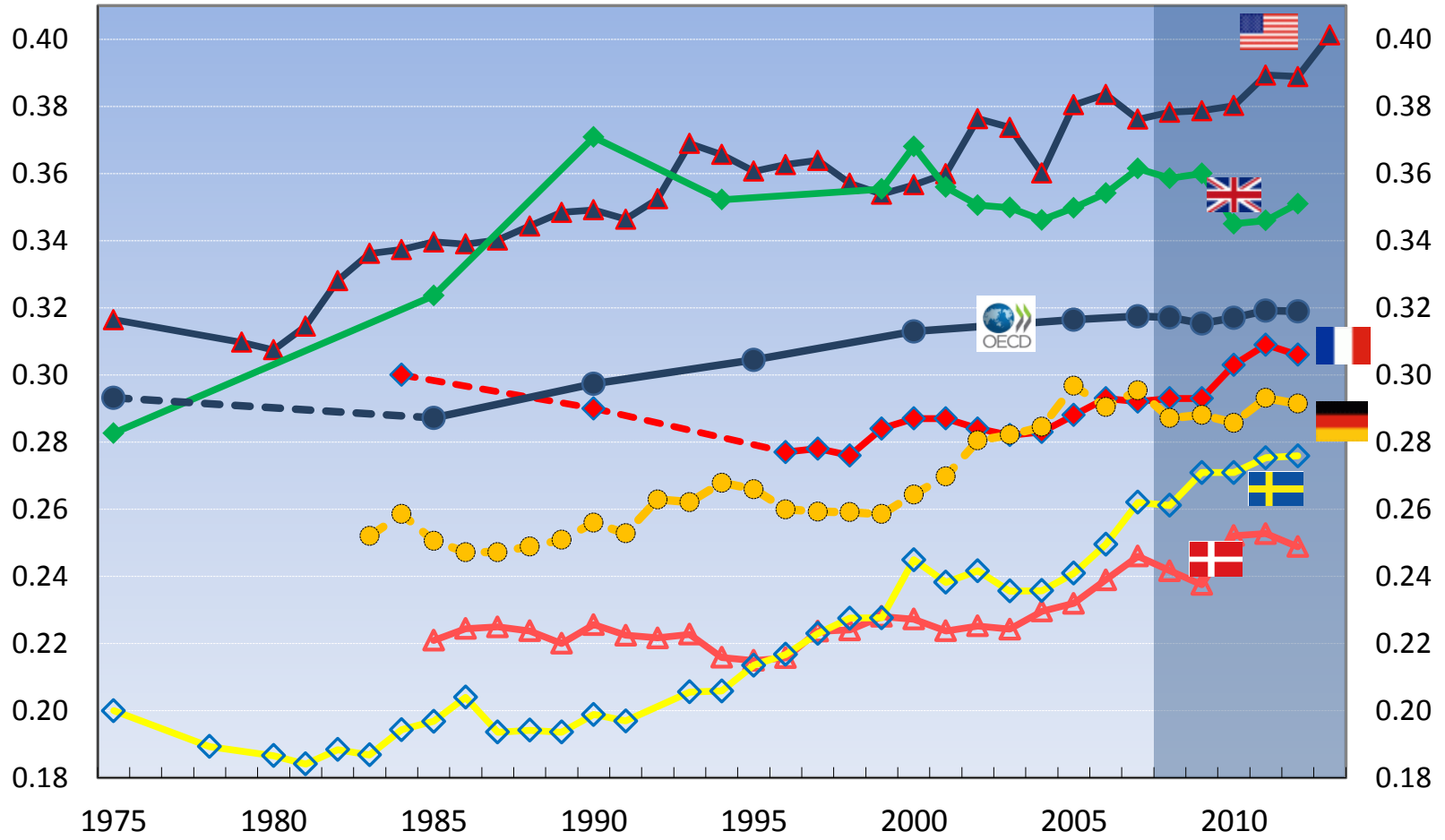
Gini coefficients of income inequality, mid-1980s and 2013, or latest date available





Income inequality increased in good times, and it continued increasing in bad times

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

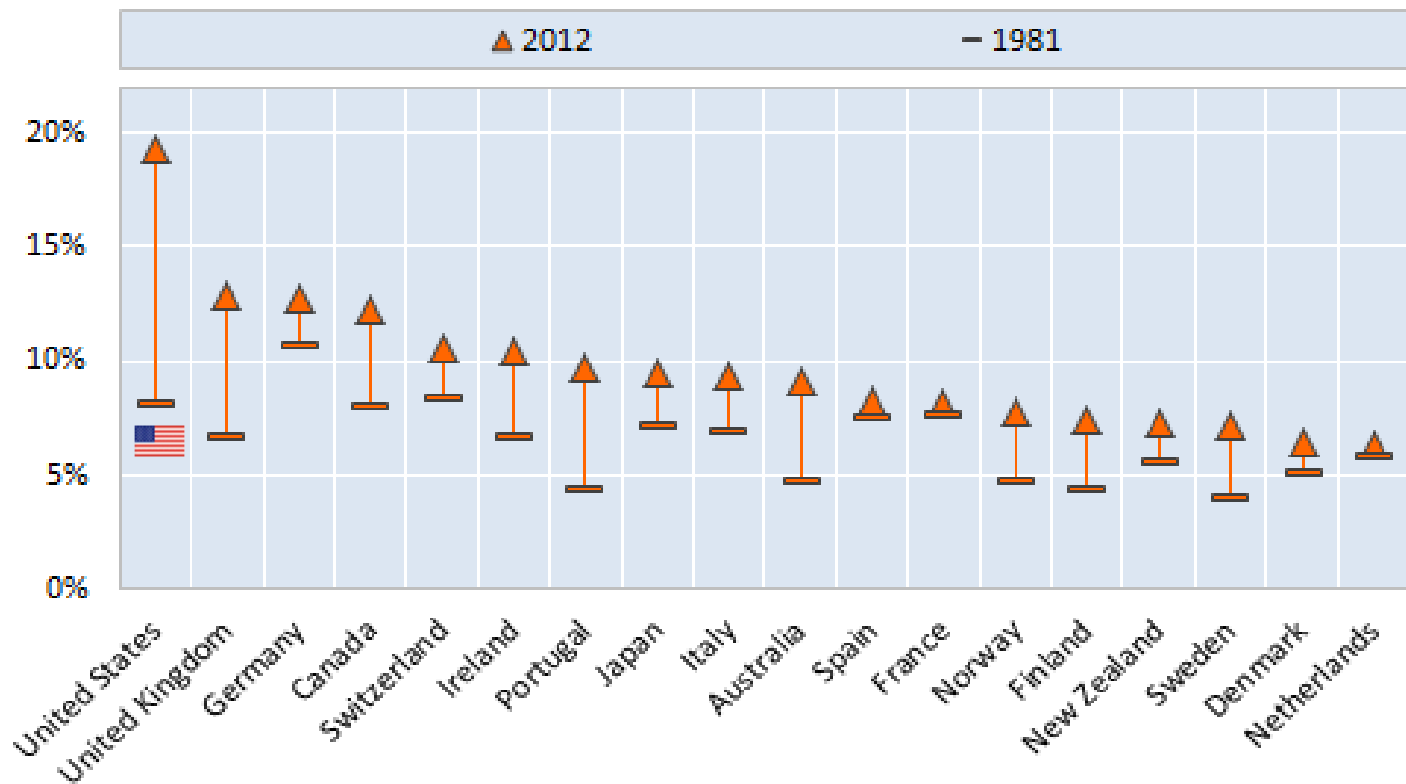


Source: OECD Income Distribution Database, www.oecd.org/social/income-distribution-database.htm.
 Note: Income refers to disposable income adjusted for household size.



At the upper end of the distribution, the shares of very high incomes surged in many countries

Shares of top 1% incomes in total *pre-tax* income, 1980 – 2012 (or closest)

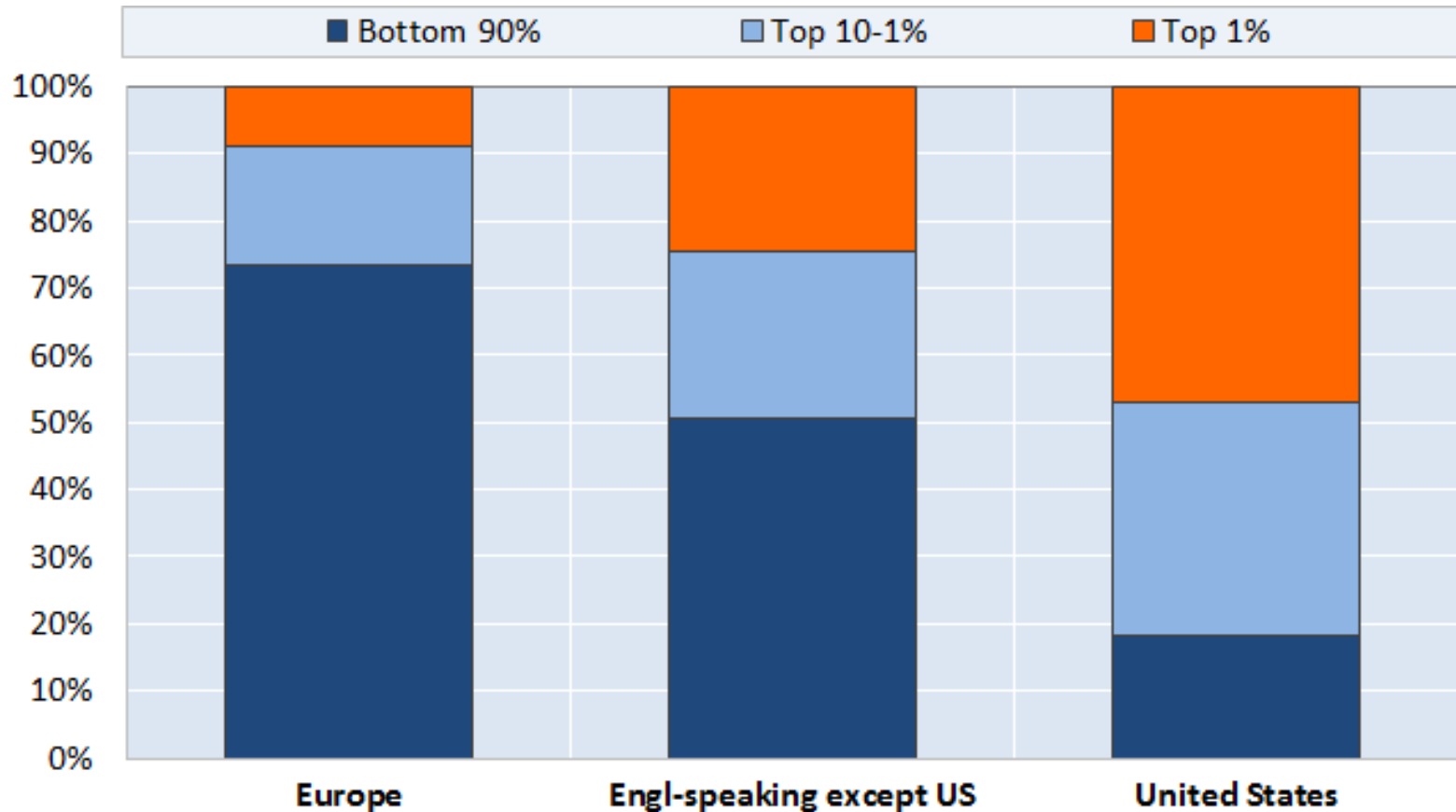


Source: OECD 2014, *Focus on Top Incomes and Taxation in OECD Countries: Was the Crisis a Game Changer?* (<http://www.oecd.org/els/soc/OECD2014-FocusOnTopIncomes.pdf>), Based on World Top Income Database. Note: Incomes refer to pre-tax incomes, excluding capital gains, except Germany (which includes capital gains). Latest year refers to 2012 for the Netherlands, Sweden and the United States; 2011 for Norway and the United Kingdom; 2009 for Finland, France, Italy and Switzerland; 2007 for Germany; 2005 for Portugal; and 2010 for the remaining countries.



In English-speaking countries, 20% and more of long-term growth has been captured by the top 1%

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



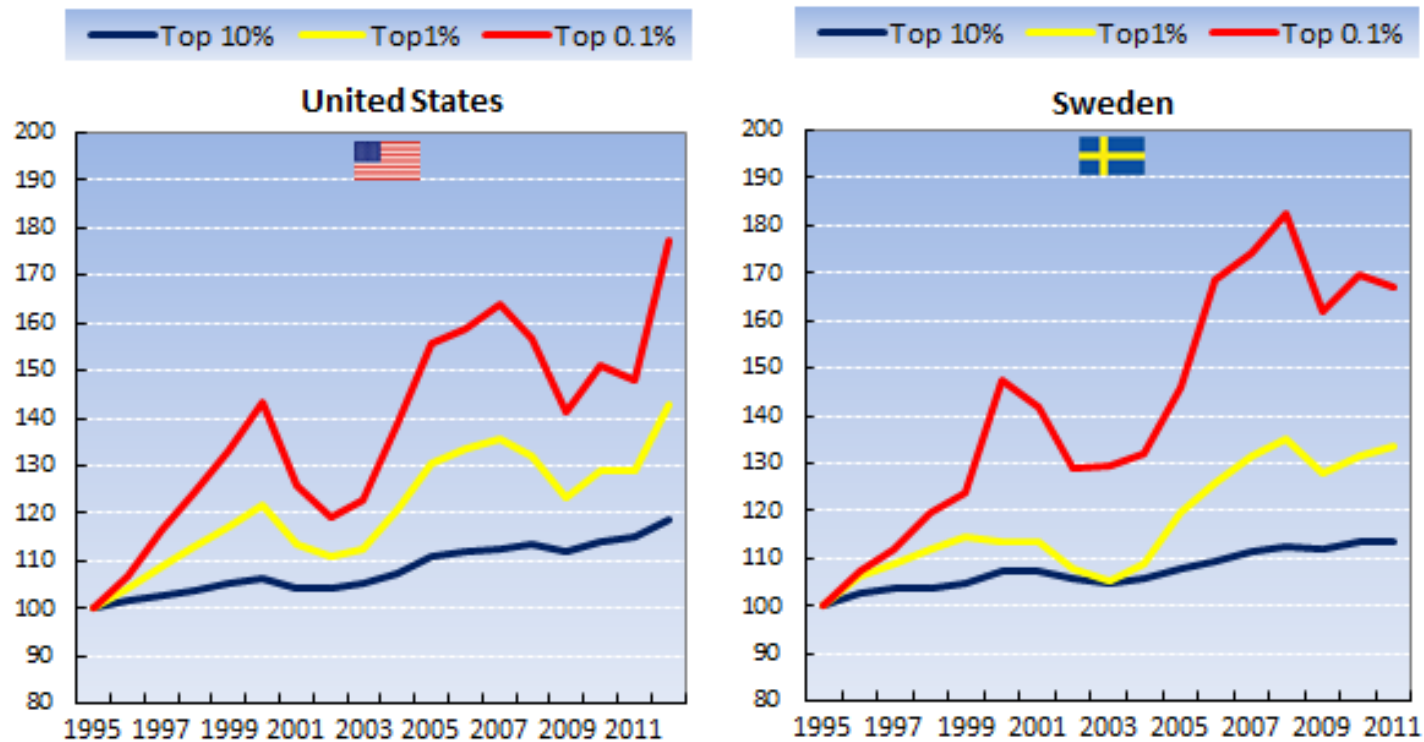
Source: OECD 2014, *Focus on Top Incomes and Taxation in OECD Countries: Was the Crisis a Game Changer?* (<http://www.oecd.org/els/soc/OECD2014-FocusOnTopIncomes.pdf>), Based on World Top Income Database.

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



In some countries, the surge of top income shares has been interrupted with the crisis, but only temporarily

Top income shares by income groups, 1995 = 100



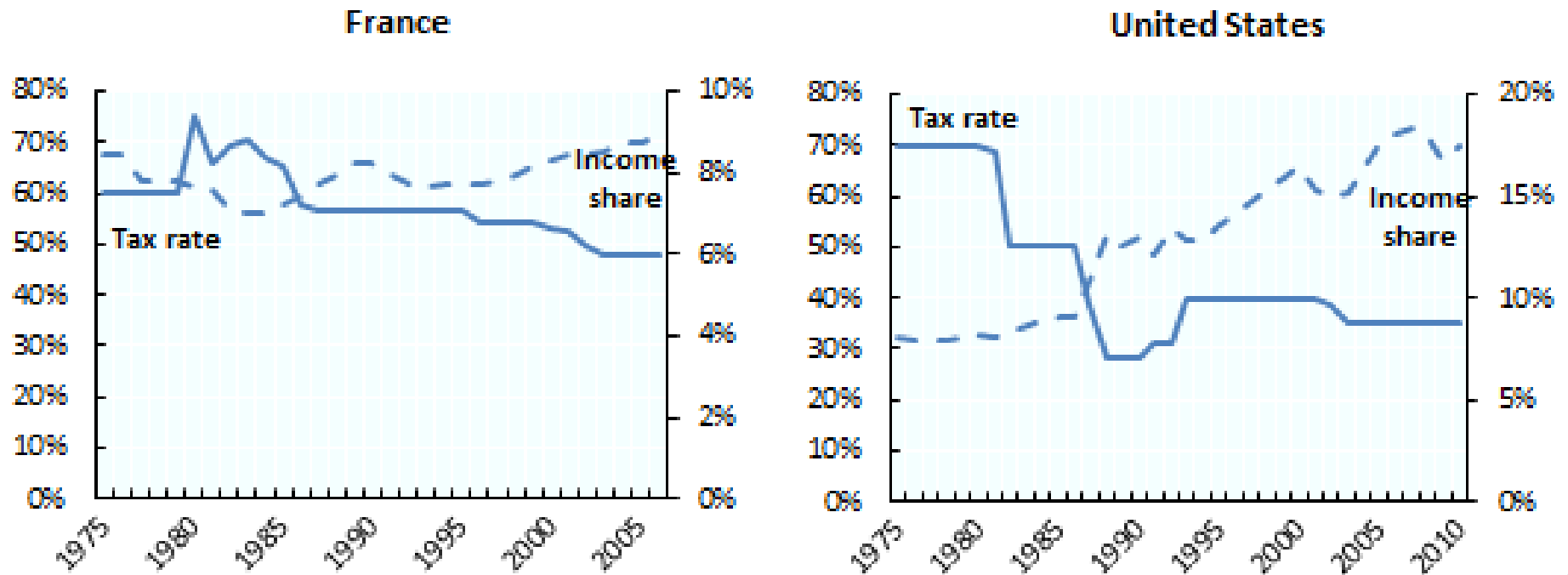
Source: OECD 2014, *Focus on Top Incomes and Taxation in OECD Countries: Was the Crisis a Game Changer?* (<http://www.oecd.org/els/soc/OECD2014-FocusOnTopIncomes.pdf>), Based on World Top Income Database.

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



Strong negative correlation of top income shares with fall in top tax rates

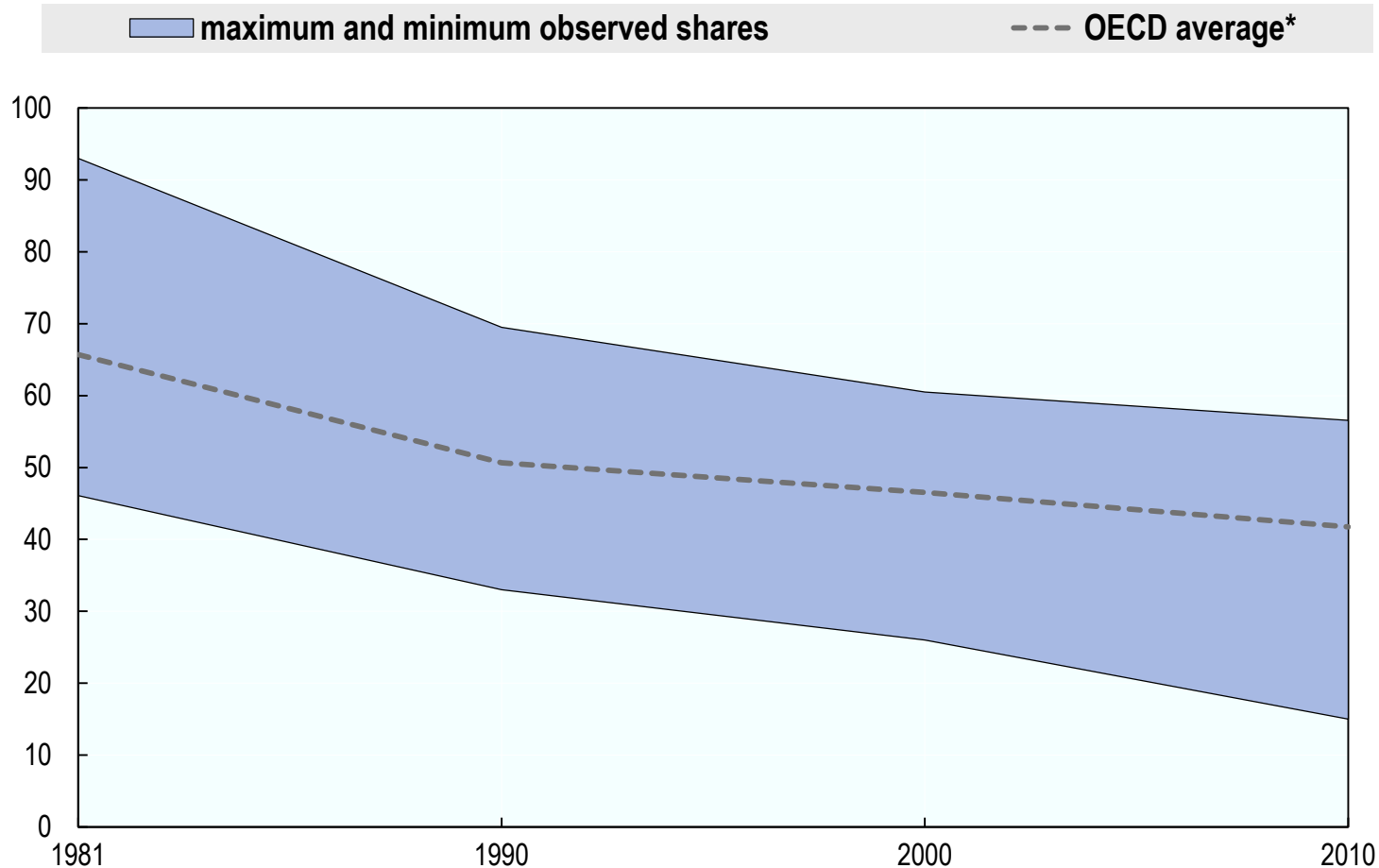
Top marginal tax rate and top percentile income share



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>),



Change in OECD top statutory personal income tax rates



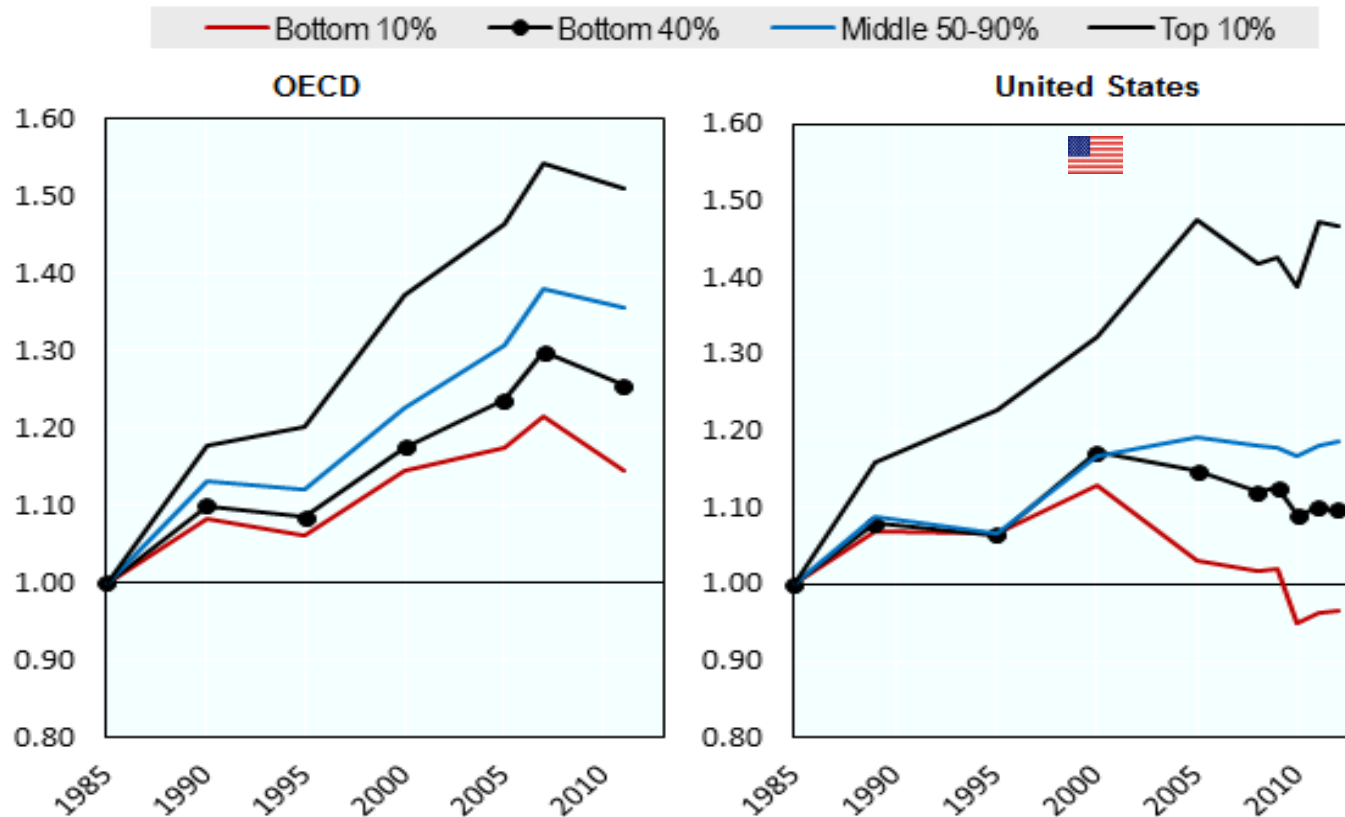
Source: OECD 2014, *Focus on Top Incomes and Taxation in OECD Countries: Was the Crisis a Game Changer?*
(<http://www.oecd.org/els/soc/OECD2014-FocusOnTopIncomes.pdf>),



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, US and OECD average, 1985 = 1

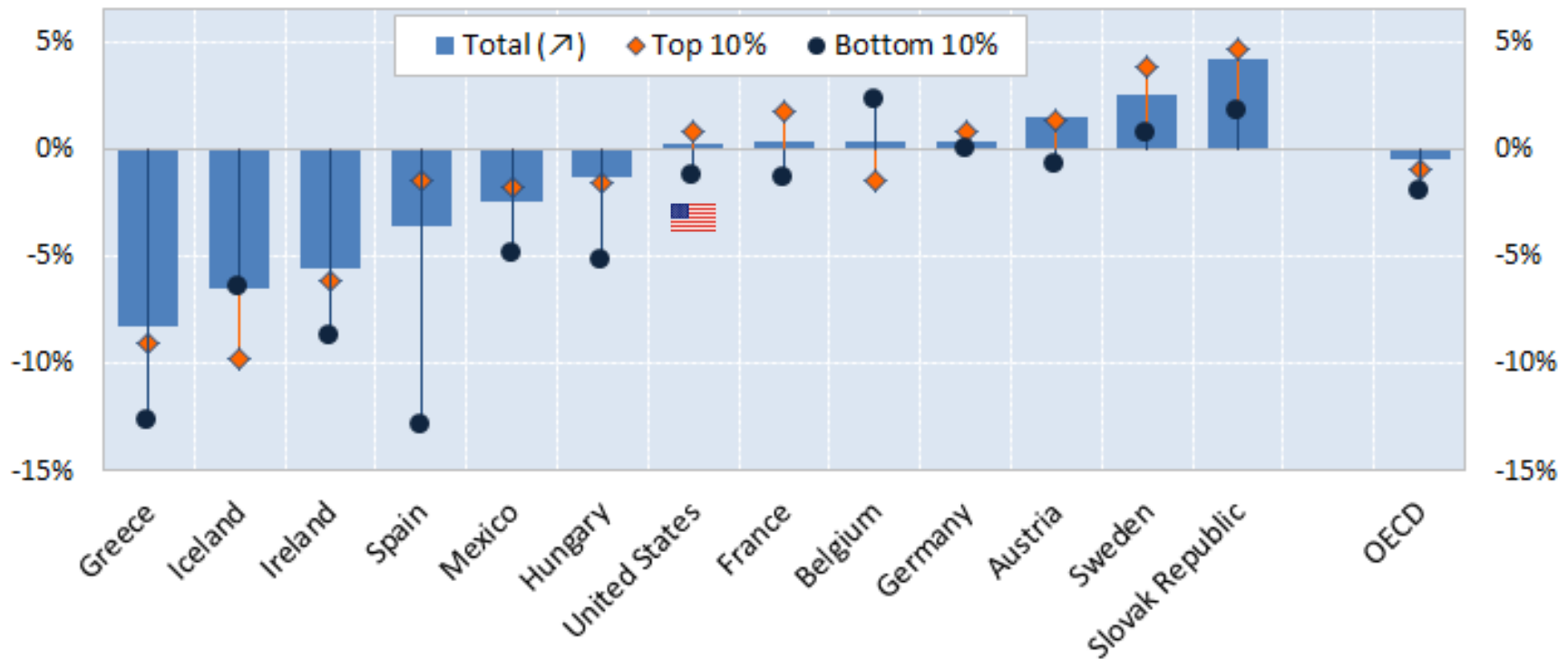




So was the crisis a game changer?

→ .. But 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



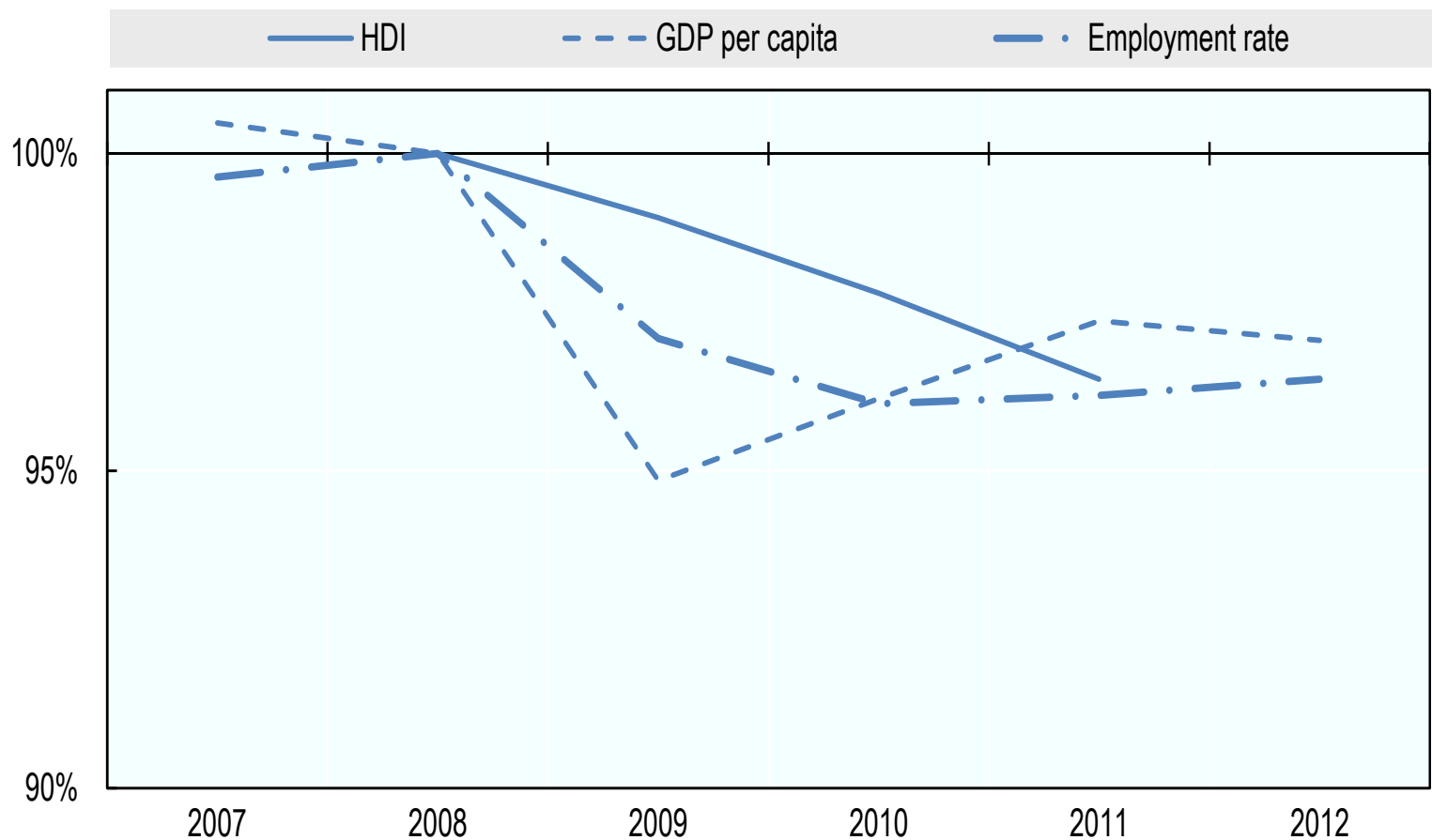
Source: OECD 2014, *Rising Inequality: youth and poor fall further behind*. <http://www.oecd.org/els/soc/OECD2014-Income-Inequality-Update.pdf>

Note: 2008 – 2011 for France, Germany, Sweden.



Household disposable income fell less than GDP in the beginning, but did not recover since then

Percentage change in GDP, employment and household disposable income
2008=100% (OECD-22, total population)





Effects of tax and benefit policy changes on household incomes: two (or three?) 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, 10 OECD countries

	2008	2009	2010	2011	2012	2013	2007-2013
Estonia	+		-	-	-	+	+
France	-	+	-	-	-	+	+
Germany	-	+	+	-	+	+	+
Greece	+	+	-	--	-	--	--
Iceland	-	-	-	-	-	+	--
Ireland	+	-	-	--	-	-	--
Portugal	+	+	-	--	-	--	--
Spain	+	+	-	-	-	-	-
United Kingdom	+	+	-	-	-	-	-
United States	+	+			-	-	+
OECD10	+	+	-	-	-	-	-

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).



Income inequality trends in the OECD area over the past three decades: the bottom line

- Inequality increased in good times, and it increased in bad times: *income* inequality has reached record highs in most OECD countries;
- The distribution of *wealth* is (much) more unequal than that of income;
- Poorer households are losing ground. But it is not only about poverty – it is about the bottom 40%;
- OECD countries recorded a historically high level of inequality as they were shattered by the Great Recession in 2008;
- The GR squeezed market incomes but the welfare state has prevented *net* income inequality going from bad to worse in the *first years* of the crisis..
- ..but as the jobs crisis persists and fiscal consolidation takes hold, inequality is on the rise again in many countries.

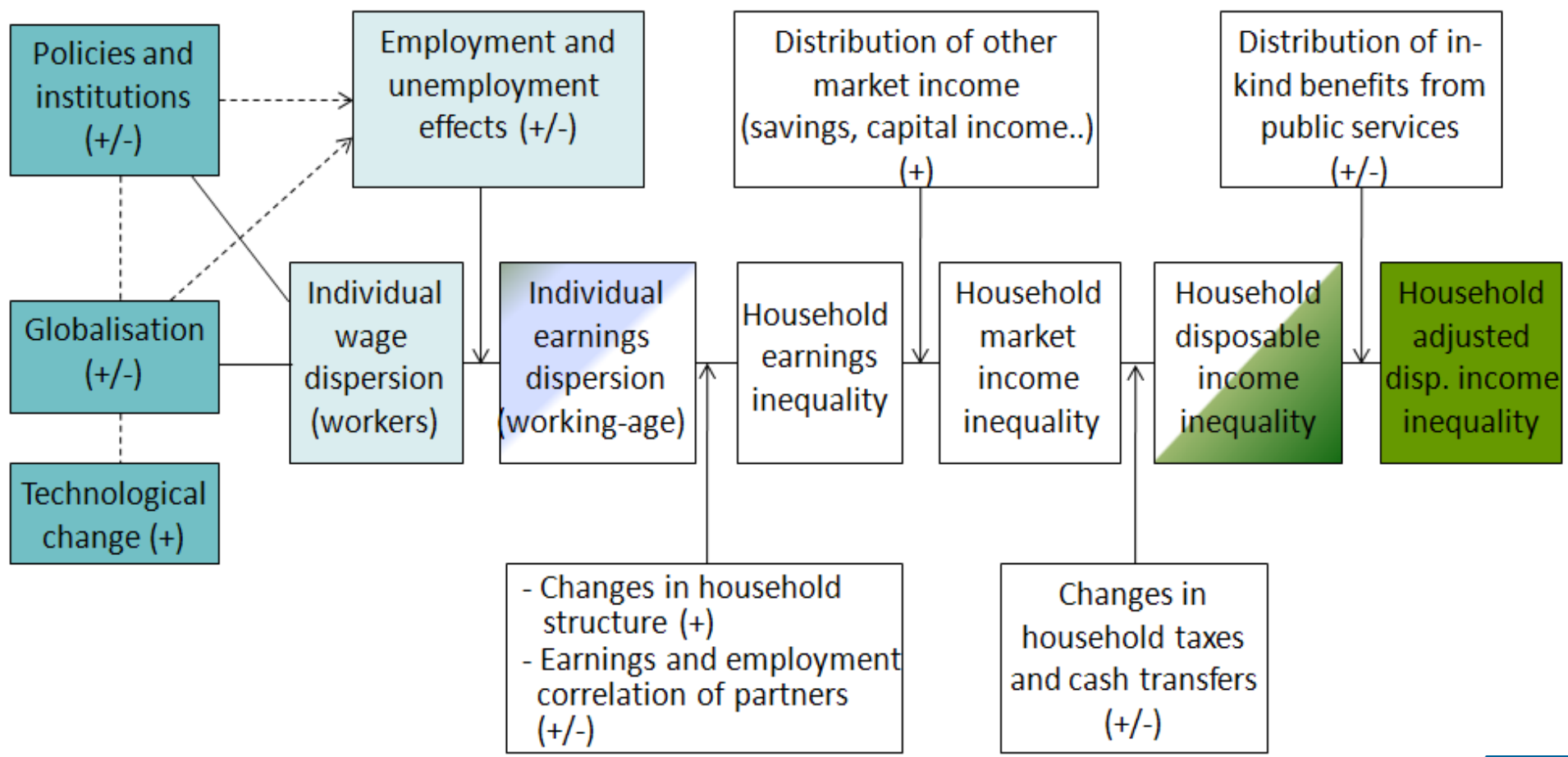


Causes of growing inequalities: The usual suspects

- Globalisation;
- Skill-biased technological changes;
- Changes in labour market institutions and regulatory reforms;
- Changes in employment patterns;
- Changes in family formation and household structures;
- Changes in tax and benefit systems.



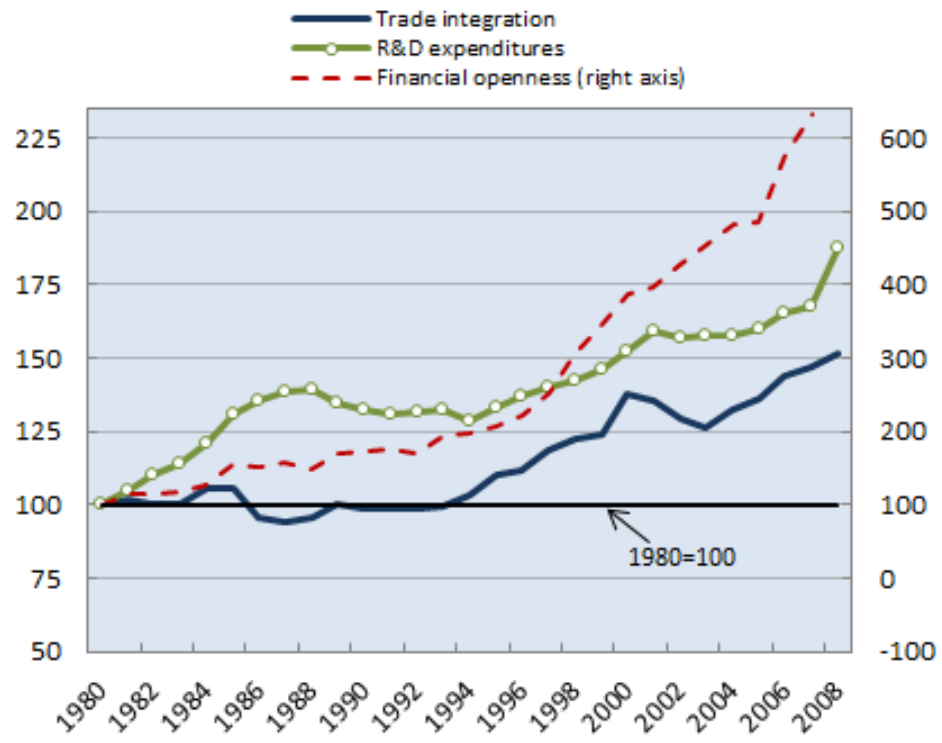
Identifying key drivers of income inequality: a “step-wise” approach



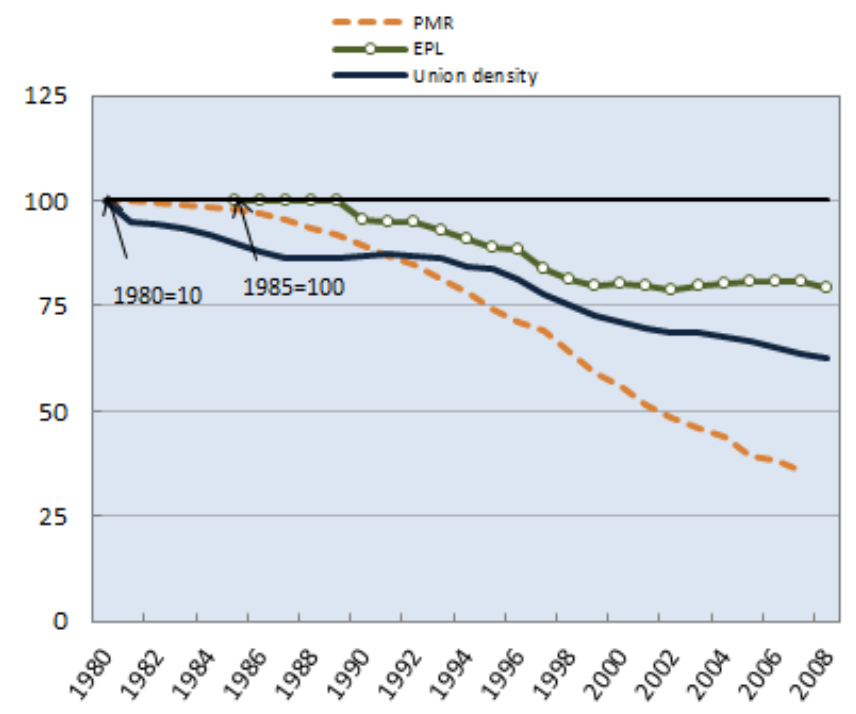


While trade and financial markets integration and technological progress grew rapidly, regulations and institutions became weaker

Developments in trade integration, financial openness and technological change, OECD average, 1980-2008 (1980=100)



Developments in product market regulation, employment protection legislation, tax wedges and union density, OECD average, 1980-2008 (1980=100)



Source: OECD (2011), "Divided We Stand", <http://www.oecd.org/els/soc/dividedwestandwhyinequalitykeepsrising.htm>
 Note: Trade integration is defined as the sum of imports and exports as a percentage of GDP. Financial openness is defined as the sum of cross-border liabilities and assets as a percentage of GDP. R&D expenditures refer to business sector expenditures on research and development as a percentage of GDP. "PMR" is a summary indicator for product market regulation. "EPL" is a summary indicator of the strictness of overall employment protection legislation (only available from 1985 onwards). "Tax wedge" refers to an average worker and is the sum of income tax and employees and employers payroll taxes as a percentage of labour costs. "Union density" is the number of union members as a proportion of all employees eligible to be members.



Main drivers of changes in labour income distribution among the w/a-population

Impact of:	Employment	Equality of wages	Estimated "overall" labour income inequality
Trade integration	=	=	=
FDI	=	=	=
Technological progress	=	-	+
Declining union coverage	+	-	= / -
Product market deregulation	+	-	+ / = / -
Declining tax wedge	+	-	= / -
Declining UB for low-wage workers	+	-	+ / = / -
Weaker EPL for temporary workers	=	-	+
Up-skilling (increased education levels)	+	+	--



OECD evidence on main drivers of inequality

- Changes in technology were more beneficial for high-skilled workers;
- Globalisation (trade, FDI) had little impact on earnings inequality trends *per se* but put pressure on policies and institutional reforms;
- Institutional and regulatory reforms aimed at promoting growth and productivity, and at increasing aggregate *employment* – at the same time have been associated with increased *wage inequality*;
- Increases in human capital off-set much of the drive towards rising inequality.



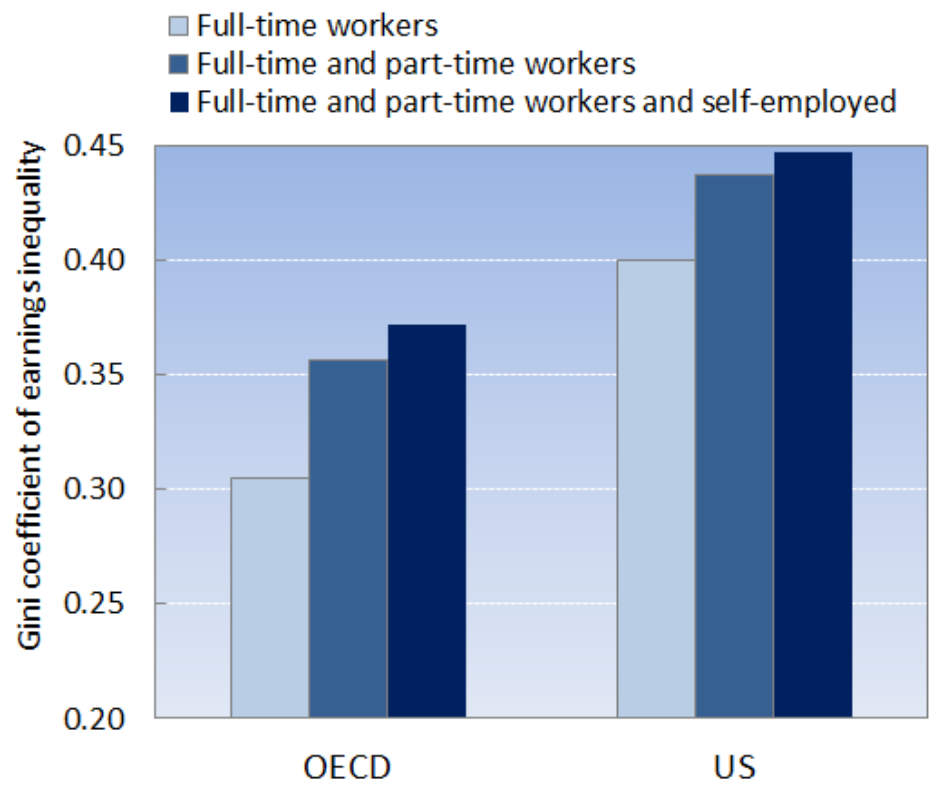
OECD evidence on main drivers of inequality (cont.)

- Changes in working conditions: part-time work and non-standard labour contracts increased;
- Changes in working hours: many countries saw an increasing divide in hours worked between high- and low-wage workers;
- Changes in household structure: more people living on their own or with partners in the same earnings bracket;
- Changes in tax and benefit systems: in many countries, systems became less redistributive.

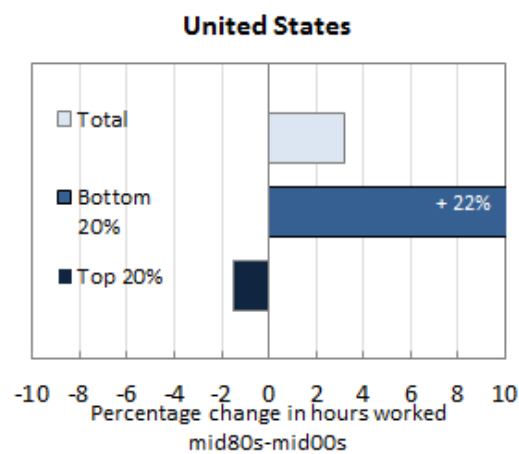
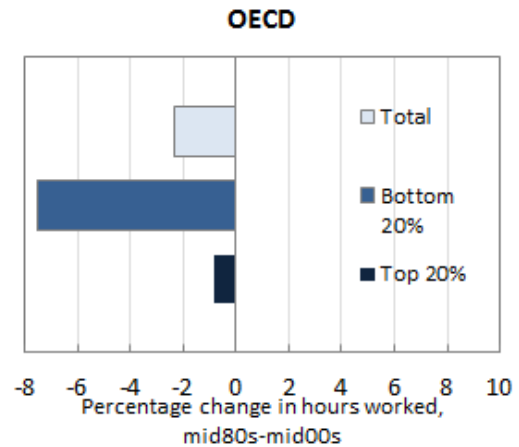


Labour markets: changes in working conditions and working hours

Accounting for part-timers and self-employed increases net earnings inequality



Annual hours worked decreased among low-wage workers but not in the US

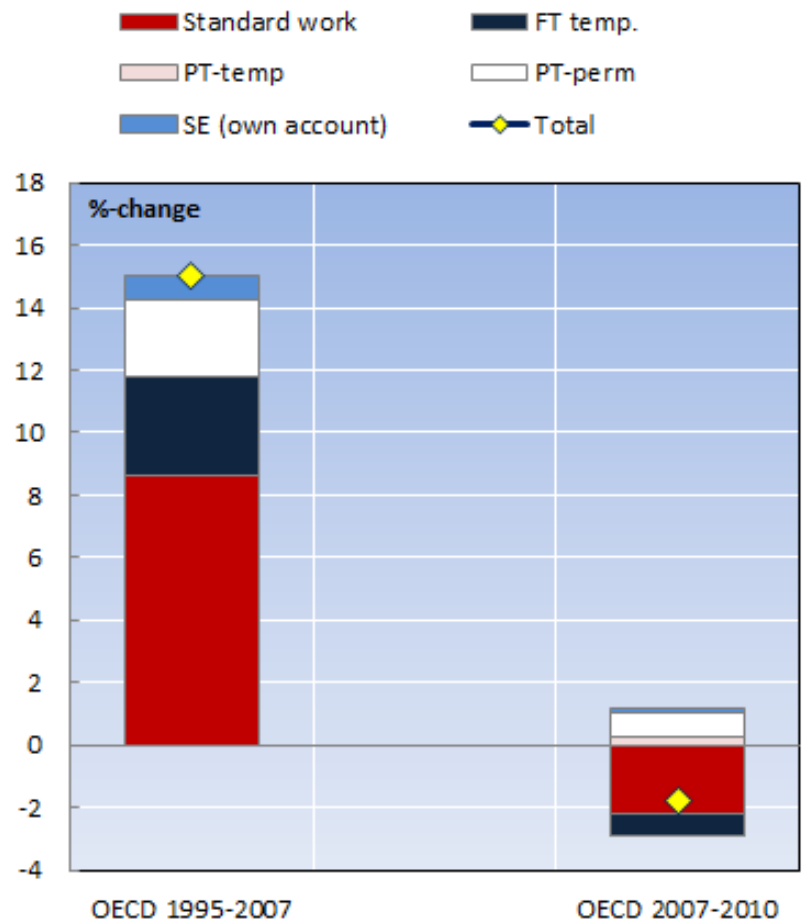


Source: OECD 2011, *Divided we Stand*, <http://www.oecd.org/els/soc/dividedwestandwhyinequalitykeepsrising.htm>



More than half of all jobs created since 1995 were non-standard jobs

Employment growth, by type of contract, 1995-2007 and 2007-13

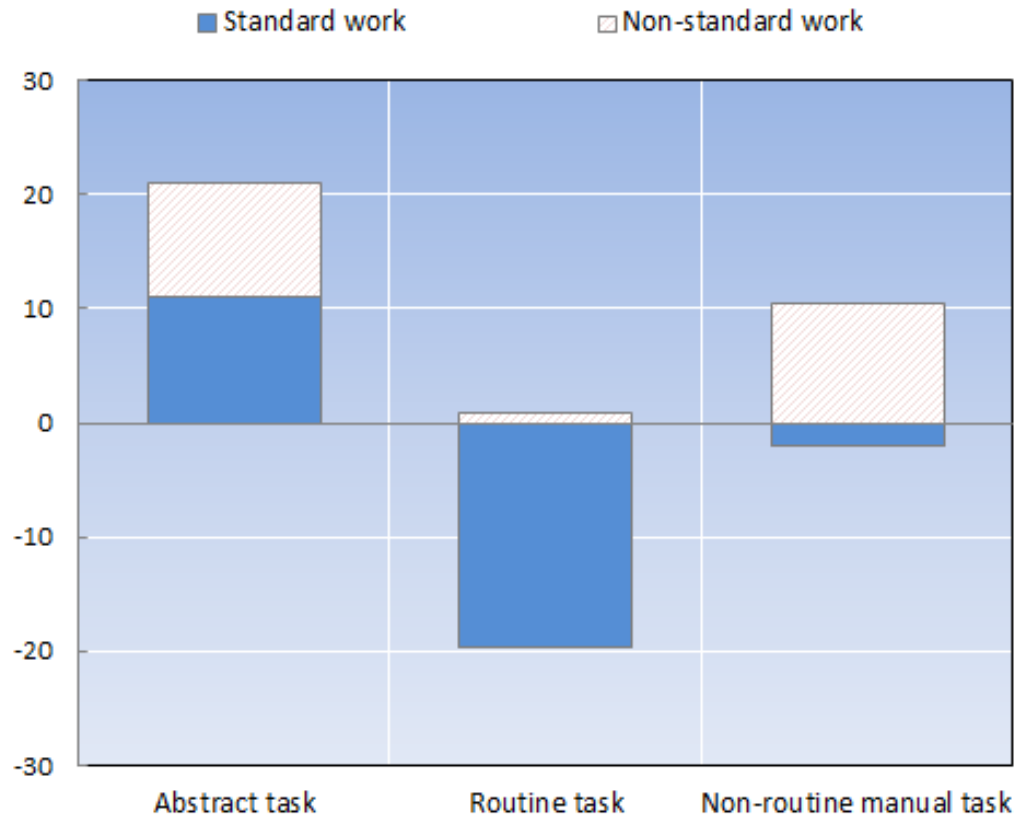


Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>;
 Note: FT= full-time, PT=part-time; SE=self-employed



Non-standard work contributed to job polarisation into high- and low-skill jobs, away from routine jobs

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

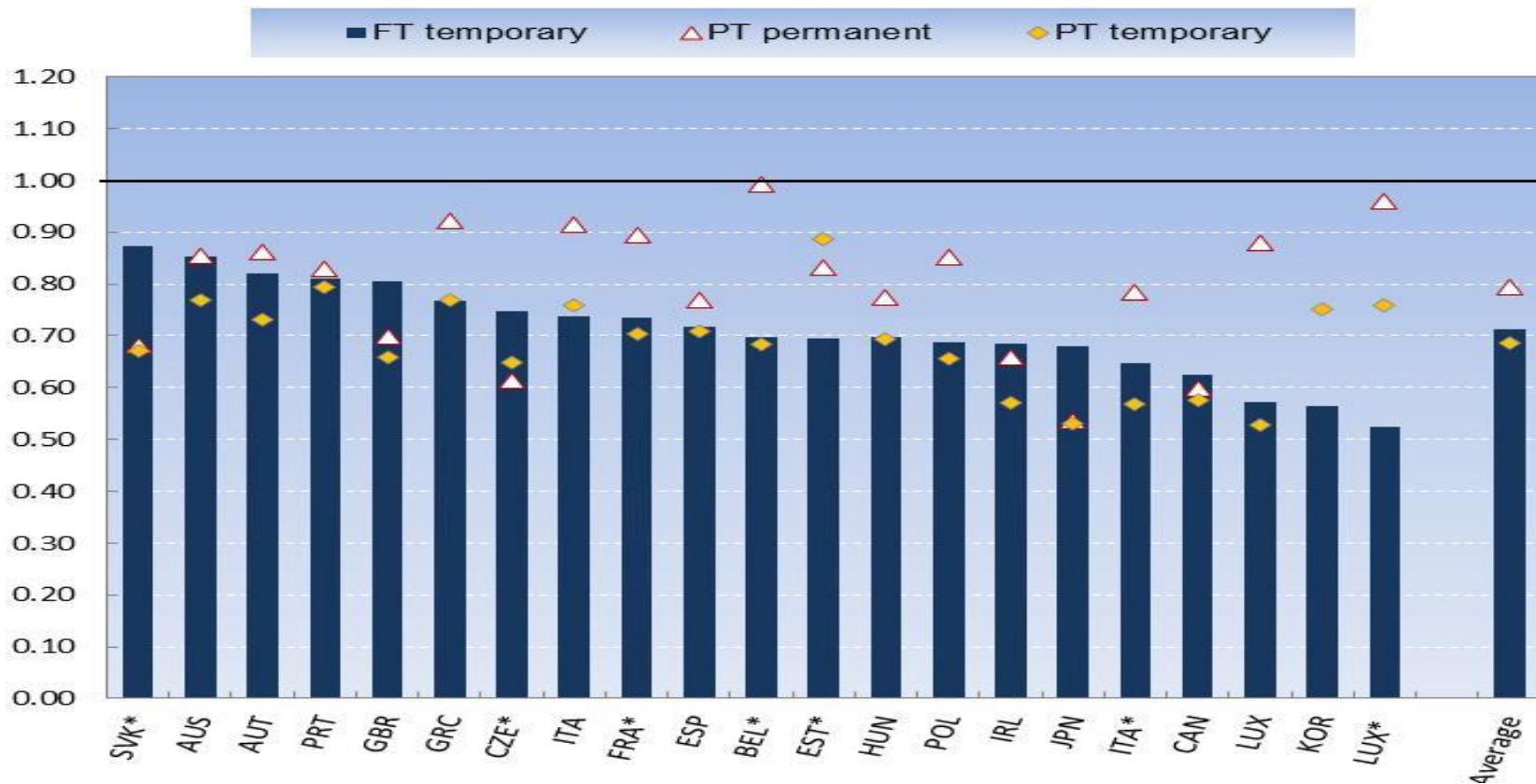


Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm> Note: Abstract occupations (ISCO88: 12-34); Routine (ISCO88: 41-42, 52, 71-74, 81-82 and 93); Non-routine manual (ISCO88: 51 83 and 91). The overall sample restricted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



Do atypical jobs pay less?

Ratio of median hourly wages (standard workers = 1), 2012



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.



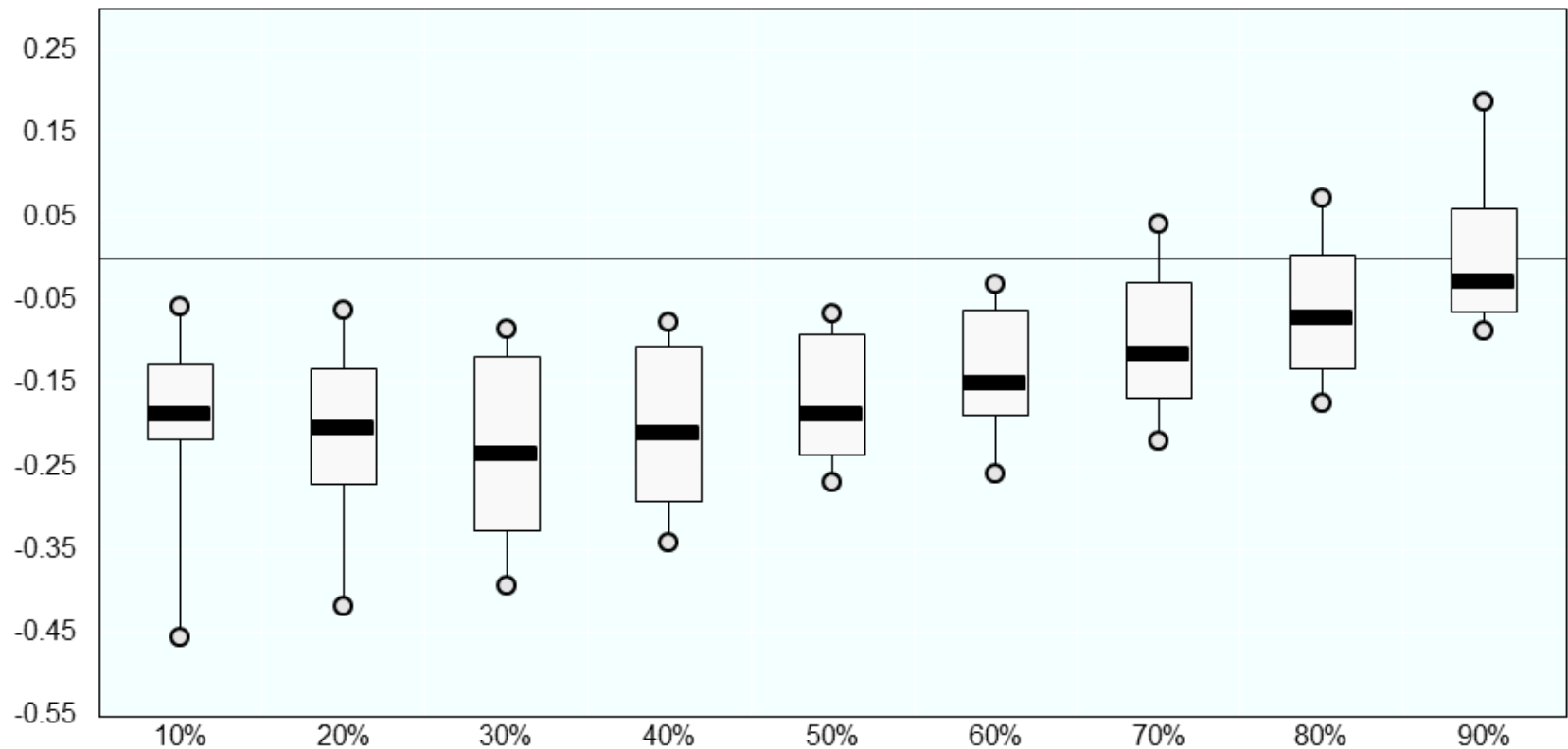
Non-standard work: wage penalties and transition probabilities (“stepping stone”)

- Temporary workers face a wage penalty, about 12% when controlling for observable characteristics, and 5-8% once unobservables are taken into account
 - The penalty is higher for younger workers.
 - Temporary workers enjoy higher upward earnings mobility only when moving to standard employment.
- For part-time workers
 - in permanent contracts, the penalty is small or even non-existent in a few countries, mainly for women
 - Part-time temporary workers still face wage penalty, especially men.
- Mixed evidence of stepping-stone effect of NSW :
 - only prime-age and older temporary workers have higher transition probability into permanent jobs, but not younger workers (15-29)
 - little variation in a majority of countries in transition probabilities by skill level (i.e. education).



Sticky floors: the earnings gap for non-standard workers is higher at the bottom of the wage profile

Effect of non-standard work on (log) hourly wages by decile



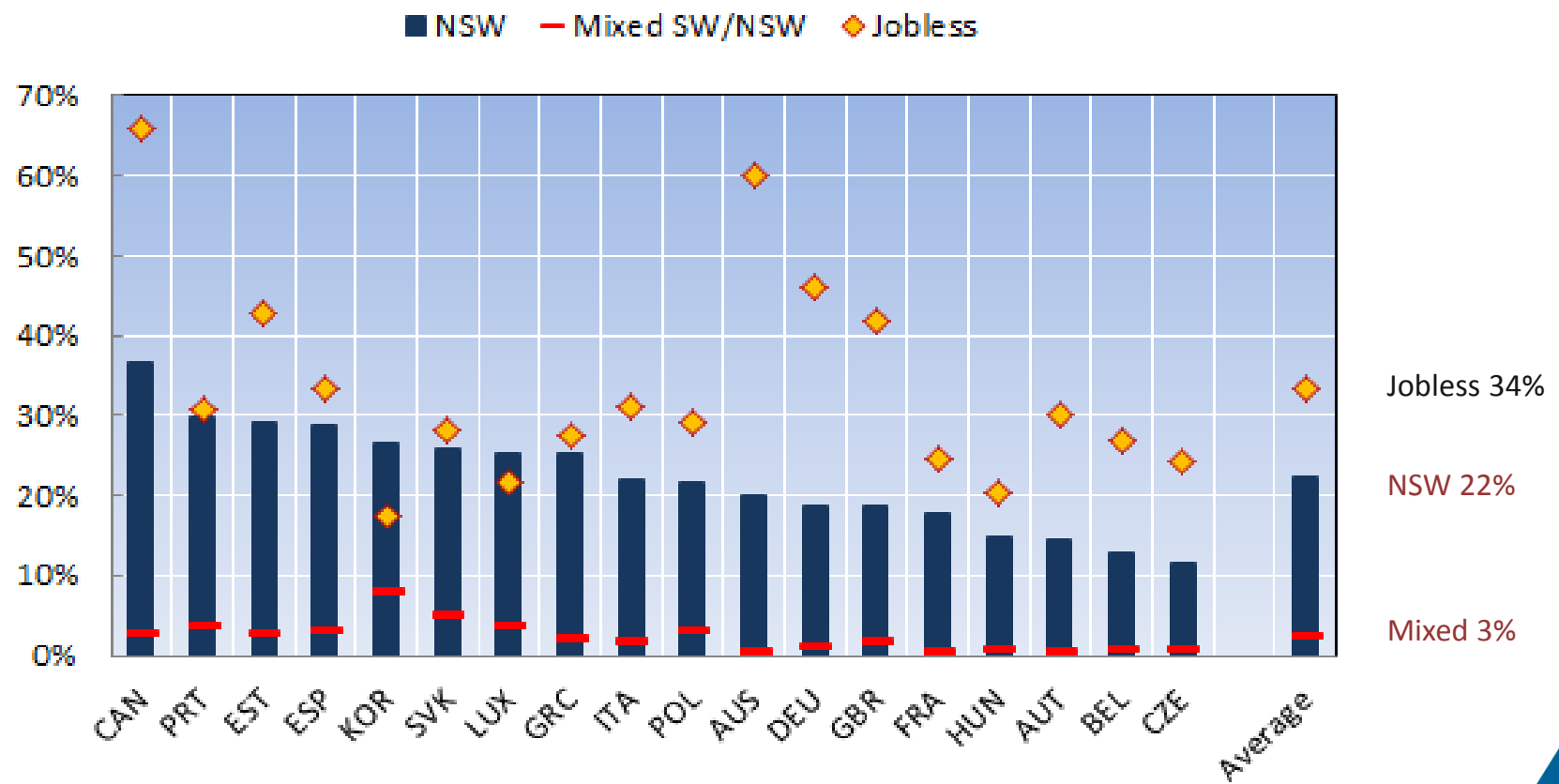
Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>

Note: The box for each quantile represents the interval of the impact of NSW on log hourly wages ranging between 25% and 75% of values, with the black line representing the median impact. The circles represent the country with the highest and lowest impact on wage associated with NSW for each decile.



Households where non-standard work is the main source of earnings have much higher poverty rates than those with standard work

Income poverty rates by household employment pattern

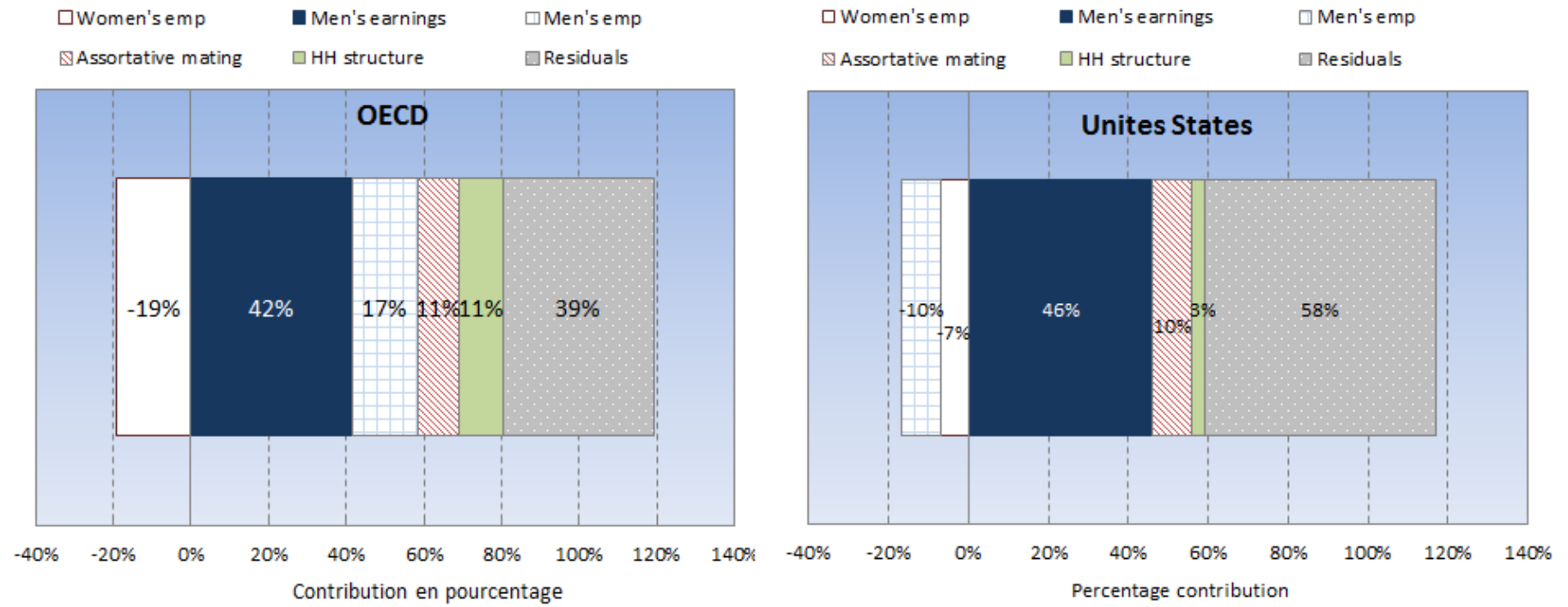


Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>
 Note: The poverty line is defined at 50% of the median equivalised household income for the entire population. NSW=non-standard work, SW=standard work



Demographic/societal changes are important for inequality – but not as much as labour market trends

Percentage contributions to changes in household earnings inequality, OECD average

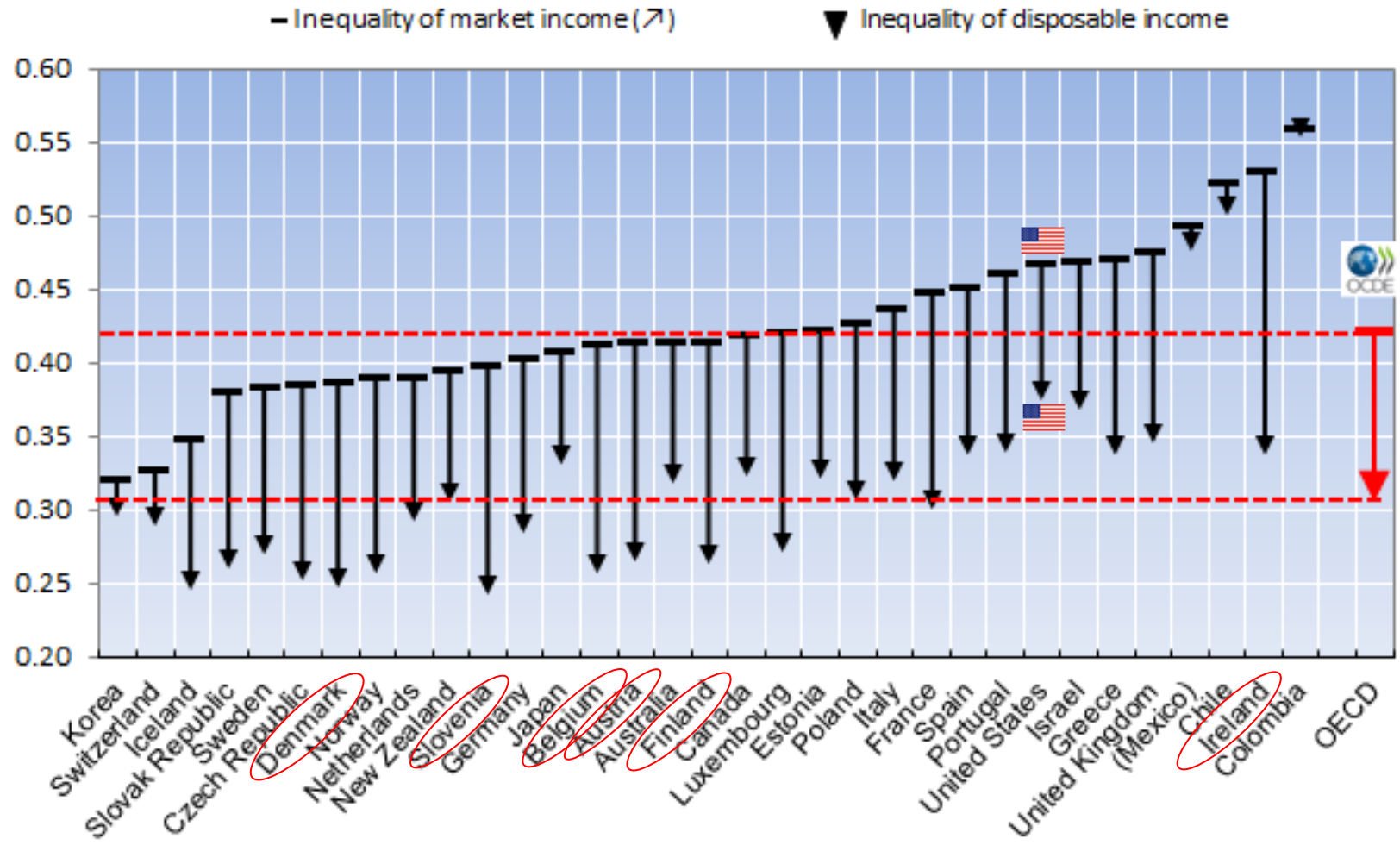


Source: OECD 2011, *Divided we Stand*, <http://www.oecd.org/els/soc/dividedwestandwhyinequalitykeepsrising.htm>



Focus on redistribution: taxes and benefits play an important role in almost all OECD countries

Inequality of (gross) market and disposable (net) income, working-age persons

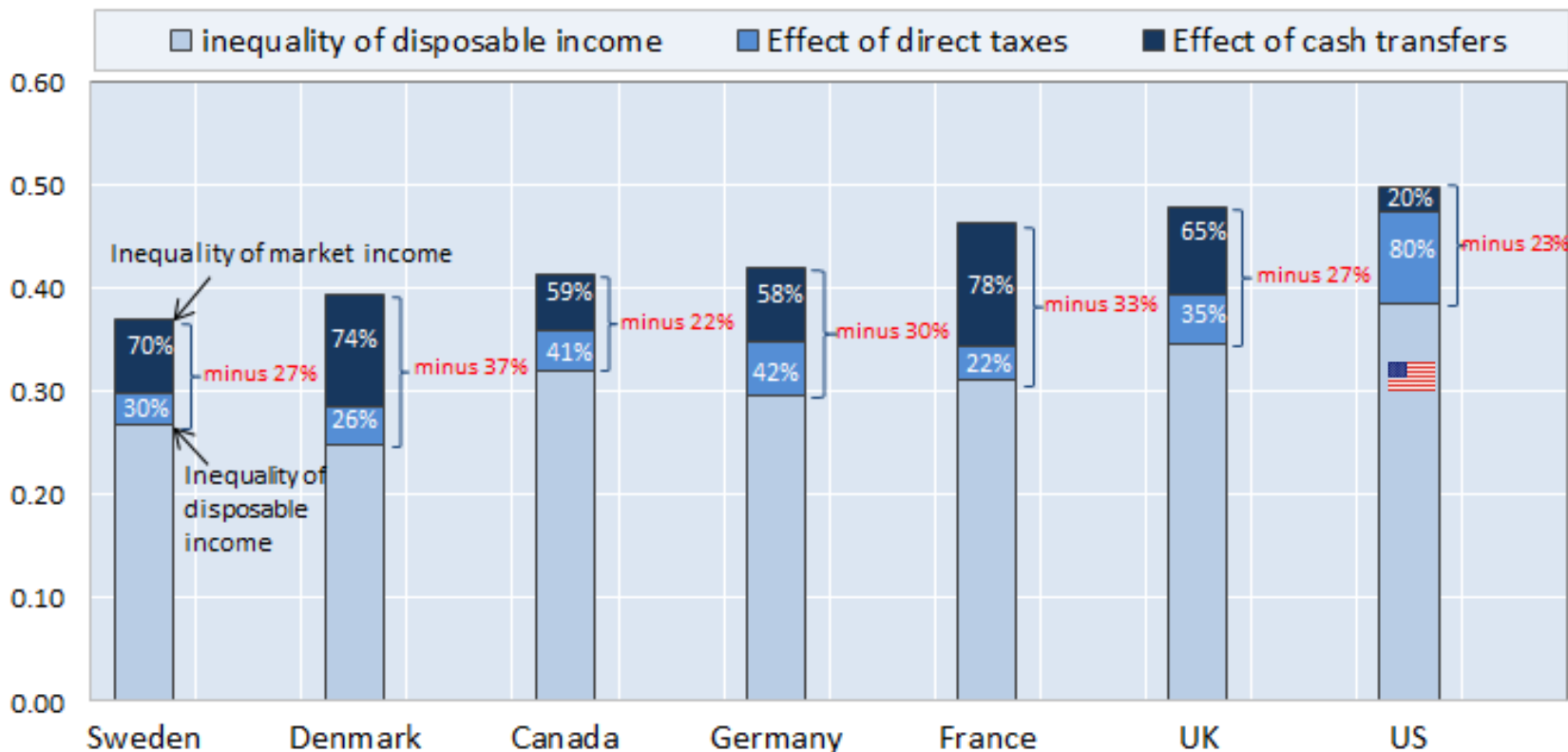


Source: OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm). Note: Data refer to the working-age population.



Among the two instruments, cash transfers play a more significant role in (almost) all countries

Respective redistributive effects of direct taxes and cash transfers, 2011



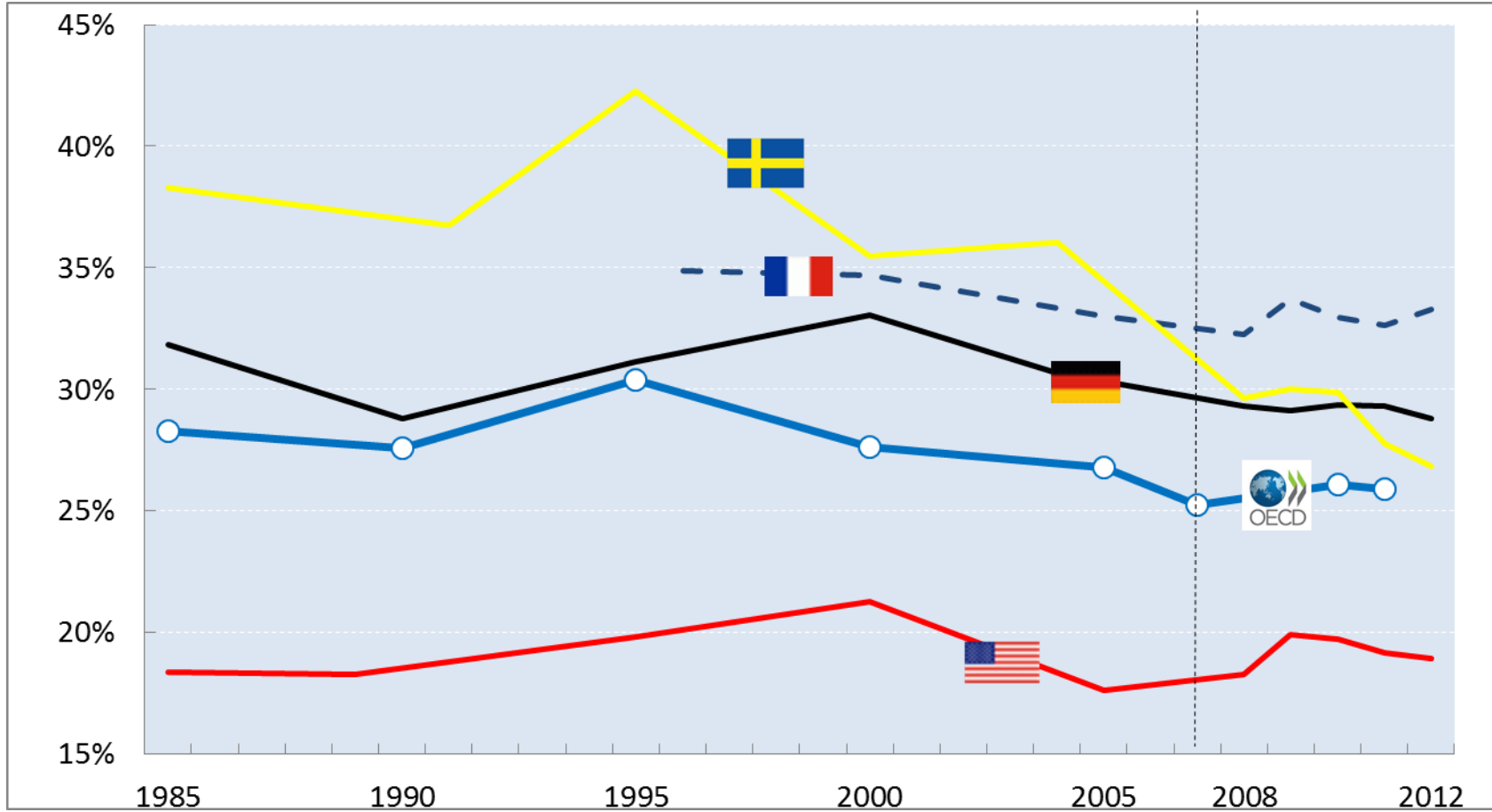
Source: OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm), preliminary data.

Note: Data refer to the working-age population.



..., but redistribution became weaker in most countries until the onset of the crisis

Trends in market income inequality reduction, working age population

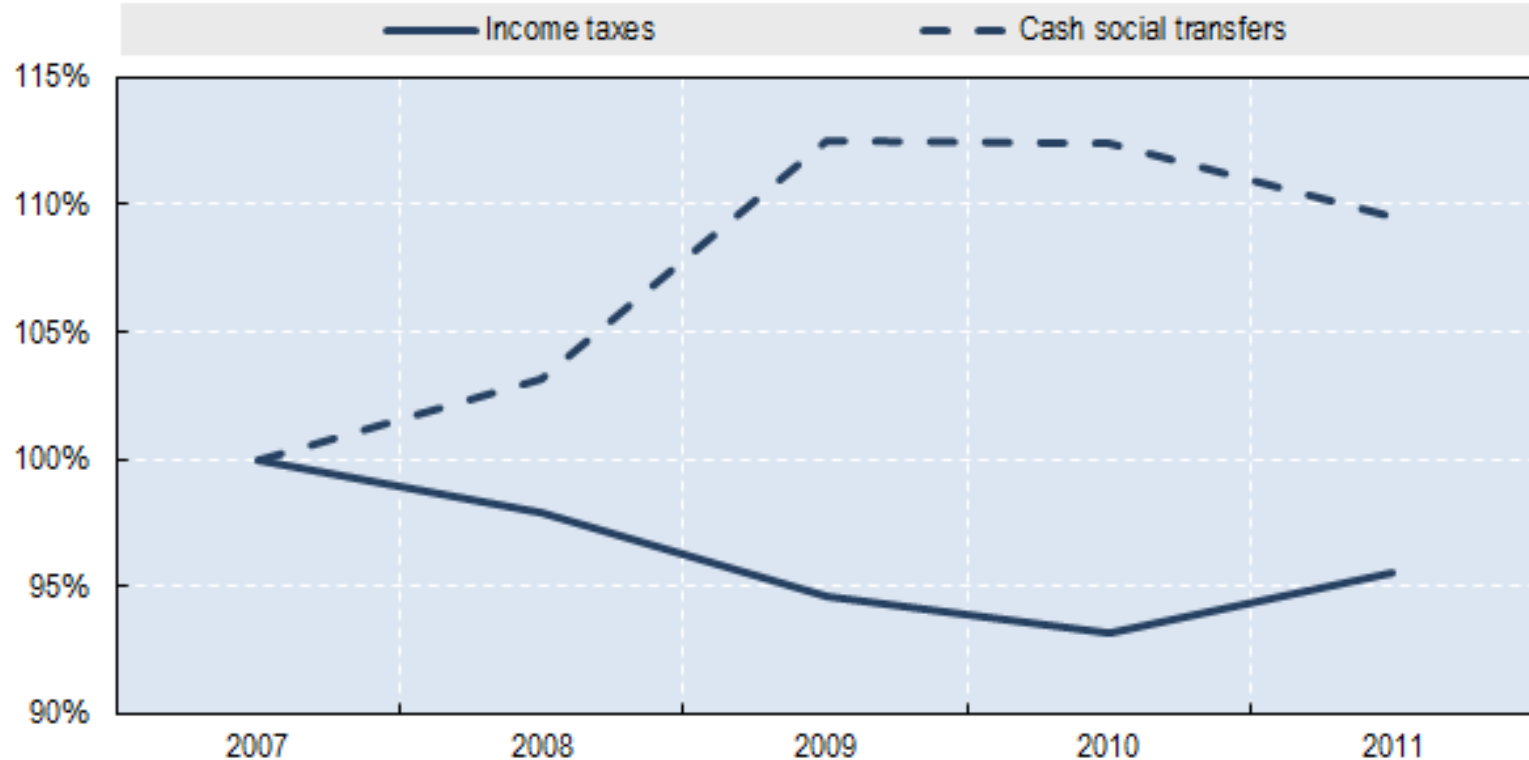


Source: OECD Income Distribution Database, www.oecd.org/social/income-distribution-database.htm



... and 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





Why have tax/benefit systems become less successful at reducing inequality?

The weaker redistribution via taxes and benefits was one of the culprits of higher income inequality prior to the crisis:

- Such changes in overall redistribution were mainly driven by benefits: taxes also played a role, but to a (much) lesser extent;
- Spending levels have been a more important driver of these changes than tighter targeting of benefits;
- Spending shifted towards “inactive” benefits, leading to reduced activity rates and higher market-income inequality;
- In some countries, in-kind benefits i.e. public services in health, education etc. became less redistributive, too.



Summary of 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 regulations and labour market institutions

Lesser culprit

- Changing household/family structures

Off-setting factor

- Increase in education off-set part of the drive towards rising inequality



Ceterum censeo...

... but *“the history of income and wealth (inequality) is always deeply political, chaotic, and unpredictable.*

*How this history plays out depends on how societies view inequalities and what kind of **policies and institutions** they adopt to measure and transform them.”*

(Th. Piketty, p. 35)



2nd PART: Consequences and Remedies



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: the setting

- Growth equation estimated with panel data (33 OECD countries, 1980-2010)
 - Homogeneous set of countries
 - Good quality data (Income Distribution Dataset)
 - State-of-the-art estimation techniques
- Data allow to look at
 - (Gini) income inequality (the standard measure)
 - the relevance of disparities at different points (bottom and top) of the distribution
 - the role of redistributive policies

Inequality and Growth :

Main findings (i)

- Looking across OECD countries (1970-2010): higher inequality *lowers* economic growth in the long-term
 - Increasing income inequality by 1 Gini pt. lowers the growth rate of GDP per capita by ~0.12 ppts 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

Inequality and Growth :

Main findings (ii)

- Result is driven by disparities at the *bottom* of the distribution
 - The negative effect is not just for the poorest income decile but involves the lower middle classes (the bottom 40%). Top inequality is less, if any, relevant for growth
- Redistribution (through taxes and benefits) has *not* led to bad growth outcomes
 - Data allow for imperfect/partial measurement, result does not imply all redistribution is equally good
 - Similar to IMF (Ostry *et al.* 2014) looking at a broader set of countries



Main findings (iii):

Inequality and Human Capital

- Prominent mechanism: inequality narrows the set of investment opportunities of the poor
 - Hypothesis: inequality lowers social mobility and human capital stock
- Use PIAAC survey to test this hypothesis:
 - In each country, distinguish individuals with “low”, “medium” and “high” Parental Education Background (PEB)
 - Relate average educational outcomes to the pattern of inequality in their country (over time)
 - Focus on both the quantity (e.g. years of schooling) and quality (e.g. skills proficiency) of education



Inequality and investment: two opposing views

- **“Incentives” view**

- Inequality generates the incentives for accumulation
 - e.g. Skill wage premium increases the internal rate of return of tertiary education, making it attractive relative to other investments
- Inequality is good for social mobility (and economic development)

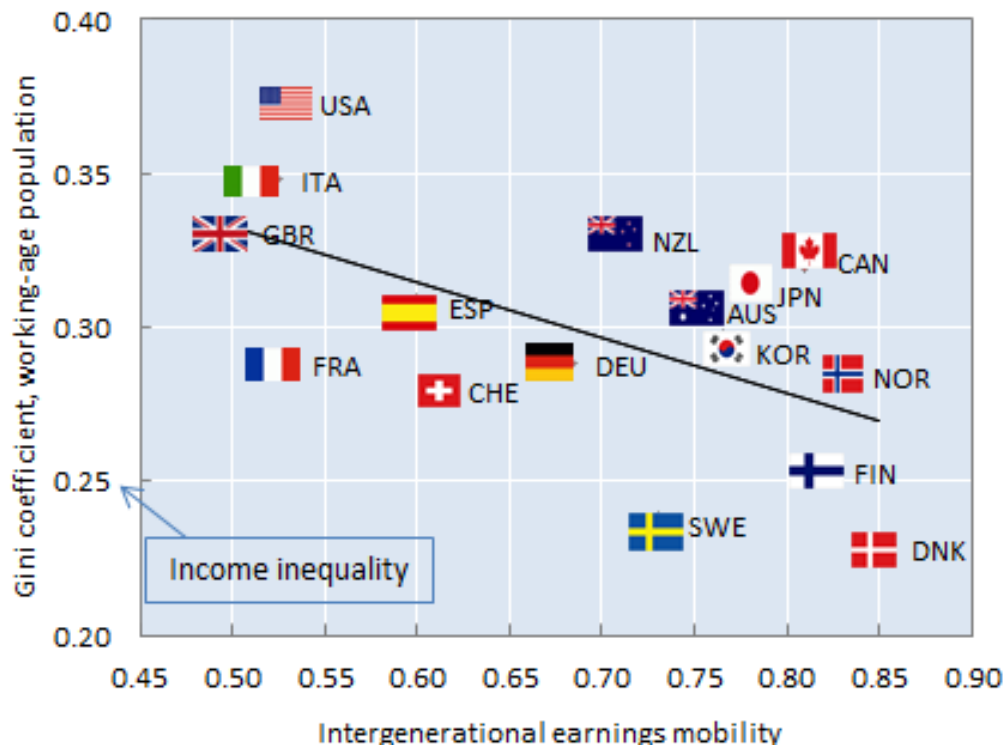
- **“Opportunities” view**

- (with imperfect credit markets) Inequality induces underinvestment among the poor
 - e.g. disadvantaged families cannot afford tertiary education even in presence of high returns to skills
- Inequality is bad for social mobility (and economic development)



Inequality & mobility: what do we know?

1. OECD countries are far from “perfect” social mobility: e.g. children education (or income) *does* depend on parents’ education (or income) → intergenerational persistence
2. And mobility seems negatively correlated with inequality: intergenerational earnings mobility is lower in high-inequality countries:





Inequality & mobility: what do we know?

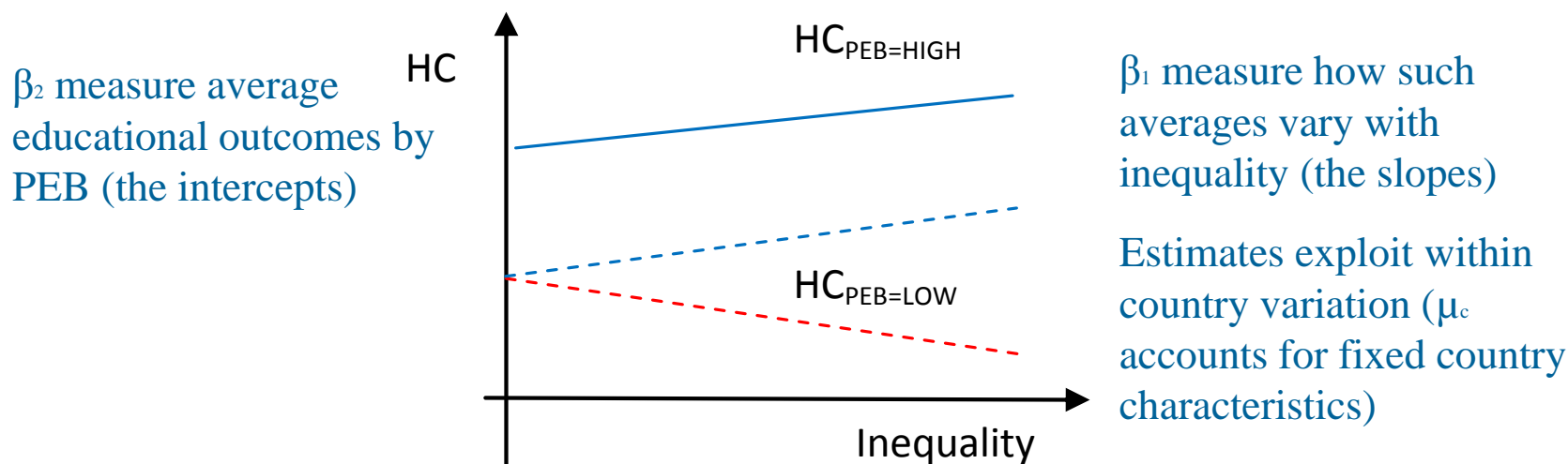
1. OECD countries are far from perfect social mobility: e.g. Children education (or income) *does* depend on parents' education (or income) → intergenerational persistence
2. And mobility seems negatively correlated with inequality
3. Does this imply that increasing inequality would lower mobility?
 - Difficult to argue from cross country correlations
 - inequality might correlate with the quality of the educational system, or with other policies and institutions that affect outcomes
 - Silent on underlying mechanism
 - is it due in particular to underinvestment by the poor?



New OECD evidence

- Looks at the consequences of inequality on educational attainments of individuals with different socio-economic background (PEB)

$$HC_{i,t,c} = \beta_1 PEB_{i,t,c} * Ineq_{t,c} + \beta_2 PEB_{i,t,c} + \mu_c + \mu_t + \epsilon_{i,t,c}$$

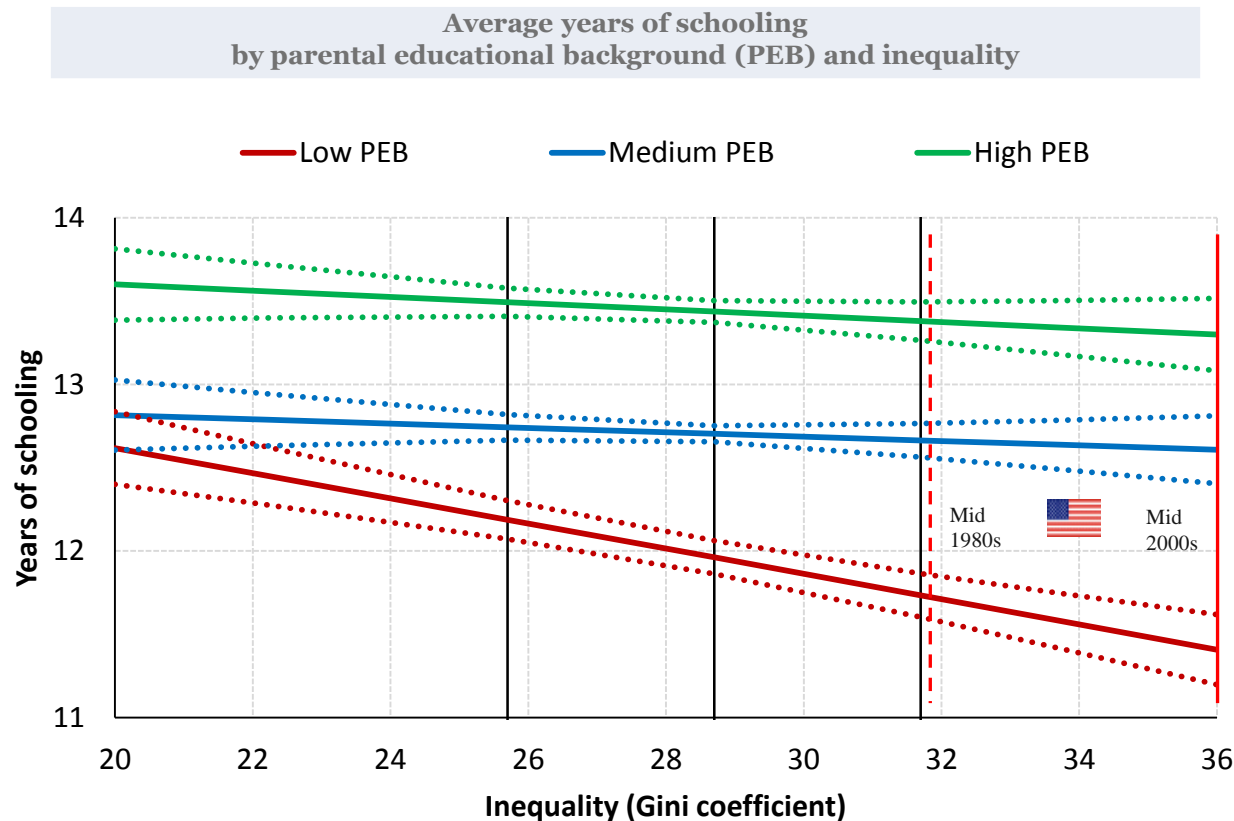


- HC is human capital (individual i , in country c , age cohort t)
- PEB is an indicator of socio-economic background (parental education) being low, medium or high
- $Ineq$ is inequality in c , measured when i was 14 yrs old



The role of inequality and family background on formal education (i)

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



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

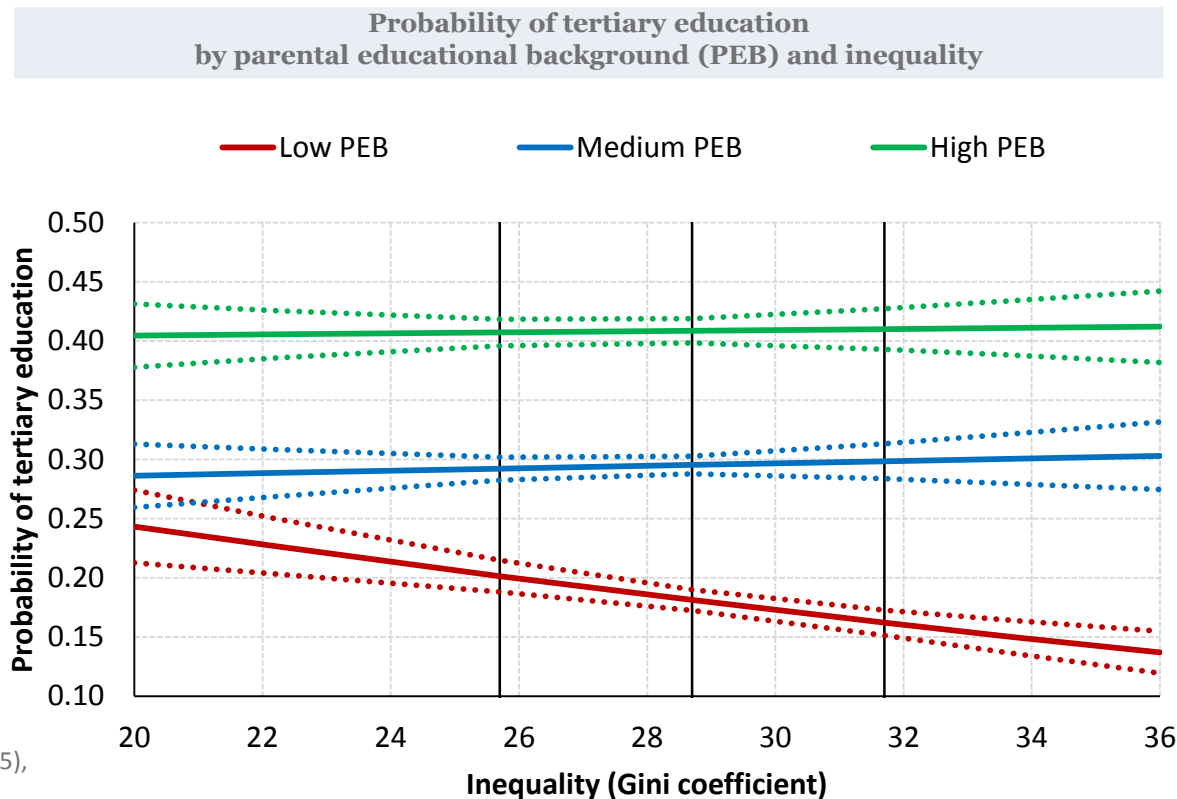
Increasing inequality by ~6 Gini pts. (the current US-Canada differential) lowers the average schooling of Low PEB individuals by ~half a year

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 (i)

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 ~6 Gini pts. lowers the probability of tertiary education of Low PEB individuals by ~4 percentage points

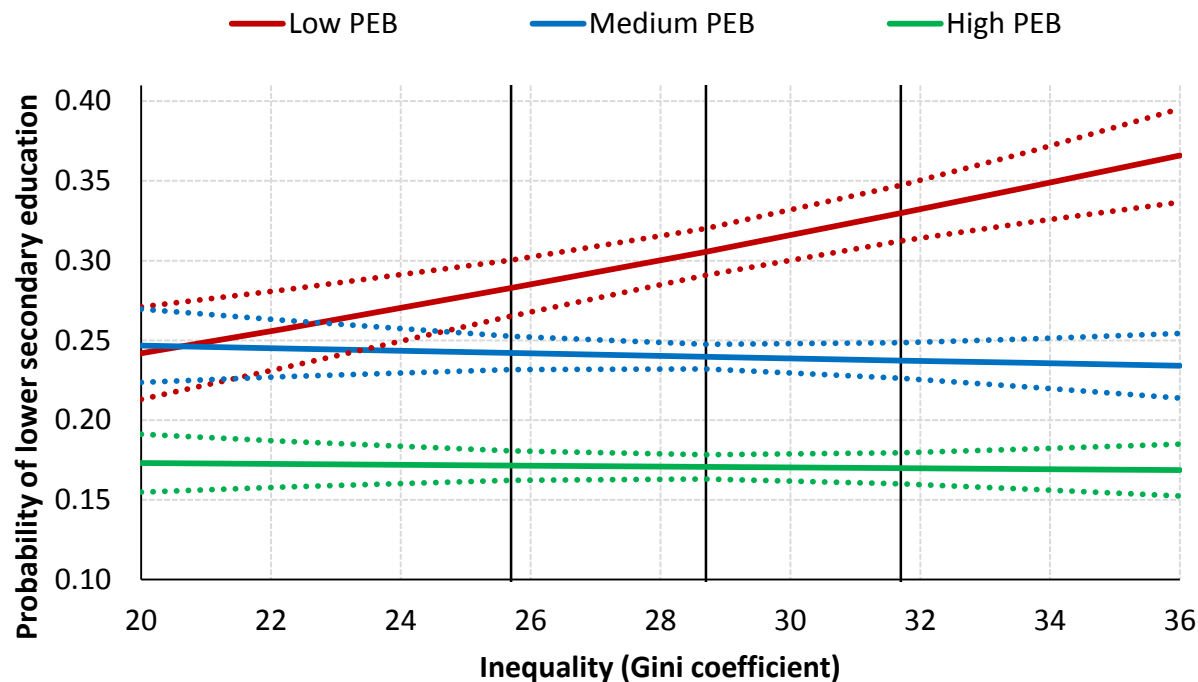
Note: Low PEB: neither parent has attained upper secondary education; Medium PEB: at least one parent has attained secondary and post-secondary, non-tertiary education; High PEB: at least one parent has attained tertiary education. The bars indicate 95% confidence intervals.



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

... while increasing their probability of (at most) lower secondary education

Probability of lower secondary education
by parental educational background (PEB) and inequality



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

Increasing inequality by ~6 Gini pts. raises this probability by ~5 percentage points

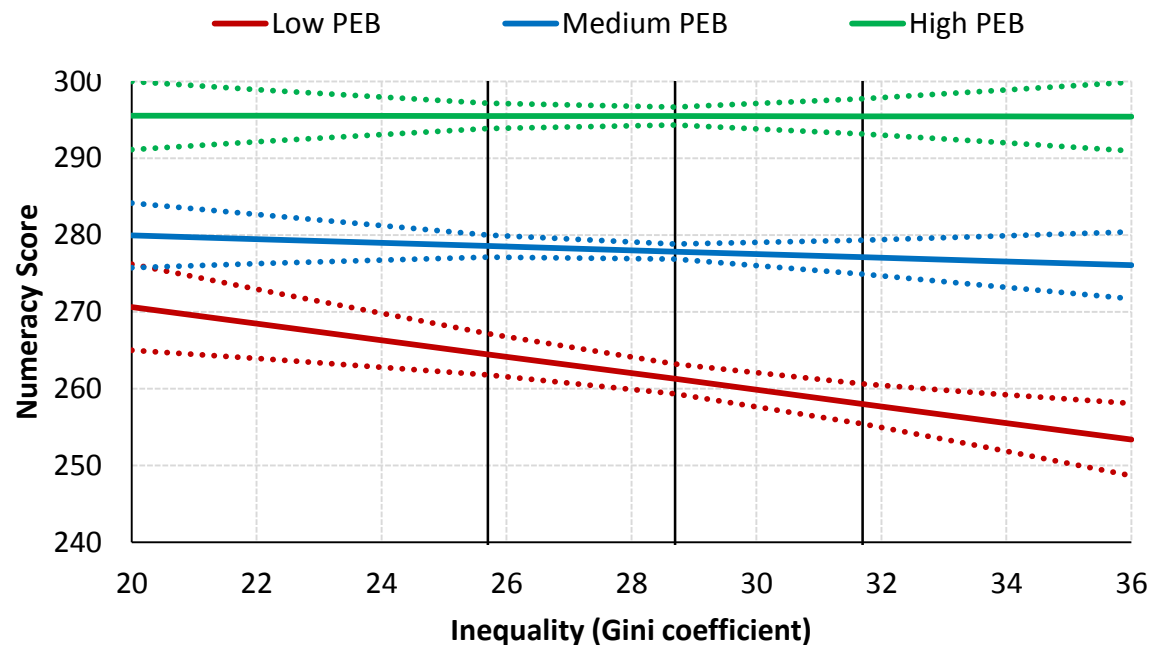
Note: Low PEB: neither parent has attained upper secondary education; Medium PEB: at least one parent has attained secondary and post-secondary, non-tertiary education; High PEB: at least one parent has attained tertiary education. The bars indicate 95% confidence intervals.



The role of inequality and family background for skill proficiency (i)

Inequality lowers (literacy and numeracy) skills, but only among individuals with low parental education

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



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

Increasing inequality by ~6 Gini pts. lowers Numeracy score by ~6 pts

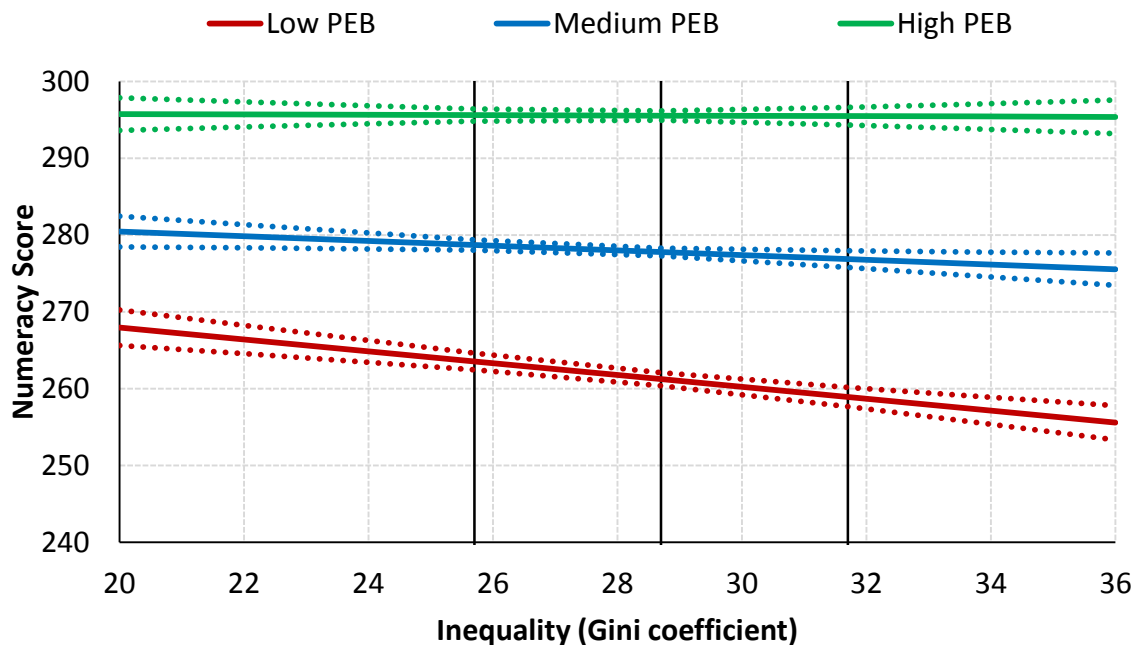
Note: Low PEB: neither parent has attained upper secondary education; Medium PEB: at least one parent has attained secondary and post-secondary, non-tertiary education; High PEB: at least one parent has attained tertiary education. The bars indicate 95% confidence intervals.



The role of inequality and family background for skill proficiency (ii)

Inequality lowers skill proficiency of low PEB individuals, even conditioning on the level of formal education

Average PIAAC numeracy score conditional on education by parental educational background (PEB) and inequality



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

Increasing inequality by ~6 Gini pts. (the US-Canada differential in 2010) lowers Numeracy score by slightly less than 6 pts

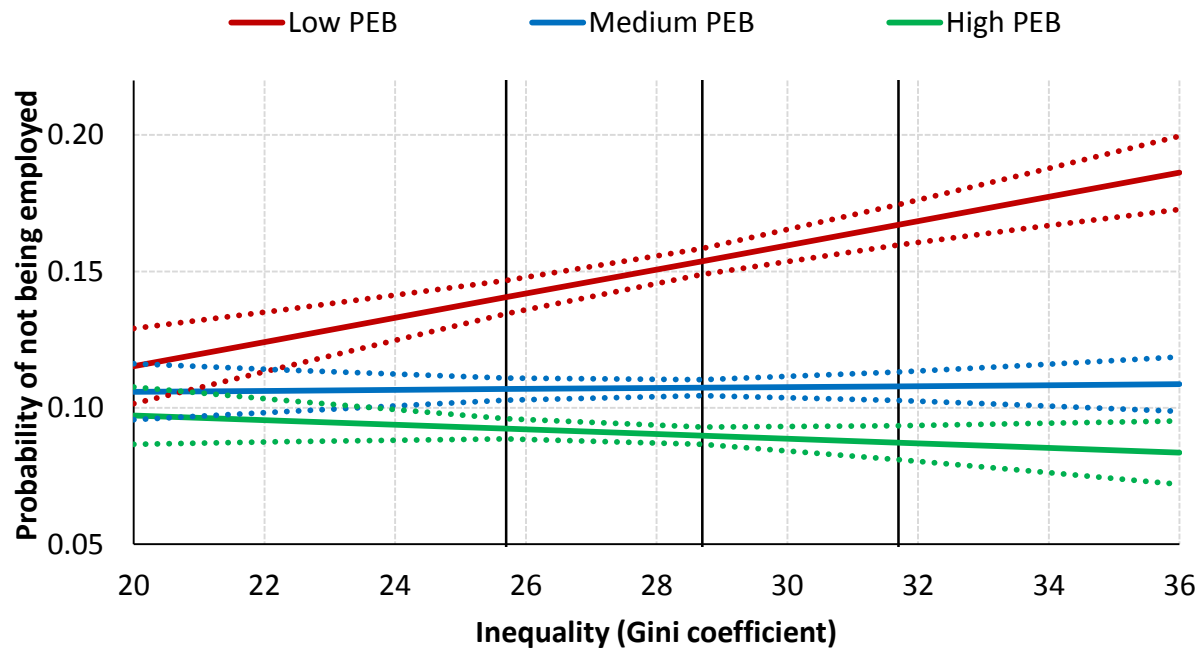
Note: Low PEB: neither parent has attained upper secondary education; Medium PEB: at least one parent has attained secondary and post-secondary, non-tertiary education; High PEB: at least one parent has attained tertiary education. The bars indicate 95% confidence intervals.



The role of inequality and family background for labour market outcomes

Inequality increases the probability that low PEB individuals are *not* employed over their working life

Fraction of working life spent out of employment by parental educational background (PEB) and inequality



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

Increasing inequality by ~6 Gini pts. (the US-Canada differential in 2010) increases this probability by 3 pts

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.



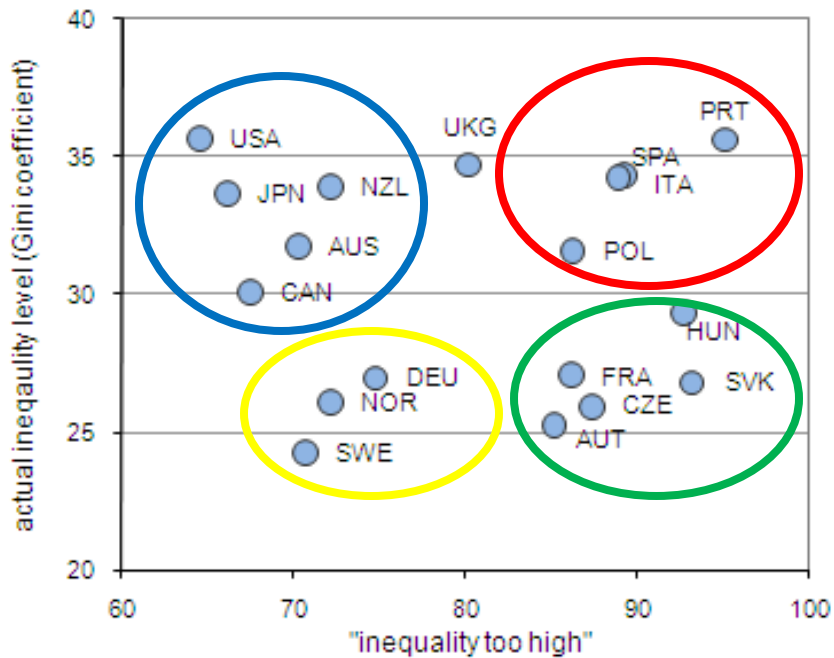
The economic rationale for being concerned about high inequality: the bottom line

- Higher (net income) inequality *lowers* economic growth
- 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;
- Redistribution through taxes and transfers has *not* led to bad growth outcomes
- High inequality hinders skills investment by the lower middle class and harms education outcomes, in terms of quantity and quality

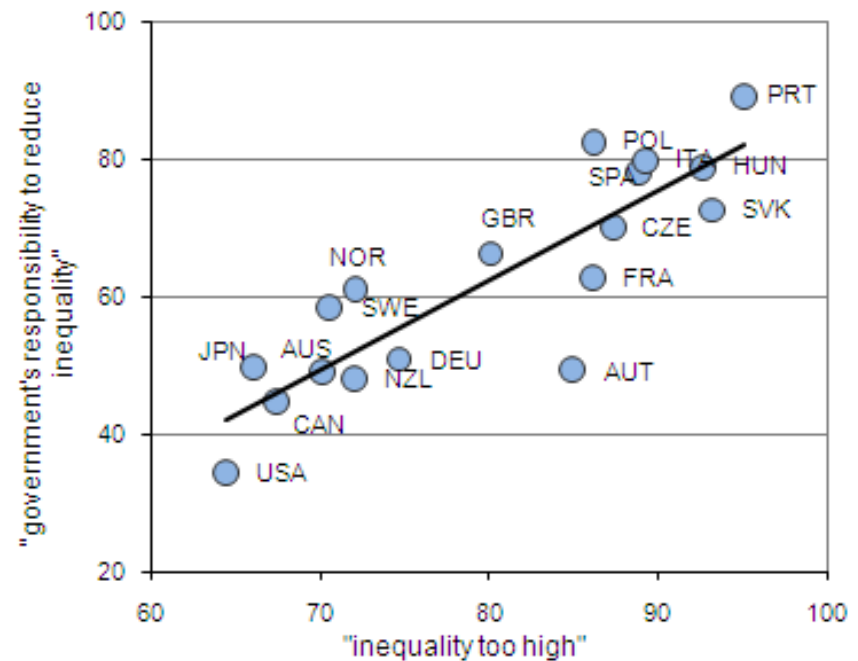


Do people care about inequality?

Actual and perceived levels of income inequality



Perceived inequalities and views about government's role in reducing them



Source: Chapple, Förster and Martin (2009)



Who supports redistribution and why?

- Job-less and low-income households - but affluent people still have a preference for redistribution on average
- Women more likely to support redistribution than men – after controlling for income, marital and employment status
- Older people more likely than younger; and single persons more likely than married persons to support redistribution
- More people in Asian and English-speaking countries believe laziness is the main reason for poverty, resulting in less support for redistribution
- More people in Nordic and Continental European countries believe bad luck and unfair society are main reasons for poverty, resulting in higher demand for redistribution
- But attitudes change over time, e.g. with rising unemployment



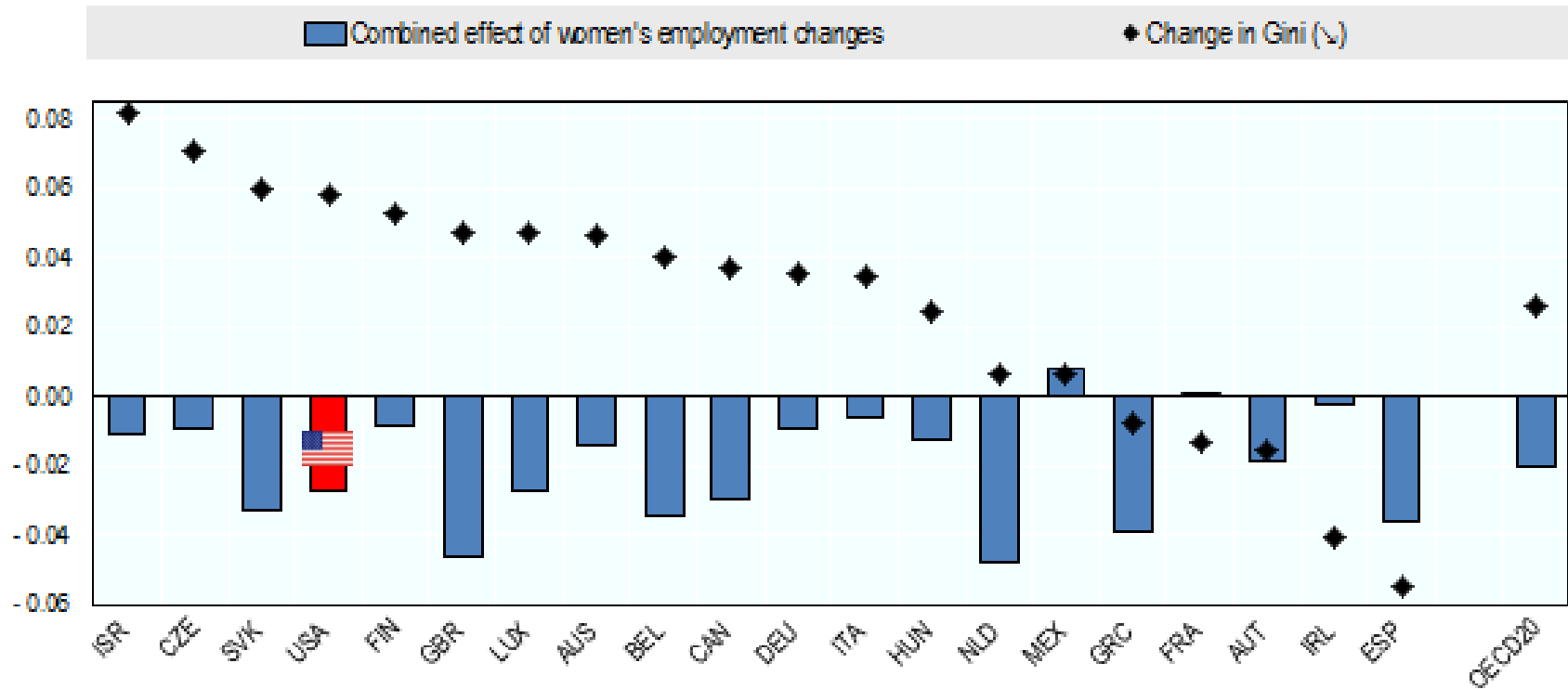
Designing policy packages to tackle high inequality and promote opportunities for all

- 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

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



Source: OECD (2015), "In It Together", <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>, based on calculations from the Luxembourg Income Study (LIS), <http://www.lisdatacenter.org/>

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.



Lessons for employment policies

- Given the heterogeneity of non-standard workers and their households, it seems less promising to target policies specifically at atypical workers but rather
- Design policies that enhance the employability of vulnerable workers who are overrepresented in non-standard work arrangements (e.g. single parents), and
- Target dual-earner policies such as child care provision to vulnerable households



Lessons for education/skills policies

- Promoting access to education, particularly for the low-skilled.
- Improving job-related training and education (on-the-job training) and access to formal education over their working lives
- Promoting access to other public services, such as high-quality childcare, or health
- Facilitating access to jobs (and career prospects) for under-represented groups (youth, older workers, women and migrants)



Lessons for tax reforms

- Abolishing/scaling back tax deductions and exemptions;
- Taxing fringe benefits, stock options etc. as ordinary income;
- Greater reliance on recurrent taxes on immovable property;
- Reviewing other wealth taxes such as inheritance taxes;
- Harmonising capital and labour income taxation;
- Increasing transparency and international cooperation on tax rules to minimise “treaty shopping” and tax optimisation;
- Reducing avoidance opportunities and thereby the elasticity of taxable income;
- Improving transparency and tax compliance, including efforts for automatic exchange of information between tax authorities.



What does it mean for the US?

- Make more use of in-work benefits (e.g., EITC) to encourage people not only to take up paid work but also to increase work intensity as well as provide additional income support to low-income households.
- Simplify means-tested transfer system in order to reduce administrative costs and increase take-up of vulnerable groups.
- Promote the up-skilling of the workforce by investing in the vital early childhood period and compulsory education, thus ensuring equality of opportunity for children from disadvantaged backgrounds. Facilitate the transition from school to work and create incentives for workers and employers to invest in skills throughout the working life.
- Make use of top earners' greater capacity to pay taxes by raising their tax rates, improving tax compliance, eliminating or scaling back regressive tax deductions. Reassess and address loopholes on taxes on capital income, property, wealth and inheritance.
- Improve access and quality of public services as a longer-term social investment to foster upward mobility and create greater equality of opportunities in the long run.



In It Together: The bottom line(s)

- Inequality increased in good times, and it increased in bad times: income 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 a more efficient redistribution



Thank you for your attention!



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<http://www.oecd.org/social/inequality-and-poverty.htm>

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