In It Together

Why Less Inequality Benefits All

OVERVIEW OF INEQUALITY TRENDS, KEY FINDINGS AND POLICY DIRECTIONS

OECD

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BETTER POLICIES FOR BETTER LIVES

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Chapter 1

Overview of inequality trends, key findings and policy directions

This chapter documents the longer-term trends as well as recent developments in income inequality and summarises the main messages from the in-depth chapters of the report. In particular, it highlights the channels through which inequality affects growth, the impact of women's employment and of developments in the type of jobs on inequality, and the extent of wealth concentration and indebtedness. It discusses individual measures but especially policy packages that are both equality- and growth-friendly by focusing on four main areas: women's participation, employment promotion and good quality jobs, skills and education, and taxes and transfers.

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1.1. Introduction and key findings

Over the past three decades, income inequality has risen in most OECD countries, reaching in some cases historical highs. Today, the Gini coefficient – a common measure of income inequality that scores 0 when everybody has identical incomes and 1 when all the income goes to only one person – stands at an average of 0.315 in OECD countries, exceeding 0.4 in the United States and Turkey and approaching 0.5 in Chile and Mexico. In the main emerging economies, income inequality is higher than in the OECD area (Figure 1.1); in some it has increased over the past decade but there are encouraging signs of stabilisation (e.g. China) or even declines in some of them (e.g. Brazil).

This widespread rise in income inequality has been accompanied by growing public discussion and concern over the impact of the high and often rising gap between rich and poor on our societies. In recent years, and especially since the onset of the economic downturn, these debates have moved to the top of the policy agenda in many countries.

Figure 1.1. Income inequality varies greatly across OECD countries and emerging economies

Level of income inequality (Gini coefficient), 2013 or latest available year

Note: Data refer to 2014 for China, 2013 for Finland, Hungary, Netherlands and the United States and India, 2011 for Canada, Chile, Israel, Turkey and Brazil, 2010 for Indonesia, 2009 for Japan, and 2012 for the other countries. See note to Table 1.A1.1.Data from secondary data sources are not strictly comparable and should be interpreted with caution. Gini coefficients are based on equivalised incomes for OECD countries, Colombia, Latvia and the Russian Federation; per-capita incomes for other countries; and per-capita consumption for India and Indonesia.

Source: OECD Income Distribution Database (IDD), www.oecd.org/social/income-distribution-database.htm, for OECD countries, Latvia, Russian Federation and Colombia. World Bank, Poverty and Inequality Database for India. Statistics Indonesia (Susenas) for Indonesia. SEDLAC database for Argentina and Brazil. National Bureau of Statistics of China for China. National Income Dynamics Survey (NIDS) from Finn, A. and M. Leibbrandt (2013), “Mobility and Inequality in the First Three Waves of NIDS”, *SALDRU Working Paper*, No. 120 and *NIDS Discussion Paper*, No. 2013/2, SALDRU, University of Cape Town, for South Africa.

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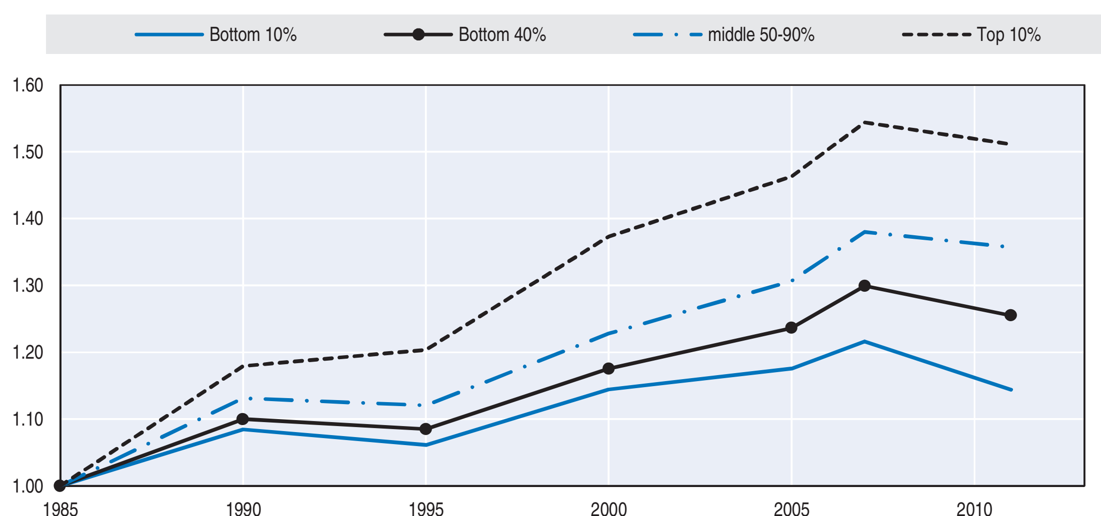
In the United States and other advanced economies, much of the recent debate on inequality focuses on the richest 1% and, increasingly, the 0.1%, the groups that have enjoyed the lion’s share of income growth in recent decades. In the United States, for example, average pre-tax income rose by 1% a year between the mid-1970s and up to the

Great Recession. But when the growth that went to the top 1% of earners is excluded, the annual growth rate for the remaining 99% was just 0.6%, about the same level as in France (Förster et al., 2014). The rise of "the super-rich" has led to warnings about the risks of rent-seeking and political and economic "capture" by the economic elite.

But while the flashy lifestyles and incomes of the top 1% are certainly eye-catching, focusing on them exclusively risks obscuring another area of growing concern in inequality – namely the declining situation of low-income households. This is not a small group. In recent decades, as much as 40% of the population at the lower end of the distribution has benefited little from economic growth in many countries. In some cases, low earners have even seen their incomes fall in real terms (Figure 1.2). Just as with the rise of the 1%, the decline of the 40% raises *social* and *political* questions. When such a large group in the population gains so little from economic growth, the social fabric frays and trust in institutions is weakened.

Figure 1.2. Lower and lowest incomes were increasingly left behind

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



Note: Income refers to disposable household income, corrected for household size. OECD is the unweighted average of 17 countries (Canada, Germany, Denmark, Finland, France, United Kingdom, Greece, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Norway, New Zealand, Sweden and United States). See notes to Figure 3.5.

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

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Income inequality rose not only in bad economic times but also in good economic times (see Chapter 3). There have been periods when some countries managed to contain the growth in income inequality, but these have rarely lasted for long (OECD, 2014a). In 2008, the OECD rang the alarm bells about the pervasive, decades-long rise in income inequality in a report entitled *Growing Unequal?* (OECD, 2008). Three years later, OECD analysis in *Divided We Stand* (2011) documented the deep-rooted reasons for why inequality was rising so much, not only in advanced but also in most emerging countries.

Because the rise in inequality is so deeply embedded in our economic structures, it will be hard to reverse it. Changing institutions, policies, and relationships between

economic actors that have been with us for so long will be far from easy. And, forces of technological change and globalisation are not going away. So we need compelling evidence to show us the way to change so that all citizens can have better lives.

The purpose of this publication is to provide the evidence for why such a shift is urgently needed and how to implement it. Some may consider that the social and political costs of high and rising inequality are in and of themselves sufficient to justify action. The central argument of this publication is different. It is that, beyond its serious impact on social cohesion, high and often growing inequality raises major *economic* concerns, not just for the low earners themselves but for the wider health and sustainability of our economies. Put simply: *rising inequality is bad for long-term growth.* Chapter 2 of this report discusses these issues in detail.

The 2011 OECD report, *Divided We Stand*, documented that, beyond skill-biased technological changes, some structural reforms, while raising the economic potential, and creating new jobs, have also been associated with a widening of wage disparities. Exacerbating this trend has been a decline, in many countries, in the effectiveness of tax and benefit systems to redistribute market income. Such trade-offs of pro-growth policy reforms with both equality and stability of incomes have been described recently in OECD (2015a) and Cournède et al. (2015).

Making the rich richer, while incomes of the bottom 40% remain flat, could be seen as sensible from an economic perspective – after all, some are better off, and none are worse off. However, policies which lead to this outcome may *not* be even economically sensible if wider inequality reduces the capacity of the bottom 40% to improve their position and that of their children in the future. But just because inequality is bad for growth does not mean that all policies that reduce inequality are good for growth. OECD work in the frame of *Going for Growth* (OECD, 2013a, 2014b, 2015b) points to pro-growth policy reforms that could yield a double dividend in terms of boosting GDP per capita and reducing income inequality.

One of the messages of this report is that structural policies are needed now more than ever to put our economies back on a path of strong and sustainable growth, but have to be carefully designed and complemented by measures that promote a better distribution of the growth dividends. The challenge, therefore, is to find appropriate policy packages that are both growth-friendly and that reduce inequality. The bulk of this report is about looking at the main policy areas that are at the intersection of growth and a better distribution of its outcomes. It suggests that in order to reduce the growing divide between rich and poor and restore opportunities for all requires focusing policy attention on four main areas:

- women’s participation in economic life
- employment promotion and good-quality jobs
- skills and education
- tax-and-transfer systems for efficient redistribution.

1.2. Inequality increased in good times, and it continued increasing in bad times

The long-term trend

Over the past three decades, labour markets have been profoundly transformed by the interplay of globalisation, technological change and regulatory reforms. These changes have had a major impact on earnings and incomes. People with skills in high demand sectors like IT or finance have seen their earnings rise significantly, especially at the very top end of the scale, where performance-based pay and bonuses have become widespread. Meanwhile, at the other end of the scale, wages of workers with low skills have not kept up. The period has also seen reforms of tax systems that have reduced marginal tax rates for high earners. In addition, taxes and benefits have tended to redistribute less in the period from the mid-1990s up to the crisis; this has been felt most keenly by low-income working-age households.

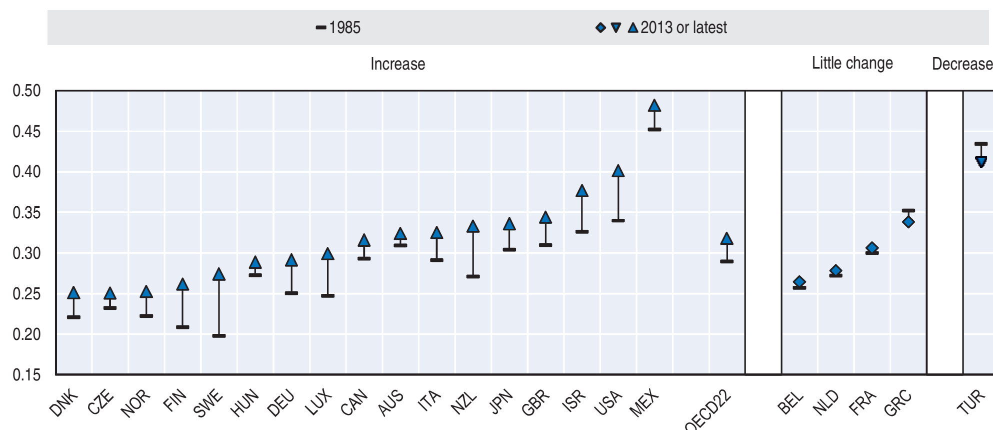
These factors, along with a number of demographic and social trends, are key to understanding the long-term rise in income inequality in OECD countries. Cyclical factors play a role as well, as steep drops in income during downturns lead to scarring and longer-term disadvantage when social policies are insufficiently counter-cyclical (OECD, 2014a). In the 1980s, the richest 10% of the population earned seven times more than the poorest 10%; today they earn almost ten times more. In broad terms, this long-term trend has been driven by two main movements: at the top end, and especially among the top 1%, a surge in incomes; at the bottom end, much slower income growth during good times and often a fall in incomes in bad times, especially during and after the Great Recession.

In the two decades prior to the global economic crisis, average real disposable household income rose by an average of 1.6% across OECD countries. With the exception of Japan, real incomes rose at both the top and bottom of the earnings ladder in every country (OECD, 2011). But in three-quarters of countries, household incomes of the top 10% grew faster than those of the poorest 10%, which led to widening income inequality. Other measures of inequality also support this general picture: the Gini coefficient of income inequality stood at 0.29, on average, across OECD countries in the mid-1980s. But by 2013, it had increased by about ten percent or 3 points to 0.32, rising in 17 of the 22 OECD countries for which long-time series are available[1] (Figure 1.3). Trends differed by age groups and the working-age population often bore the brunt of inequality increases.

In emerging economies, as documented above and in Chapter 7, levels of inequality are generally higher than in OECD countries.[2] Gini coefficients often exceed levels of 0.5, as in Brazil and many other Latin American countries, and approach 0.7 in South Africa. Over the long-term, inequality has been on the rise in most emerging economies, too, although data and indicators are less comparable than those from OECD countries. That said, all available evidence shows narrowing income gaps in most Latin American countries since the late 1990s, most notably in Brazil, and signs of a halt in the rise in some other countries, including China and Russia, since the mid-2000s.

Figure 1.3. Income inequality increased in most OECD countries

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



Note: "Little change" in inequality refers to changes of less than 1.5 percentage points. Data year for 2013 (or latest year): see Figure 1.1. These values differ slightly from those in Figure 1.1 for some countries as they have been adjusted to be comparable with 1985 values.

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

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Was the crisis a game changer?

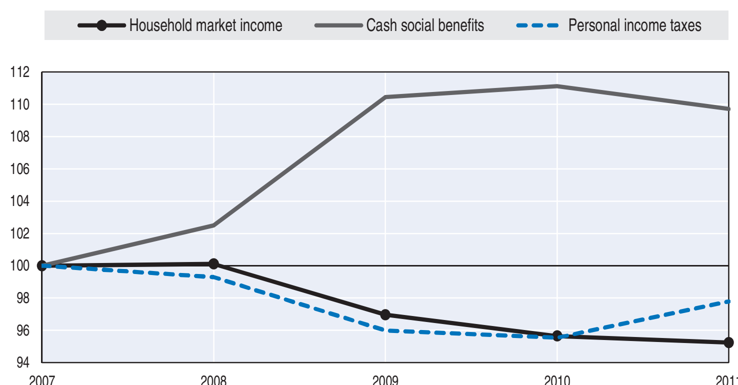
Real average disposable household income stagnated or fell in most OECD countries in the years from 2007 to 2011. The declines were particularly striking in the countries hit most severely by the crisis. In Greece, the average household lost over 8% of its real net income annually, and in Spain, Ireland and Iceland, average annual losses exceeded 3.5%. The dramatic collapse was due in large part to the loss in employment, rather than falling wages.

But these averages only tell part of the story. The groups at the bottom of the income scale lost even more in some countries. In Spain, for instance, incomes of the poorest 10% dropped by almost 13% per year, compared to only 1.5% for the richest 10%. In about half of those countries where incomes continued to grow, the top 10% did better than the bottom 10%. In Austria, Denmark, France and the United States, incomes at the top increased in real terms while they fell at the bottom.

In all OECD countries, income inequality is greatly reduced through redistribution – typically, taxes and transfers such as unemployment and other benefits. This is why "net" or "disposable" income inequality is much lower than "market" income inequality. But the impact of such redistribution has changed. In OECD countries, in the decade prior to the crisis, inequality before taxes and benefits often stabilised. But income inequality was driven upwards by weakening redistribution. In the initial years of the crisis, income inequality before taxes and benefits increased strongly but out-of-work benefits and other redistribution measures managed to cushion at least partially the rise (Figure 1.4). In the most recent years of weak economic recovery, unemployment persisted and yet governments chose to shift focus to fiscal consolidation, including curtailing unemployment benefits, education and investment. While income inequality before taxes and benefits continued to rise, the cushioning effect of taxes and benefits has become weaker, accelerating the overall upwards trend in *disposable* income inequality.

Figure 1.4. Taxes and benefits cushioned the effect of the crisis on household incomes

Percentage changes of household market income, benefits and taxes, 2007=100%, OECD, total population



Note: Household incomes are equivalised by household size and adjusted for inflation using changes in consumer price indices and differences in purchasing power using 2010 PPP indices for private consumption. OECD average refers to the unweighted average of 26 countries.

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

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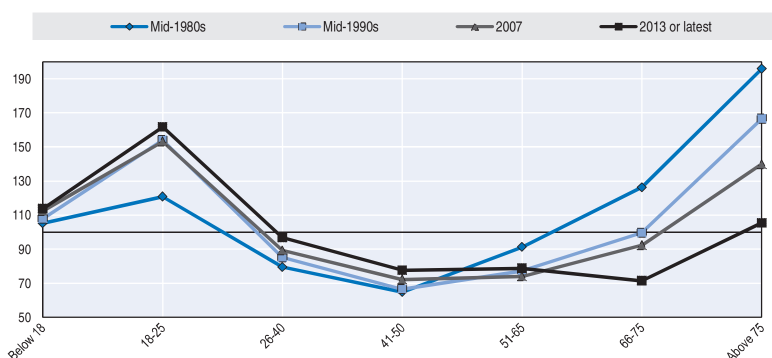
The crisis period also saw a marked rise in income poverty in OECD countries, especially when measured in terms of "anchored" poverty, i.e. when fixing the real low-income benchmark to pre-crisis level. This gives a stronger sense of absolute changes in the living standards of the poor than the more commonly used "relative" measure of poverty, where the benchmark also evolves. Between 2007 and 2011, the OECD anchored poverty rate rose by just over one percentage point to 9.4%. In Greece, anchored poverty more than doubled to 27% and in Spain it almost doubled to 18%. There was also a shift in the age profile of poverty, with young people replacing the elderly as the group most at risk of poverty, continuing a trend lasting for the past 30 years (Figure 1.5). Poverty rates rose among children and especially among youth while they fell among the elderly.

Figure 1.5. The risk of income poverty has shifted from the elderly to the young

Relative poverty rate of the entire population in each year = 100, mid-1980s to 2013, or latest available year



Note: OECD unweighted average for 18 OECD countries for which data are available from the mid-1980s: Canada, Denmark, Finland, France, Germany, Greece, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Sweden, Turkey, the United Kingdom, the United States.

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

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1.3. Higher inequality drags down economic growth

High and often growing income inequality in so many countries has renewed interest on its possible economic effects, over and above its impact of social outcomes. This is by no means a new debate. Economic theory has long argued that the relationship between inequality and growth can go either way. A gap between rich and poor means that people have strong incentives to do what they can to be rich – including working harder, studying longer, and taking greater risks, all of which can lead to more economic activity, efficiency and growth (the "incentives" hypothesis). On the other hand, more inequality means that some people – the rich – are better able to take advantage of economic opportunities than the poor. Poor families may be unable to keep their children in education for as long as is optimal, or to afford high-quality education, thereby harming their future earnings. And they may find it difficult to borrow to invest in new opportunities (the "opportunities" hypothesis). As a result, economic growth is slower than it would otherwise be and disproportionately benefits the rich.

The empirical evidence has until recently been mixed as to which of the opposite forces dominates and in which country. But new research at the OECD, presented in Chapter 2, finds consistent evidence that the long-term rise in inequality of disposable incomes observed in most OECD countries has indeed put a significant brake on long-term growth. Further, it shows that efforts to reduce inequality through redistribution – typically, certain forms of taxes and benefits – do not lead to slower growth (confirming similar results in Ostry et al., 2014). This suggests that redistribution can be part of the solution, but requires a serious discussion on how to promote effective and well-targeted measures that promote a better sharing of the growth outcomes not only for social but also for economic considerations.

The analysis in Chapter 2 which draws on data for 31 OECD countries covering the period 1970-2010, finds that income inequality has a sizeable impact on growth. Between 1985 and 2005, for example, inequality rose by more than 2 Gini points on average across 19 OECD countries, an increase estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010.

The inequality brake on growth is not restricted to developed countries (see Ostry et al., 2014); it affects even more emerging economies. Despite often impressive growth rates and reductions in absolute poverty, high and sometimes very high levels of income inequalities in emerging economies are found to undermine their long-term growth potential. Some of these economies have recently provided important examples and insights into how income inequality can be addressed via well-targeted social and employment programmes (e.g. *Jefes y Jefas de Hogar Desocupados* in Argentina; the *Bolsa Familia* programme in Brazil; *Prospera* in Mexico).

If the bottom loses ground, everyone is losing ground

The OECD analysis indicates that the biggest factor for the impact of inequality on growth is the growing gap between lower income households and the rest of the population. This is true not just for the very lowest earners – the bottom 10% – but for a much broader swathe of low earners – the bottom 40%. Countering the negative effect of inequality on growth is thus not just about tackling poverty but about addressing low incomes more broadly.

Since the dominant mechanism through which inequality seems to affect growth is by curbing opportunities for the poor and lower middle classes, Chapter 2 looks at their

investment in education and skills compared with other social groups. In particular, the analysis compares the education performance at different levels of inequality of three social groups – people whose parents come from high, medium and low educational backgrounds (PEB) – across three areas, namely education attainment, skills and employment. It is no surprise to find that people from low socio-economic groups do less well in all three of these dimensions than people from higher socio-economic groups. However, the analysis shows that as inequality rises the outcomes of people from lower groups *decline* still further.

On average, around 40% of people from a high PEB and around 30% from a medium PEB graduate from university. These figures remain broadly consistent regardless of the level of inequality. However, this is not the case for children from poorer educated families. An increase in inequality of around 6 Gini points lowers the probability of poorer people graduating from university by around four points. A similar effect was found when it comes to the amount of time students spend in education. Increasing inequality by around 6 Gini points cuts the length of time children from poorer families spend in education by about half a year.

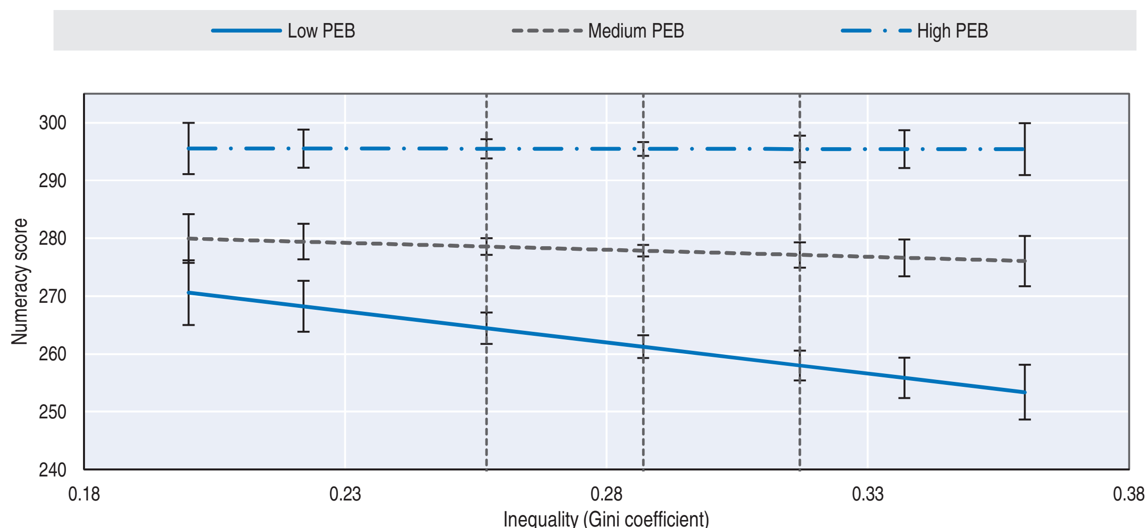
The impact of higher income inequality on children from poorly educated families can also be seen in *quality* of education, by measurements of skills (e.g. indexes of proficiency in numeracy and literacy) drawing from the OECD Skills Survey (OECD, 2013e). Once again, the numbers remain fairly constant for people from high and medium PEBs, regardless of the level of inequality in the country, but decline markedly for children from poorer families (Figure 1.6). This might seem like an obvious follow-on from the previous finding – people from poorer families spend less time in education and therefore develop weaker numeracy and literacy skills. However, the data show that even when poorer people spend the *same* amount of time in education as their better-off peers they do *worse*. This suggests that a large part of their lower proficiency is not because they have less education, but rather that they get less out of their time in education. This is probably due to education being of poorer quality, but there may be other social factors as well, such as people from poorer backgrounds being unable to spend the same amount of time studying as their richer counterparts.

Finally, the impact of higher levels of income inequality is also clearly visible in employment patterns. As inequality rises, people from poorer families face much weaker job prospects while there is little change for those from better-off families. An increase in inequality of around 6 Gini points rises the fraction of time spent out of employment by someone from a low PEB by around 3 percentage points.

Rising income inequality thus has a significant impact on economic growth, in large part because it reduces the capacity of the poorer segments – the poorest 40% of the population, to be precise – to invest in their skills and education. It has long been popular to say that while there is no social consensus around the desirability of tackling inequality of *outcomes,* for example by redistributing wealth, surely we can agree that it is necessary to ensure that we have equality of *opportunities* – i.e., that all should have the same life chances, regardless of their initial conditions. In reality, few societies come close to ensuring such equality of opportunities. However, the importance of research showing the links between family status and education shows that the distinction between opportunities and outcomes is not straightforward. Higher inequality of incomes of parents tends to imply higher inequality of life chances of their children. To achieve greater equality of opportunities without tackling increasing inequality in outcomes will be very difficult.

Figure 1.6. Inequality lowers skills of the poor

Average numeracy score by parent educational background and inequality



Note: The graph plots the average predicted numeracy score for individuals from low, medium and high family (educational) backgrounds, as a function of the degree of inequality (Gini points) in the country at the time they were around 14 years old. 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 vertical dashed lines indicate the 25th, the median and the 75th percentiles of the underlying distribution of inequality.

Source: OECD Secretariat calculations based on PIAAC data. See Chapter 2, Box 2.3 and Annex 2.A1.

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1.4. Why increased non-standard work can lead to more inequality

Promoting equality of opportunities is not just about improving access to quality education but also ensuring that the investment in human capital is rewarded through access to productive and rewarding jobs. Before the crisis, many OECD countries were facing a paradoxical situation: their employment rates (employment to working-age population) were at record-high levels and yet income inequality was on the rise. Typically, rising employment might be expected to reduce income inequality as the number of people earning no salary or relying on unemployment benefits falls. However, in recent decades the potential for this to happen has been undercut by the gradual decline of the traditional, permanent, nine-to-five job in favour of non-standard work – typically part-time and temporary work and self-employment. More (often low-skilled) people have been given access to the labour market but at the same time this has been associated with increased inequalities in wages and, unfortunately even in household income.

Policy needs to focus on access to jobs and labour market integration in order to increase both equality and growth. But *only* focusing on the number of jobs is not enough; Chapter 4 of this report shows that it is about policies for quantity *and* quality of jobs; jobs that offer career and investment possibilities; jobs that are stepping stones rather than dead ends.

The development of non-standard work is related to technological changes and the associated evolution of labour demand. In most advanced economies, there has been an

increasing *job polarisation* – a decline in the share of workers in the middle of the workforce, both in terms of skills and income, and increases in the proportions of workers in high- and low-skill jobs. The share of workers with routine-task jobs, such as accountants, fell from 53% to 41% between 1995 and 2010. At the same time, the employment share for high-skill abstract jobs, such as designers, grew from 28% to 38%, and relatively low-skill non-routine manual jobs, such as drivers, increased from 18% to 21%. The emergence of this U-shaped workforce is closely matched by developments in non-standard employment. The decline in middle-skill employment went hand in hand with a decrease of standard work contracts; and workers taking on low *and* high-skill jobs were increasingly likely to be self-employed, part-timers or temporary workers.

The spread of non-standard work is most visible when comparing its share in new jobs created before and since the onset of the crisis. Between the mid-1990s and the start of the Great Recession, almost half of all job creation was in the form of non-standard work; including the crisis years brings the share up to 60% (Figure 1.7).

The most recent data shows that non-standard work accounted for around a third of total employment in OECD countries in 2013, shared roughly equally between temporary jobs, permanent part-time jobs and self-employment. In some eastern European countries the proportion of non-standard workers is lower than 20% but in most southern European countries, Australia and Switzerland it exceeds 40% and in the Netherlands more than half of all workers are in non-standard work, largely because of a high number of part-timers.

Figure 1.7. More than half of all jobs created since 1995 were non-standard jobs

Panel A. Employment growth (%) 1995-2007, by type of employment

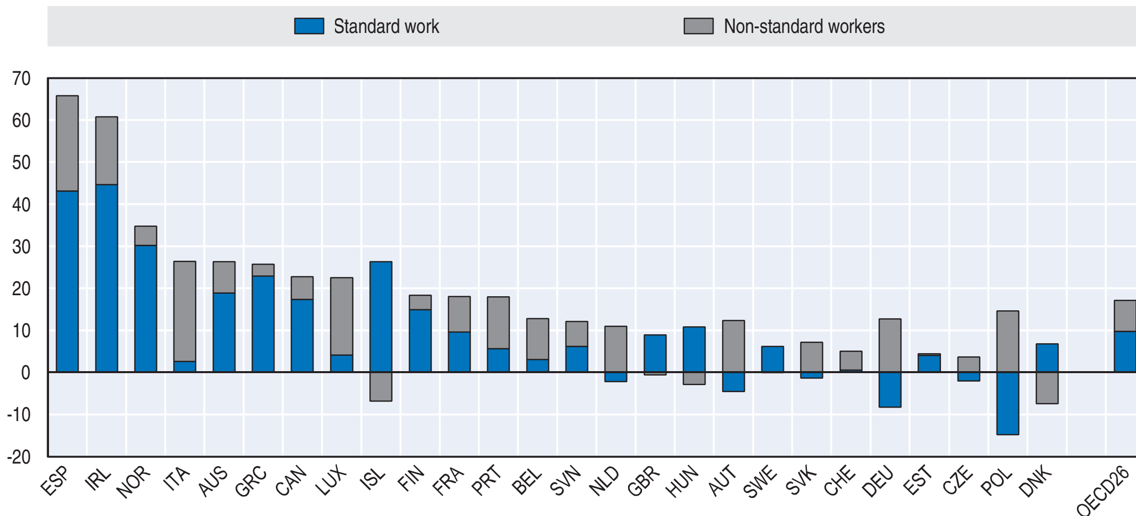
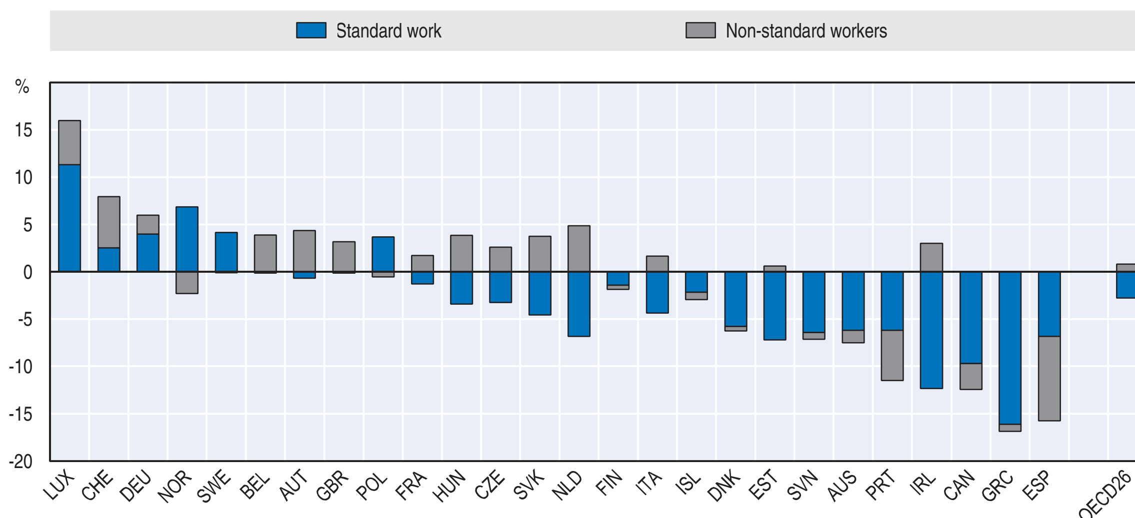


Figure 1.7. More than half of all jobs created since 1995 were non-standard jobs *(cont.)*

Panel B. Employment growth (%) 2007-2013, by type of employment



Note: Working-age (15-64) workers, excluding employers as well as students working part-time. Non-standard workers include workers with a temporary contract, part-timers and own-account self-employed.

Source: European Union Labour Force Survey (EU-LFS), Labour Force Survey for Canada, Household, Income and Labour Dynamics in Australia (HILDA) for Australia.

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Who are the non-standard workers?

Women and youth are more likely to be in non-standard work than prime-age men. A quarter of men have non-standard jobs, but that proportion rises to 40% among women, mostly because many women work part-time. They represent close to 70% of non-standard workers in Luxembourg, Austria and Switzerland, and more than 60% in most Nordic countries, the Netherlands, Germany, France, Belgium and Japan. Youth are the age group with the highest incidence of non-standard work at 40%. This mostly involves younger workers on temporary contracts; among temporary workers, close to half are under the age of 30.

Non-standard workers are also more likely to have lower levels of education and to be found in smaller rather than larger firms. In both cases, incidence is just under 50%. Half of all non-standard workers are the main breadwinners in a household, and a large majority of them (80% or more) live in two-or-more-person households, often with children.

It's about jobs – but which jobs?

Non-standard jobs are not necessarily bad jobs. Non-standard employment is used by employers in need of a flexible workforce that can be adjusted quickly with production, to cut costs during downturns or as a screening device for new hires. Part-time, temporary and self-employment arrangements can be attractive to certain workers who opt for this type of employment to achieve a better work-family life balance, higher life satisfaction or, in the case of self-employment, a greater sense of control.

But it can also be associated with precariousness and poorer labour conditions where non-standard workers are exempted from the same levels of employment protection, safeguards and fringe benefits enjoyed by colleagues on standard work contracts. The analysis in Chapter 4 shows that many non-standard workers are indeed worse off on a range of aspects of job quality. First, and foremost, a non-standard job typically pays less than traditional permanent work. In general, earnings levels are lower in terms of annual and hourly wages. For part-timers, however, the differences in *hourly* wages tend to disappear once other demographic and job characteristics are taken into account. But temporary workers face substantial wage penalties, earnings instability and slower wage growth compared to permanent workers.

These earnings gaps are especially wide among low-skill, low-paid workers; non-standard workers in the bottom 40% of earners typically suffer wage penalties of 20%. This gap between non-standard and standard workers narrows markedly among higher-income workers and vanishes completely among top earners (i.e. the highest earnings quintile).

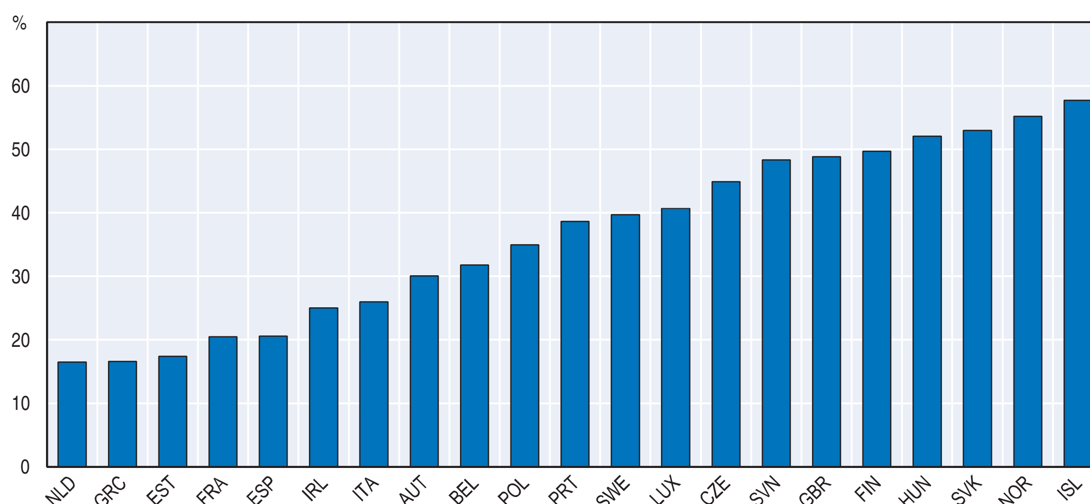
Non-standard workers suffer other penalties, too. Full-time temporary workers are 20% less likely – and part-time workers 40% less likely – to receive training than standard workers. Non-standard workers also face higher levels of insecurity in terms of the probability of job loss and unemployment and, in the case of temporary workers, report significantly higher job strain.

While associated with lower job quality, non-standard work can be a "stepping stone" to more stable employment – but it depends on the type of work and the characteristics of workers and labour market institutions. In particular, temporary contracts can increase the chances of acquiring a standard job compared with remaining unemployed in the short run by some 12 percentage points on average. But this is not true of part-time work or self-employment, which do not increase the chances of a transition to a standard job. In many countries, prime-age and older workers have a better chance of using non-standard jobs as "stepping stones" than younger workers, especially those with only temporary work contracts. In addition, transition rates remain low when considering a longer time span: less than 50% of the workers that were on temporary contracts in a given year were employed with full-time permanent contracts three years later (Figure 1.8).

In sum, people are more likely to be poor or in the struggling bottom 40% of society if they have non-standard work, especially if they live in a household with other non-standard or non-employed workers. This might not matter too much if such work were a stepping stone to a better job in the future, but too often this is not the case. Excessive wage penalties associated with temporary jobs in particular can contribute to wider inequality. That can also contribute to lower levels of training and skill development – precisely those activities that can lead to higher growth in the future. Ensuring that different employment arrangements meet the interests of both employees and employers, and do not become a caste system of "good" and "bad" jobs, is one way of ensuring that equality and growth move hand-in-hand.

Figure 1.8. In most countries, the majority of temporary workers stay on such jobs

Percentage share of temporary employees in 2008 that were employed as full-time permanent employees in 2011



Note: 2007-10 for the Czech Republic, France, Greece, Sweden and the United Kingdom; 2006-09 for Norway and the Slovak Republic; and 2005-08 for Ireland.

Source: OECD (2014), *OECD Employment Outlook*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2014-en. Calculations based on the European Union Statistics on Income and Living conditions (EU-SILC) 2005-11.

StatLink http://dx.doi.org/10.1787/888933207768

1.5. Tackling job and wage discrimination of women will boost growth and equality

Over the past 20 years, most OECD countries have seen big increases in the numbers of women joining the labour market and major improvements in the status of women in the workforce. These changes have brought benefits not just for women themselves and their families, but for the economy as a whole. A narrowing in the labour force participation gap between men and women of 50% has been estimated to raise annual growth in GDP per capita by 0.3 percentage points on average (OECD, 2012a). And even though there are complex interactions between female labour force participation and inequality the overall impact has been positive: having more women in the workforce lowers income inequalities.

Inequalities between men and women persist

Despite substantial progress, inequalities between women and men in the workforce persist. Over the past 20 years the employment gap in OECD countries has narrowed by an average of 7 percentage points but it still stands at 16 percentage points. When taking into account that women are more likely to hold part-time jobs and thus work fewer hours than men, the hours-adjusted employment gap widens to almost 24 percentage points (see Chapter 5).

Differences in pay also persist, due in large part to the fact that women are more likely to work in lower-paid occupations. Still, the pay gap has narrowed: among full-time employees, women earned, on average, 15% less than men in 2013, an improvement of four percentage points since 2000.

More women in paid work means less income inequality

A priori, higher female labour force participation could lead to more or less inequality. On the one hand, there are cases, where the presence of more women in the workforce may actually result in higher income inequality. This may happen, for example, when more women take up high-skill jobs that are better paid. Nowadays people tend to choose their spouses more often from the same socioeconomic group, meaning that doctors are marrying other doctors rather than nurses as it was the case more than 20 years ago. This behaviour, also called "assortative mating", results in a situation where higher incomes become more concentrated.

In addition, earnings inequality *among* women is higher than *among* men, and one could expect this to drive up overall inequality. However, the earnings gap between high and low educated women has been increasing at a much slower pace than the same gap among men since the mid-1980s, on average by 9% as compared to 17% for men. There are two main reasons why low-income women are not slipping as far behind as low-income men. Firstly, their real earnings have increased more – or declined by less – than men's in most countries. Second, women in the bottom 20% of earners worked longer hours than in the past.

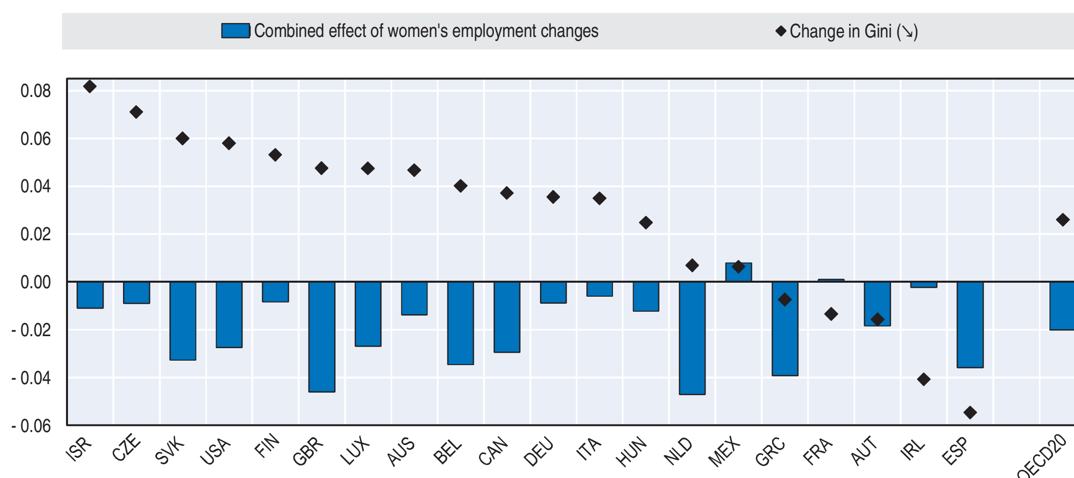
On the other hand, the mere fact of more women entering the workforce outweighs the disequalising pressures and clearly narrows income inequality overall. This is particularly true – although not in all countries – when more women are working "traditional hours" in full-time jobs. Improvements in the gender pay gap also contribute to further reducing income inequality.

Overall, the evidence in Chapter 5 shows that if the proportion of households with a working woman had remained at around the same levels as 20 to 25 years ago (52% rather than 61%), income inequality would have increased by almost 1 Gini point more on average than it actually did. In addition to the general impact of women joining the labour force, the impact of a higher share of women working full-time and higher relative wages for women added another brake of 1 point (Figure 1.9).

For these effects to continue into the future, governments need to pursue policies to increase the earnings potential of women on low salaries and to address the glass ceiling, which prevents women from moving up the career ladder. Governments can also act as a role model for other employers by ensuring equality of opportunity in the public service and promotion the representation of women in public life.

Figure 1.9. In all OECD countries, 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 2007 or latest available pre-crisis year



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.

Source: OECD Secretariat calculations from the Luxembourg Income Study (LIS).

StatLink http://dx.doi.org/10.1787/888933207774

1.6. Wealth concentration widens disparities further and limits investment opportunities for many

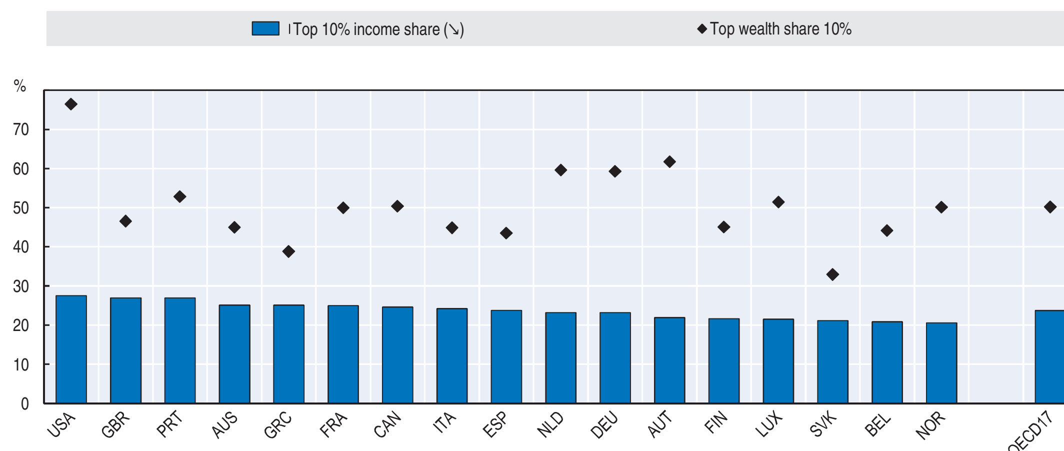
Understanding people's incomes, especially after taxes and benefits, gives a strong sense of whether or not they can meet their bills and make long-term investments in education, housing and so on. Yet there is no doubt that wealth also matters, both in shaping people's individual circumstances by generating capital income and as a wider socio-economic force. Accumulated wealth can generate capital income, which, in turn, can deepen income inequalities. In basic terms, income is the cash that people earn every month through work, transfers or rents; wealth is the money they accumulate over time in bank accounts and in assets such as property and stocks. Comparable data on income are much more abundant than data on wealth, which perhaps partly explains why wealth inequalities have been largely neglected, up until recently.

Wealth is more unequally distributed than income

Household wealth – in particular financial assets – is much more unequally distributed than income. The bottom 40% owns only 3% of total household wealth in the 18 OECD countries for which comparable data are available. For comparison, their share of total household income is 20%. At the other end of the scale, the top 10% of the wealth distribution own half of all total household wealth and the wealthiest 1% hold 18%. The richest 10% of *income* earners get around a quarter of all cash income, ranging from 20% in Norway to 28% in the United States, and close to 40% in Chile and Mexico. But countries with lower income inequality levels are not necessarily those with low wealth concentration, as witnessed by the examples of Austria, Germany and the Netherlands (Figure 1.10).

Figure 1.10. Wealth is more concentrated at the top than income

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



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.

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

StatLink http://dx.doi.org/10.1787/888933207780

If it is problematic to develop a snapshot of wealth at any one time,[3] it is doubly difficult to track trends. Piketty (2014) compiled data from eight OECD countries since the 1970s and concluded that, like income, private wealth has tended to become more unequally distributed in recent decades, reversing a long-term decline throughout much of the 20th century. Several factors have contributed to this rise, most notably the increase in stock and housing prices relative to consumer prices.

Since the crisis, there are indications that the trend towards greater wealth inequality has deepened. Comparable data from six OECD countries indicate that the crisis has increased wealth concentration at the top in four of them, while wealth inequality at the bottom of the distribution increased in five (Australia, Canada, Italy, the Netherlands and the United States).

The flipside of wealth: Debt

Real assets, typically the family residence, are the main source of wealth, both for the wealthy and for people with low levels of wealth. They account for 75% of the value of total assets on average. It is only among those at the top of the wealth scale that financial assets, such as stocks, form a significant source of wealth.

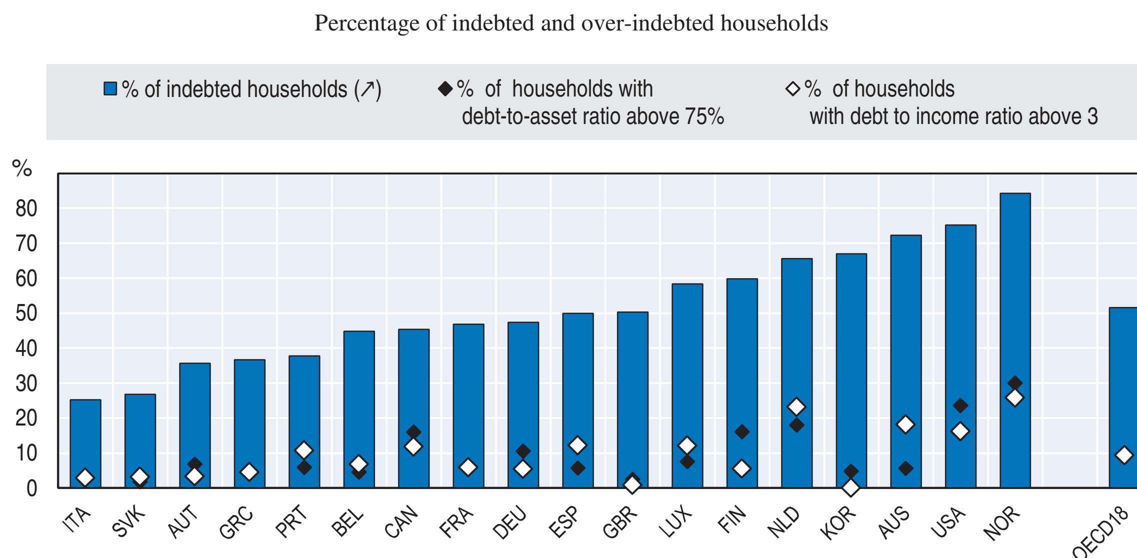
The flipside of wealth is debt, and, in some countries, there are reasons to be concerned about the scale and concentration of liabilities, which are typically created by loans on families' main homes. As witnessed in the recent financial and economic crisis, the concentration of debt on some households, even those with high levels of assets, may put them at risk if there are sudden changes in asset prices. That, in turn, could affect consumption and investment in the entire economy.

Close to 10% of households in the 18 OECD countries for which data are available are over-indebted, i.e. they have a debt-to-asset ratio exceeding 75% or a debt-to-income ratio

over 3, and these ratios exceed 16% in the Netherlands, Norway and the United States (Figure 1.11). The largest share of indebted households are found in the middle of the income distribution, i.e. outside the bottom fifth and the top fifth. Only about a third of households in the bottom fifth have any debts, as many poorer households have difficulties in securing loans.

Figure 1.11. Half of all households have debts and one tenth is over-indebted

Percentage of indebted and over-indebted households



Source: *OECD Wealth Distribution Database*.

StatLink http://dx.doi.org/10.1787/888933207792

In summary, wealth is much more concentrated than income, and there are reasons to believe that wealth inequalities are deepening over time. The capital income generated by wealth concentration is likely to deepen income inequality still further, with implications for deteriorating economic growth. At the same time, a high level of indebtedness and/or low asset holdings further affects the ability of the lower middle class to undertake investments in human capital or others, and reduces risk taking. This constitutes a second pathway for how disparities in wealth holdings can weaken potential growth.

1.7. Designing sustainable policy packages to promote equality of opportunities

There is nothing inevitable about growing inequalities. Policy makers have a range of instruments and tools at hand to tackle rising inequality and promote opportunities for all while also promoting growth. There is, however, no single best model or policy mix to adopt. Each country will have to design its own package, depending on the key factors at the origins of inequality in the national context. How countries choose to address inequality also depends on the extent to which their societies agree on the importance of values such as solidarity, redistribution and equality and what role they assign to government in promoting equality (see Atkinson, 2015).

This report adds a particular dimension to discussions of policy choices to tackle inequality by demonstrating how inequality can reduce growth. The case for addressing inequality becomes more urgent once it is realised that successfully doing so might also

increase long-term growth. Furthermore, the report suggests that it is the position of the bottom 40% that matters in particular for economic growth.

There are two approaches to identifying the policy choices that countries might make in order both to reduce inequalities and increase growth.

- First, identify which policies will best promote growth, and then analyse their potential distributional effects. This approach has recently been followed in OECD work (e.g. OECD, 2008; Causa et al. 2014), identifying, within the pro-growth policy toolbox, reforms that could yield a double dividend in terms of boosting GDP per capita and reducing income inequality. It also identifies other policy areas where reforms could entail a trade-off between both objectives, such as tightening benefits to long-term unemployed people, or administrative extensions of collective wage agreements.
- The second approach is to identify those policy areas which will best address inequality, and then assess their effect on growth. Such approach builds on the extensive OECD work on the drivers and causes of inequality since *Growing Unequal?* (2008) and *Divided We Stand* (2011), and the most promising elements for a policy package are discussed below.

It might be expected that the two approaches are largely compatible. However, to the extent that some countries prioritise economic growth they will prefer some policies over those that are prioritised by those countries where the focus is on ensuring a more equitable distribution of the growth benefits. Whatever the starting point, it should be stressed that there are important *policy complementarities* that can and should be exploited. A government may for example go for a growth-enhancing policy but introduce at the same time complementary measures that reduce its potential negative distributional effects. This means, for example, that it is a good idea to accompany measures to reduce barriers to competition (e.g. relaxing product market regulations) with adequate policies to support workers affected by the transition from less to more productive activities.

The most efficient policy package will address inequalities at the point where they originate rather than trying to pick them up only at a later stage. Redistribution strategies based on transfers and taxes *alone* would not necessarily be effective or financially sustainable. Policy needs to be pitched broadly, both with respect to the target groups and to the policy tools applied – targeting poverty alone is not the solution. The analysis in this report shows that it is not only the situation of the very poorest section of the population that inhibits growth but that of a much broader group of working and lower middle class people. Policy thus needs to be directed towards the bottom 40%.

As the analysis in this report shows, some – though not all – policies to reduce income inequalities will not only increase fairness but will also sustain growth. Identifying such policies is of particular importance within the broader new OECD strategy of achieving *Inclusive Growth* (see www.oecd.org/inclusive-growth), i.e. growth that creates opportunities for all and distributes the dividends of increased prosperity fairly (OECD, 2014d, 2014e).

Following the approach of identifying policies which are effective in tackling inequality, and then assessing their impact on growth, this report proposes a strategy for efficient policy packages to reduce the growing divide between rich and poor and restore opportunities for all, i.e. focusing policy attention on the four areas: i) women's

participation in economic life; ii) employment promotion and good-quality jobs; iii) skills and education, and iv) tax-and-transfer systems for efficient redistribution.

Women's participation in economic life

While gender gaps in employment and earnings have declined, they remain large and there is a need for policies to eliminate the unequal treatment of men and women in the labour market. This agenda is relevant for OECD and emerging economies alike as witnessed by a joint report of international organisations for the G20 (OECD-ILO-IMF-WB, 2014). Establishing clear legislative frameworks to protect all workers against all forms of direct and indirect discrimination and harassment – including discrimination of workers based on gender, maternity, paternity and family responsibilities – can help provide a formal structure to remove barriers to female employment and career progression (see the OECD Gender Recommendation, for a comprehensive set of policy principles and commitments to promote gender equality in education, employment and entrepreneurship, OECD, 2013b).

Examples of such measures include labour legislation which guarantees the right of women to return to work to the same or an equivalent position paid at the same rate after maternity leave, as introduced for example, in Canada, Korea and the United States. The principle of equal pay for equal work or for work of equal value should also be respected in collective bargaining as well as labour laws and practices. In Indonesia, equal employment opportunities guidelines were developed by the government in collaboration with social partners, which explain the principle of equal pay for men and women for work of equal value and provide guidance on how to identify discriminatory pay practices.

Measures supporting the reconciliation of work and family life are also critical for men and women to participate in the labour market on an equal footing (OECD, 2012a; OECD 2014b). The difficulty of combining work and family responsibilities very often results in women working part-time or dropping out of the labour force altogether. A range of policies is necessary to remove this obstacle. In many countries, governments and businesses have implemented family-friendly policies – parental leave, childcare, out-of-school-hours care, flexible working arrangements, etc. – to help parents with children. France and the Nordic countries, for example, provide a continuum of publicly provided reconciliation support for parents during the early years of their child's life, and they have been able to combine high female employment with high fertility rates, carrying a demographic dividend with them into the future.

One policy option towards better sharing of unpaid work is to institute leave arrangements for the exclusive use of fathers. Many countries have paternity leave ranging from a few days up to two weeks as for example, in France, Spain and the United Kingdom. In a number of countries including Germany, Italy and France, policy encourages fathers to take leave to care for young children by granting them the exclusive right to part of the paid parental leave entitlement for two months or more on a "use it or lose it" basis, or provide "bonus" months when couples share leave entitlements while (to a varying degree) providing income support during the leave period. Yet, this needs to be combined with active promotion of the policy to change mentalities (e.g. Ikumen Project in Japan) designed to reduce the stigma associated with men taking paternity leave, since in both Korea and Japan such leave is seldom used. Another recent policy change is the inclusion of "Dad and Partner Pay" for up to two weeks, paid at the rate of the national

minimum wage within the Australian parental leave scheme. Paternity leave was also introduced recently in Argentina, Brazil and Hong Kong, China.

As highlighted in Chapter 4, women are often overrepresented in low-wage or minimum wage occupations. An appropriate minimum wage can help to address increasing concerns about inequality and rising levels of working poverty. Several countries have also taken steps to improve the working conditions of domestic workers, which are predominantly women, and reduce the incidence of informality among them. France and Canada (Quebec), for example, have introduced model contracts to facilitate the establishment and formalisation of an employment relationship. Some emerging economies, have also introduced fiscal measures to encourage formalisation, such as the "Simples Law" in Brazil or the "Regimen de Incorporación Fiscal" in Mexico. Other emerging economies, such as South Africa, have taken steps to improve the working conditions of domestic workers through the introduction of a minimum wage and laying down hours of work, overtime, salary increases, and leave entitlement (Basic Conditions of Employment Act, 2002).

In addition to gender gaps in employment participation, women still face a glass ceiling in getting through to the top of their professions. To increase women's representation in decision-making positions, countries have introduced mandatory quotas (e.g. France, Germany, Italy, Spain), target-setting (Denmark), disclosure initiatives (United States) and monitoring processes.

Employment promotion and good-quality jobs

The most promising way of promoting equal opportunities and reducing high inequality is to boost employment and access to good-quality jobs, not only for women but more generally. As the analysis in Chapter 4 shows, before the crisis income inequality increased despite strong growth in employment. One of the reasons is that more than half of the jobs created since the mid-1990s were in non-standard work. While non-standard arrangements such as part-time work or self-employment may suit many workers' efforts to strike the right work-life balance, they also hollow out middle-skill, middle-income jobs and drive down earnings for low-skilled non-standard workers, thus contributing to rising income inequality. To break this circle of increasing employment and higher income gaps, more inclusive labour market policies are needed which focus not only on the quantity but also on the quality of jobs.

The new OECD conceptual and operational framework to boost job quality suggests that policies should focus on three dimensions of jobs: earnings quality; labour market security; and the quality of the work environment (OECD, 2014c). Earnings quality captures the extent to which the job contributes to workers' material living standards. Labour market security captures labour market-related aspects of economic security. For the advanced economies, this focuses on the risk of unemployment and the income support workers are entitled to if unemployed. For the emerging economies, hidden unemployment and under-employment on extremely low pay need also be taken into account. Quality of the working environment captures non-economic aspects of job quality, e.g. the incidence of job strain that can impinge on workers' health and well-being. Job strain occurs when high demands on workers are combined with low resources available to address them.

An important finding for advanced countries is that job quantity and the different dimensions of job quality tend to be positively related across countries, across population groups, and across individuals over the lifetime. This implies that with the right mix of

policies and institutions it is possible to do well across all dimensions of labour market performance. To reduce inequalities in both job quantity and job quality, policies should target those workers who tend to do poorly along several dimensions, particularly youth and the low-skilled. By contrast, in emerging economies, job quantity and job quality often do not go hand in hand. The main issue is generally not open unemployment, but the lack of better paid and more protected jobs. This calls for policy actions on job quality. Indeed, there is increasing evidence that job quality and inclusiveness play a positive role for economic growth and social stability. In all countries, however, promoting the quality of the work environment impacts not only on the well-being of workers, but also has direct economic implications, e.g. higher productivity and lower public health expenditure. In this area, policies should focus on increasing the effectiveness of occupational health systems to prevent work-related health problems, and on promoting social dialogue and employers' social responsibility on these issues.

Active labour market policies

The design and implementation of benefit systems, employment and training programmes and employment service arrangements are important drivers of unemployment and under-employment, benefit dependency rates but also the degree of matching of workers with jobs. Recent OECD studies of activation policies (*Connecting People With Jobs*) revealed substantial differences in eligibility conditions for benefits and their generosity; in the operation of the public and private employment services; in resources devoted to active labour market programmes; and in the targeting of these resources to different groups.

There is no unique formula for effective activation. Active labour market measures for unemployed workers vary among the different target groups. The long-term unemployed require measures to help them find paid work based on skills acquisition and work experience (e.g. Work Experience Phase in Australia), combined with intensive and specific case management and interventions, such as the individualised action plans and employment service centres in Japan.

For people with disabilities, policies should focus on preventing permanent withdrawal from the labour market by enhancing their remaining capacity for work, rather than their incapacity. In countries such as Australia, the Netherlands, Switzerland, United Kingdom and the European Nordic countries, reforms have been introduced to turn passive disability benefits into more active benefits with a re-employment perspective. Countries that have pursued structural reforms of disability benefits by introducing stronger gate-keeping mechanisms, time-limiting benefits with a or reassessing the eligibility of existing recipients managed to avert the risk of the long-term unemployed drifting into disability benefit schemes and curb long-term expenditure during the global financial crisis. Such policies have been introduced in Sweden, the Netherlands, Switzerland, and the United Kingdom – all countries that have generally been able to put disability benefit claims on a declining trend. By contrast, other countries that have failed to reform disability benefit now face mounting beneficiary rates – in Estonia and the United States they have risen by over 10% (OECD, 2010).

For older workers, policies should be designed to allow for greater choice in work and retirement decisions (including part-time employment), and to facilitate employment and employability at an older age (e.g. the Perspective 50plus in Germany; Targeted Initiative for Older Workers in Canada). Enhancing employability is getting all the more important as programmes that fully exempt older unemployed workers from job-search

requirements have now generally been abolished, and partial exemptions from intensive activation measures are also becoming more restricted.

Direct job creation schemes can serve as a useful back stop to ensure that the long-term unemployed and other disadvantaged groups maintain a contact with the labour market (see OECD, 2015c). India has one of the largest public works programme in the world in terms of coverage – the National Rural Employment Guarantee Scheme (NREGA) – which plays an important role in reducing short-term poverty and smooth employment and income throughout the year for rural labourers. The programme however remains little used, mainly in poorer states because of lack of funding and weak implementation capacity.

A number of countries have engaged in reforms that simplify a myriad of social benefit programmes in order to lower administrative costs and increase take-up and effectiveness of the support provided. The United Kingdom, for instance, is currently implementing a reform aiming to bring together six different means-tested transfer programmes into a single Universal Credit, though it is currently too early to tell what the distributive outcomes of this reform will be.

Targeting young people

More must be done to provide youth with the skills and help their need to get a better start in the labour market and progress in their career to avoid high drop-out rates and careers in low-paid work. The *OECD Action Plan for Youth* recommends a set of measures to tackle the current situation of high youth unemployment, including expanding active labour market strategies and encouraging employers to expand quality apprenticeships or internship programmes, while strengthening the long-term prospects of youth through strengthening the education system, the role and effectiveness of Vocational Education and Training and assisting the transition from school to work (OECD, 2013c).

Helping high-school dropouts through second-chance programmes can be an effective way to ensure they do not become stuck in low-paid jobs. For example, Second-Chance Schools in France aim to provide youth aged 18-25 who have left school early with the opportunity to complete a high-school diploma. It is also important that training and re-training opportunities are available to older individuals who have suffered job loss. A number of countries, such as Australia, have opened up apprenticeship schemes to those 25 or older, thus broadening the options for low-skilled older workers to obtain training.

Prolonged periods of unemployment can also lead to permanent scarring and reduce future earnings and widen inequality. For youth, different forms of hiring incentives, such as the Youth Contract in the United Kingdom or the *Zérocharges Jeunes* in France and the tax incentives introduced recently in Italy, could be considered as short-run measures targeted to provide job opportunities, especially for the low-skilled youth. However, they should involve some training component and serve as a stepping stone back into regular employment rather than becoming a low-wage trap. A good example of these schemes was the UK *Future Jobs Fund* which aimed at avoiding the scarring of young people as a result of the global economic crisis. In the medium- to longer-run, many countries need to introduce better and more attractive options for allowing youth to combine study and work experience and for encouraging their participation in vocational education and training. Useful examples in this direction are provided by the German and Australian experiences.

Often, there are also distinctive arrangements for unemployed youth including the recently introduced European Union *Youth Guarantee* and its predecessor guarantees in the Nordic countries as well as the prioritisation of education over job search for early school leavers in Australia. In some countries, unemployed and inactive youth benefit from special activation programmes such as intensive counselling – the Youth Guarantees – to avoid being trapped in benefit dependency. Youth guarantees require strong co-ordination between many service providers (health, social assistance, employment, career guidance, education and training, etc.) to solve special barriers such as lack of housing, health problems and devise a concrete development plan. The EU Youth Guarantee aims at ensuring young people's successful transition into work by ensuring that, within four months of leaving school or losing a job, young people under 25 can either find a good-quality job suited to their education, skills and experience; or acquire the education, skills and experience required to find a job in the future through an apprenticeship, traineeship or continued education. The EU Youth Guarantee is based on successful experience in Austria and Finland that show that investing in school-to-work transitions for young people pays off.

Policies that support the recognition of skills and competencies acquired during work may be helpful, especially for youth who follow a dual path of work and study. For instance, Slovenia has a programme in place that provides a digital tool for validation of informally gained work experience called Nefiks. This tool produces certificates that the young person can subsequently use to prove and demonstrate relevant skills to potential employers, who might be concerned about credentials (OECD, 2014c).

Reforming labour market institutions

Low pay and in-work poverty are major policy challenges when addressing the question of rising inequality. Minimum wage settings, provided they are well-designed and embedded in appropriate tax and transfer settings can help supporting low-wage workers and low-income families while avoiding significant job losses (OECD, 2015c). Effective minimum-wage design requires: ensuring that decisions on the level and adjustments of the minimum wage involve independent commissions; taking account of differences in average income levels across regions as well as by age; ensuring enforcement; and reducing social security contributions to lower non-wage labour costs at the minimum wage. At the same time, minimum wages alone tend to be a rather poor anti-poverty toll. First, while in-work poverty is associated with low wage levels, a substantial number of minimum wage workers live in households with income above the poverty line. Second, lack of co-ordination between minimum wage policy and other redistribution measures, may reduce the impact of minimum wages: for instance, higher taxes and reduced benefit entitlements could consume large parts of any minimum wage increase.

Policies must address not just the level of wage adjustment but also its distribution. In this respect, previous analysis has shown that declining union coverage had a disequalising effect on the wage distribution (OECD, 2011). Improving social dialogue and industrial relations are therefore other important elements of a more equitable and inclusive growth. High union density and bargaining coverage, and the centralisation/co-ordination of wage bargaining tend to go hand-in-hand with lower overall wage inequality in both OECD countries and emerging economies, although there is some disagreement about the size of these effects and whether they hold for women (OECD, 2004; Golden and Londregan, 2006; Card et al., 2003; Hayter, 2015). Union coverage, rather than union membership appears to be more important because in many

countries there is a legal or administrative extension of collective agreements within an industrial sector.

Addressing labour market segmentation and more balanced employment protection are also important elements of enhancing job quality and tackling inequality. Temporary employment is associated with lower current and future long-term earnings. While temporary jobs may provide stepping stones to more stable employment, temporary jobs may be replacing stable jobs instead of encouraging job matching. In addition, in some countries the likelihood of moving to a stable job is low because of high segmentation in the labour market, highlighting the importance of having more homogenous employment protection legislations (EPL) across workers of different types of contracts.

Since the onset of the recent economic crisis, a number of countries with relatively strict EPL on permanent contracts undertook reforms to relax their regulations on individual or collective dismissals, reducing the gap in the stringency of regulations affecting permanent and temporary workers. Such reforms are expected to improve the allocation of labour to most productive uses and also reduce labour market duality. However, in the short-term some workers may be affected by the reallocation process; the number of dismissed workers is likely to increase and the latter are likely to experience income losses (OECD, 2013f). Therefore, it is important that governments have in place adequate social protection and unemployment benefit schemes as well as effective re-employment services. Again, any success of EPL reforms will rely on a strong basis of dialogue between the social partners and the government.

A more equitable labour market also benefits from efficient public employment services. The responsiveness and effectiveness of activation policies have in many countries been improved by overarching institutional reforms. Various lines of policy actions have been considered: one option is the merging of employment assistance with benefit administration services (United Kingdom, JobCentre Plus); another option is to create a separate institution charged with co-ordinating the delivery of labour market and support programmes (United States, Workforce Investment Boards); or to set up an integrated social assistance information system (Turkey, İŞKUR). The effectiveness of these initiatives can be further improved through careful performance management, particularly where services are being outsourced (as in Australia).

Experience from countries such as Finland, Ireland, Switzerland and Australia, suggests that partnership approaches between organisations and agencies (including those in the private and not-for-profit sector) can improve the co-ordination of service delivery, especially for disadvantaged client groups or high-unemployment areas. In Finland, the alignment of institutional incentives – as national government and local governments agreed to share the cost of benefit payments to the target group – accompanied the development of jointly managed service centres for the very long-term unemployed.

The effectiveness of public and private employment services can also be improved through performance management. Performance is often measured in terms of job placements and, especially for harder-to-help groups, longer-term employment outcomes. However, the targets for these outcomes are often set at the national, regional and local office levels, by ad hoc methods such as negotiation or incremental improvements on the previous year's performance. Australia and Switzerland, by contrast, rate local employment office performance in terms of gross outcomes with regression adjustments for jobseeker and local labour market characteristics. This approach encourages the robust operational measurement of the variables involved, helps to identify further factors

influencing performance and, when well-developed, generates relatively accurate and objective ratings of local office performance.

Skills and education: Investing for opportunities

The third area for promoting equality of opportunities and tackling high inequalities is investing in human capital through better skills and education policies. As the analysis in Chapter 2 shows, the inability of individuals from poor socio-economic background to access higher education and developing their human capital is at the heart of the transmission mechanism through which income inequality lowers economic growth. The reverse is true as well: the trend towards higher educational attainment and better skills has been one of the most important elements to foster economic growth in the long run and, at the same time, to partially counteract the trend toward higher earnings inequality. Investment in human capital must start in the vital early childhood period and be sustained through compulsory education. This will help ensure equality of opportunity for children from disadvantaged backgrounds. Once the transition from school to work has been accomplished successfully, there must also be sufficient incentives for workers and employers to further invest in skills throughout the working life.

Early childhood care and education: Early years potential: use it or lose it

A focus on the early years is crucial in addressing socio-economic differences in education. Poverty in childhood can result in gaps in the developmental trajectory for children in the formative years; such gaps can culminate in more negative outcomes in the long term as children are less able to take full advantage of interventions designed to promote development. This can lead to the entrenchment of poverty and inequality in future generations and thus to a lack of social mobility.

To combat poverty and promote child development, childcare services should provide parents with young children the care support they need to work, as well as the safe environments needed for pre-schoolers to learn and develop. The OECD PISA results show that participation in quality early childhood education (as measured by the ratio of children to staff, the programme's duration, and spending per child) is associated with stronger reading performance at age 15, especially for children from families with disadvantaged socio-economic backgrounds (OECD, 2013c). Insufficient and unequal access to childcare results from various obstacles, namely the length of parental leave, the cost of childcare, the tax-benefit system, and the quality, accessibility and availability of childcare.

While both OECD and emerging economy countries have achieved universal or near universal primary education, curbing inequalities in secondary and higher education remains a concern. In terms of educational attainment, while advanced economies are focusing on school retention until high school completion, emerging economies need to act on lower secondary schooling – through better learning inputs and more equality of access – before they can turn to upper secondary education. Conditional cash transfers can also help promoting the attendance of children from disadvantaged groups, as experienced in several emerging economies. In addition, improving the physical infrastructure, teachers' qualifications and school governance are required to enhance educational quality. South Africa, for instance, introduced a bursary programme to encourage students entering into the teaching profession and put in place wage incentives representing as much as 10% of a starting salary in 2007 to attract teachers in rural and remote areas (Murtin, 2013).

Addressing early school leaving – i.e. before completion of upper secondary education – is also crucial and requires early detection of youth at risk of dropping out early from school and remedial education for those young people who leave education too early only to become unemployed or inactive. In New Zealand, for instance, schools send regular reports to the Department of Education about every young person who leaves school either with or without a qualification. These data are filtered by the department, which identifies "at-risk" youth (based on information on qualifications and grades) and directly refers these youth to specialised service providers (OECD, 2014c). Because school dropout is a particularly acute problem among socio-economically disadvantaged students, examining school dropout is intrinsically linked to issues of equity and social mobility (OECD, 2014f).

Success at school depends not only on attendance and school resources (in terms of teachers' abilities or school equipment, for instance), but also on parental engagement with the learning process and what is available in the homes. Therefore, policies that support families with school-aged children can help reduce future poverty risks and inequalities.

Policies for families with school-age children

These policies can be designed to encourage attendance at school (overall or at critical stages) for low-income children, or to meet specific costs for school equipment, uniforms and meals that might otherwise be a burden on disposable incomes in poor families. Examples of polices designed to encourage school attendance in OECD countries include an increase in the means-tested Family Tax Benefit in Australia between the ages of 13 and 15. This increment is designed to increase family income, and encourage children to stay in school, when leaving school to earn and supplement the family income is an option considered for the child.

Broader coverage policies designed to encourage the enrolment in school of children belonging to poorer families are Mexico's *Prospera* (former *Oportunidades*) and Brazil's *Bolsa Familia*, which conditions its cash payment on children attending school between the third grade of primary school until age 16 (see Chapter 7). Finally, in a number of OECD countries when children get older and may consider leaving school, family cash benefits or tax breaks are provided if children stay in further or pursue higher education. Examples of countries applying these policies include Austria, the Czech Republic, Germany, and Switzerland (higher education); and the United Kingdom (further education).

Policies specifically designed to enable families to provide school equipment for children can take the form of regular or one-off cash payments, or income tax reductions for primary and secondary school children: an example of the former comes from France, which provides a periodic tax allowance for families with school-aged children; examples of the latter include the school-clothing grant in Ireland, an annual child allowances for school-aged children for the purposes of buying school equipment in Israel, an educational care subsidy paid as part of the Patriot's Pension in Korea, and the Portuguese schooling complement (paid as an element in the main Portuguese Family Allowance). Luxembourg also pays a one-off cash "new year" school allowance per child.

School support can also come in the form of services, and most often this means support with food costs. Breakfast clubs, free meals, and free milk all contribute to the nutritional needs of growing and learning children. Support for poor children in the form

of food supports (milk or school meals) is provided in Mexico, the United Kingdom and the United States.

Recent analysis by the OECD has shown that countries with childcare systems that contribute most to poverty reduction maximise access to the service through universal provision whilst also using tapered fees structures (OECD, 2015d). Universal access facilitates parental participation in the labour market and progressive fees help pay for the service by the poorest parents. Denmark and France, for example, both have universal childcare systems, but childcare provision in Denmark contributes more to poverty reduction than in France due to a progressive fee structure. Countries in the OECD that presently provide families with universal access to childcare (i.e. at least 15 hours a week for at least two consecutive years, regardless of parental income or employment status), include the Nordic countries, Australia, France, Hungary, New Zealand, Spain and the United Kingdom. Denmark, Finland, Hungary and Sweden are examples of countries in which childcare fees structures based on differences in earnings and/or household types.

Reducing inequality in educational outcomes

Education policies focusing on equity in education can promote earnings mobility between generations and reduce income inequality over time. Countries can work towards this goal by giving equal opportunities to both disadvantaged and advantaged students to achieve strong academic outcomes – laying a pathway for them to continue on to higher levels of education and eventually secure good jobs.

Four top OECD performers on the 2012 PISA reading assessment show the potential of this approach. Canada, Finland, Japan, and Korea all have education systems that put a focus on equity. In each of these countries, relatively few students performed at lower proficiency levels on the PISA reading assessment, and high proportions of students performed better than would be expected, given their socio-economic background.

While each of these countries focuses on equity in education, their approaches differ. In Japan and Korea, for example, teachers and principals are often reassigned to different schools, fostering more equal distribution of the most capable teachers and school leaders. Finnish schools assign specially-trained teachers to support struggling students who are at risk of dropping out. The teaching profession is a highly selective occupation in Finland, with highly-skilled, well-trained teachers spread throughout the country. In Canada, equal or greater educational resources – such as supplementary classes – are provided to immigrant students, compared to non-immigrant students. This is believed to have boosted immigrant students' performance (OECD, 2012b).

Upgrading skills to avoid obsolescence

Too many youth enter the labour market with weak cognitive skills. Low cognitive skills in terms of numeracy and literacy are strongly associated with low long-term earnings. But learning does not end with initial education; improving adult competencies is an essential component to ensure the continuous employability of workers and promote their career progression. Workers continue to learn at work, and job-related training is essential to ensure that skills do not become obsolete and that workers can take up better-paid jobs and thus reduce inequality.

The OECD 2013 Survey of Adult Skills (PIAAC) found large disparities in the literacy, numeracy and problem-solving competences of adult workers. Unfortunately, the provision of job-related training is often sub-optimal and tends to benefit workers who need it the least – notably, those that already possess high skills. The Employer

Ownership pilot in England, for example, attempts to boost training provision by encouraging employers to take ownership, as well responsibility, for training their workforce. The scheme offers all employers in England direct access to up to GBP 250 million of public investment over two years to design and deliver their own training solutions, including apprenticeships, training courses and pre-employment opportunities.

Training provision is particularly low in small and medium-sized enterprises (SMEs). This is due to the challenge of finding and financing external training providers and to the opportunity cost of providing on-the-job training by employers in very small firms. To overcome these difficulties, Korea introduced a subsidy for private or public training providers forming partnerships or consortia with SMEs in which the providers' facilities or equipment are used to develop skills. Subsidies can cover the costs of the facilities, equipment and salaries for training personnel. Government spending on this programme has steadily increased since 2003and in 2009 231 000 workers received such training (*Source*: Korean Research Institute for Vocational Education and Training – KRIVET).

Understanding the demand for skills to ensure alignment with skills supply

Many skills are not fully used at work. This is the case, for example, of workers who are mismatched in their job. Yet productivity depends more on actual skills use than on skills proficiency. Hence, bringing skills use more in line with the skills proficiency of the workforce would foster a more equal wage distribution. It is necessary to ensure that skills' supply is in line with demand. Skills assessment and anticipation exercises are critical in this respect, as is the ability to effectively translate the information from such tools into policy action.

While investments in skills are important, it is crucial to ensure that skills taught at school are relevant for the labour market. If this is not the case, unmet demand for skills is likely to translate in higher rewards for scarce competences resulting in even higher income inequality. To achieve a good match between the skills possessed by the labour force and those required by employers, countries need good information about current and future skills demands and gaps, and to put in place effective systems and procedures for turning this information into education, employment and migration policy and practice. In addition, skills that are relevant to employers can only be developed by or in co-operation with employers themselves.

Many countries have systems and tools in place for assessing and anticipating skills needs, but approaches vary significantly in terms of: how they assess skills needs; their time span; their methods; and their national/regional/sectoral scope. For instance, Canada carries out analyses of current skills needs along with medium to long-run forecasts to identify future skills needs and imbalance and tailor immediate policy intervention (e.g. identify migration opportunities or develop short-term worker training schemes) as well as long-term policy orientations (e.g. develop apprenticeship programmes in certain fields).

The outputs of skills assessment and anticipation exercises are widely used to inform a range of skills-related policies across different domains. In education, they are commonly used to inform curriculum development and set the number of student places in upper-secondary, post-secondary and tertiary education programmes. In many countries skills assessment and anticipation exercises are specifically linked to the development of Vocational Education and Training (VET) programmes. With regards to labour market policy, information is used to update occupational standards (which

provide a guide for employers about the skills, training and experience needed to carry out a job) and to design apprenticeships, re-training and on-the-job training programmes.

Tax and transfer systems for efficient redistribution

The fourth area of an effective policy strategy to curb high inequality relates to taxes and transfers. These policies constitute the most direct and powerful instrument to redistribute income. Most OECD countries make substantial use of income taxes and cash transfers to reduce income gaps. On average, income inequality among the working-age population is reduced by 26% in the OECD and by 30% in France and Germany, compared to 19% in the United States and 4-5% in Chile and Mexico. In most emerging economies, the effect of such redistribution is much weaker, often linked to lower levels of per-capita social spending and less effective taxation due to a high level of informality. At the same time, as in OECD countries, social spending on in-kind transfers – services such as education and health – also tends to lower inequality (see Chapter 7).

In the public debate, redistribution through taxes and transfers is often claimed to hinder economic growth. The analysis in this report suggests that, if they are well-designed, higher taxes and transfers to reduce inequality do not necessarily harm growth. Since taxes and transfers are so powerful in both affecting inequality and growth, getting them right is key. Previous OECD work (Arjona et al., 2001) indicates that active social spending, such as in-work benefits and spending on childcare, is associated with higher growth than "passive" spending, such as on unemployment benefits, which potentially has negative effects on growth. But the distinction between "passive" and "active" measures, such as in the case of re-employment support, is not always possible. Successful activation strategies, for instance, increasingly combine the two, protecting the livelihood of job losers while encouraging a return to self-sufficiency. OECD (2012c) discusses some of the trade-offs and complementarities between tax and transfer reforms, inequality and growth.

Unemployment insurance mitigates the adverse effect of the risk of unemployment by reducing earnings volatility and by alleviating concerns about not being able to find a job once unemployed. Recent findings show that the risks of unemployment and low pay are highly concentrated and that unemployment insurance reduces earnings volatility risk mainly at the bottom of the distribution (OECD, 2015e). Increasing coverage of unemployment insurance is a promising avenue for promoting worker security, provided systems are designed to preserve incentives to work. Such security is especially important for non-standard workers and those most excluded from the labour market, such as the long-term unemployed, and particularly in countries where both benefit coverage and generosity are relatively low.

Over the past decades, rising top incomes means that top earners now have a greater capacity to pay taxes than before. Moreover, the analysis of the evolution of wealth distribution in Chapter 6 found that the distribution of wealth is much more concentrated than income, and is likely to become more so over time, with negative effects on economic growth. Thus, governments should re-examine a wide range of tax provisions to ensure that wealthier individuals contribute their share of the tax burden. This aim can be achieved in several different ways – not only via raising marginal income tax rates on the rich but also improving tax compliance, eliminating or scaling back tax deductions, which tend to benefit high earners disproportionally, and reassessing the role of taxes on all forms of property and wealth, including the transfer of assets. Some countries have introduced base-broadening measures (Australia, Austria, Denmark, the Netherlands), or

a reduction in tax credits (France, Greece, the United Kingdom) but others have introduced measures that reduce the personal income tax base through tax credits (e.g. Spain).

To effectively pursue the objectives of intergenerational social mobility and equality of opportunity, capital gains on bequeathed assets should be taxed at a standard rate and estate taxes should be replaced with an inheritance tax. Most OECD countries tax inheritances rather than estates, and the past several decades have seen a shift away from estate taxes, as for example in Australia and Ireland. From the perspective of intergenerational social mobility, taxing inheritances is preferable to taxing estates since what matters is how much a person receives from others, not how much a person leaves to others, and taxing inheritances would reduce wealth and income inequality if implemented in a revenue-neutral way (see also Piketty, 2014).

Policies should also ensure that not only wealthy individuals but also multinational firms pay their intended share of the tax burden. This includes measures for increasing transparency and international co-operation on tax rules to minimise "treaty shopping" (when companies structure their finances to take account of favourable tax provisions in different countries) and tax optimisation. In that frame, the OECD-led effort on BEPS (base erosion and profit sharing) helps developing policies to improve transparency and tax compliance, and to ensure the automatic exchange of information between tax authorities.

At the lower end of the income spectrum, large and persistent losses in low-income groups underline the importance of well-targeted income-support policies. Government transfers have an important role to play in guaranteeing that low-income households do not fall further back in the income distribution, but they need to be paired with measures to re-establish self-sufficiency, prevent long-term benefit dependence, and support families' capacities to compensate earnings losses.

Within current budgets, policies to address growing inequality could be made more efficient, for example, by making more use of in-work benefits which encourage people to take up paid work and give additional income support to low-income households. During the past decade, several countries developed schemes which combine minimum income programmes with active in-work benefits such as the *Revenu de solidarité active* (RSA) in France. Also countries with much lower levels of redistribution via the tax and transfer system increased efforts and introduced transfer programmes to increase income protection and tackle income inequality such as *Prospera*, *65 y más* or *SinHambre* in Mexico.

More generally, while effective social protection requires a strong and sustainable resource base, it does not necessarily mean that governments need to push up spending levels. Ensuring that tax revenues are used efficiently means that social support measures need to be well targeted and implemented. This requires making support accessible to lower-income individuals, in particular. In addition, policies should be actively adapted when incomes and labour market situations change, such as during the recent crisis.

This requires counter-cyclical social budgets, first, because the objective need for support is greater during and after a downturn and, second, because economic upswings alone are unlikely to undo the damage inflicted by recessions, e.g. because income losses suffered during downturns become entrenched (OECD 2014a). For instance, countries such as France, Portugal and the United States, have extended out-of-work benefits at the onset of the recent crisis. Adjusting funding for active labour market policy in line with

unemployment is another good example. When the number of jobseekers grows during a downturn, governments should ensure adequate resources for public employment services and benefit and programme administration as these services act as "gateways" to activation programmes. For example, Australia, Denmark and Switzerland automatically adjust budgets for active labour market policies in line with labour market conditions. Similar provisions should also be considered in other countries in order to protect this area of social spending during times of fiscal restraint.

Notes

1. Trends in inequality followed different patterns across OECD countries: in some countries increases in inequality were concentrated in the earlier decades of the 1980s and 1990s (e.g. New Zealand, United Kingdom, Mexico) while in others increases mainly occurred in later years (e.g. Nordic countries), see OECD 2011 (Figure 2).

2. Levels of income inequality reported in India and Indonesia are closer to the OECD average. It should be noted, however, that indicators are based on different concepts and methods (see Chapter 7, Box 7.1).

3. While much care has been given to make concepts and data as comparable as possible, the assessment of wealth levels and wealth concentration depends on what is excluded by the wealth concept used. This is, in particular the case with old-age pensions (see Chapter 6).

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Annex 1.A1
Key indicators of income inequality and poverty

Table 1.A1.1. Key indicators on the distribution of household disposable income and poverty, 2007, 2011 and 2013 or most recent year

	Gini coefficient			S90/S10 income share ratio			Income share in total income						Poverty rate (relative threshold)								Poverty rate (threshold "anchored" in 2005)		
							Bottom 10%	Bottom 20%	Bottom 40%	Top 40%	Top 20%	Top 10%	Total			By age group, latest available year					Total		
	2007	2011	2013 or latest available year	2007	2011	2013 or latest available year	2013 or latest available year (%)						2007	2011	2013 or latest available year	Children (< 18)	Youth (18-25)	Adult (26-65)	Elderly (> 65)	Working poor	2007	2011	2013 or latest available year
Australia	0.336	..	0.326	9.3	..	8.8	2.8	7.2	19.7	63.0	39.8	24.4	14.6	..	14.0	12.9	7.9	11.3	33.5	4.6	..	..	8.2
Austria	0.284	0.281	0.276	6.9	7.1	7.0	3.1	8.5	22.6	59.2	36.0	21.6	9.7	9.1	9.6	10.4	10.1	8.7	11.4	7.8	8.2	7.3	7.9
Belgium	0.282	0.275	0.268	6.7	6.3	5.9	3.6	8.8	22.6	58.8	35.2	20.8	9.5	9.5	10.2	11.4	11.2	9.4	10.7	6.1	8.4	8.1	7.8
Canada	0.318	0.315	..	8.6	8.6	..	2.8	7.6	20.4	62.2	39.1	24.2	11.3	11.8	..	14.4	13.1	11.8	6.7	8.7	9.8	9.3	..
Chile	0.511	0.503	..	29.5	26.5	..	1.5	4.3	12.5	75.3	56.4	40.9	19.2	17.8	..	23.5	15.1	15.1	20.5	14.3	20.6	14.7	..
Czech Republic	0.257	0.262	0.256	5.3	5.6	5.4	4.0	9.9	24.3	58.0	35.7	21.7	5.5	6.3	5.3	8.2	5.7	4.9	2.8	4.7	3.3	4.2	3.6
Denmark	0.246	0.251	0.249	5.1	5.2	5.2	4.0	9.8	24.3	57.3	34.5	20.8	6.1	5.8	5.4	2.7	21.7	3.5	4.6	3.9	5.0	4.7	4.6
Estonia	0.316	0.334	0.339	8.2	9.6	9.7	2.6	7.0	19.0	64.2	40.9	25.0	14.1	11.8	12.3	11.8	13.5	12.2	12.6	9.0	4.4	7.1	6.0
Finland	0.269	0.264	0.262	5.8	5.6	5.5	3.9	9.4	23.6	58.3	35.5	21.5	7.8	7.5	7.1	4.6	15.9	6.3	7.8	4.1	6.4	4.9	4.6
France	0.293	0.309	0.306	6.8	7.4	7.4	3.4	8.5	21.8	61.3	39.5	25.3	7.2	8.0	8.1	11.4	13.7	7.1	3.8	7.3	..	7.1	7.5
Germany	0.287	0.291	0.289	6.7	6.8	6.6	3.6	8.8	22.4	60.2	37.8	23.5	8.5	8.7	8.4	7.4	12.5	7.7	9.4	3.0	9.2	8.6	7.9
Greece	0.333	0.337	0.340	10.5	12.7	12.3	2.0	6.4	18.8	63.6	40.3	25.1	13.3	15.2	15.1	21.4	21.2	14.8	6.9	15.8	11.4	26.7	32.3
Hungary	0.272	0.289	0.288	6.0	7.3	7.2	3.1	8.3	22.0	60.2	37.0	22.5	6.4	10.3	10.1	11.8	11.9	9.6	8.6	7.2	..	13.0	9.1
Iceland	0.286	0.256	0.256	6.5	5.7	5.6	3.8	9.6	24.0	57.9	35.2	21.3	6.7	5.9	6.3	8.1	11.4	5.0	3.0	6.0	3.8	7.2	6.9
Ireland	0.305	0.302	0.304	7.0	7.6	7.4	3.2	8.3	21.3	61.6	38.7	23.8	9.6	9.6	8.4	8.7	10.5	8.1	6.9	5.0	7.2	15.3	14.8
Israel	0.371	0.377	0.360	13.4	12.5	14.9	1.7	5.5	17.1	65.8	41.8	25.6	19.9	20.9	18.6	24.3	16.6	14.0	24.1	13.9	..	17.8	13.2
Italy	0.313	0.323	0.327	8.9	10.3	11.4	2.2	6.9	19.7	62.8	39.7	24.7	11.9	12.8	12.7	17.4	14.7	12.1	9.3	12.0	10.7	13.5	14.9
Japan	0.329	0.336	..	10.3	10.7	..	2.3	6.5	18.9	63.7	40.0	24.4	15.7	16.0	..	15.7	18.7	13.9	19.4	12.9	..	19.6	..
Korea	0.312	0.307	0.302	10.0	10.2	10.1	2.2	6.8	20.5	61.1	37.1	21.9	14.8	14.6	14.6	8.0	9.1	9.7	49.6	..	14.4	..	..
Luxembourg	0.279	0.278	0.302	6.2	6.0	7.1	3.4	8.5	21.6	61.1	38.7	24.2	7.2	8.3	8.4	12.5	8.2	8.0	3.0	7.9	6.9	8.4	9.6
Mexico	0.475	0.466	0.482	26.8	28.5	30.5	1.2	3.9	12.5	73.9	52.9	36.7	20.9	20.4	21.4	25.8	15.0	18.6	31.2	19.0	17.6	19.7	21.1
Netherlands	0.295	0.283	0.278	7.1	6.7	6.6	3.4	8.8	22.7	59.4	36.7	22.4	6.7	7.4	7.9	10.7	21.9	6.1	2.0	6.6	6.1	7.1	7.0
New Zealand	0.330	0.323	0.333	8.3	8.0	8.2	3.1	7.6	19.7	63.8	40.7	25.7	11.0	9.8	9.9	12.8	10.4	8.9	8.2	5.8	5.5	6.8	5.7
Norway	0.250	0.250	0.253	5.9	6.1	6.2	3.3	9.1	24.1	57.3	34.5	20.6	7.8	7.7	8.1	5.9	30.0	5.7	4.1	6.7	..	5.1	5.0
Poland	0.316	0.306	0.298	8.1	7.8	7.4	3.2	8.1	21.5	61.0	38.1	23.2	9.6	11.2	10.4	12.7	10.3	10.1	8.4	9.2	5.1	4.1	3.8
Portugal	0.360	0.343	0.338	10.4	10.0	10.1	2.6	7.0	19.5	63.7	41.1	25.9	12.8	12.0	12.9	17.8	15.8	12.5	8.1	12.2	10.7	12.4	13.6
Slovak Republic	0.249	0.264	0.251	5.3	5.9	5.7	3.5	9.1	23.8	57.7	34.2	19.7	7.0	8.5	8.5	14.9	7.3	7.6	4.1	8.0	3.3	2.1	2.3
Slovenia	0.240	0.247	0.250	5.2	5.3	5.4	3.7	9.2	23.9	57.4	34.2	20.0	8.0	8.9	9.4	8.6	7.1	8.5	15.9	6.6	5.5	6.9	8.2
Spain	0.328	0.342	0.335	9.9	12.1	11.7	2.1	6.5	19.0	63.7	40.1	24.4	14.5	14.7	14.1	21.0	16.8	13.5	6.8	13.6	8.8	12.6	13.7
Sweden	0.259	0.273	0.274	5.8	6.3	6.3	3.5	8.7	22.7	59.0	36.1	21.9	8.4	9.7	9.0	8.3	17.8	7.4	9.4	5.8	..	5.1	4.8
Switzerland	..	0.289	0.285	..	7.0	6.7	3.5	8.7	22.4	59.8	37.3	23.2	..	10.5	9.1	8.0	6.6	6.1	23.4	5.7	..	7.9	6.1
Turkey	0.409	0.412	..	14.5	15.2	..	2.1	5.6	16.0	69.0	47.4	31.7	17.0	19.2	..	28.4	16.2	14.4	18.4	17.8	..	..	..
United Kingdom	0.361	0.344	0.351	11.1	9.6	10.5	2.7	7.2	19.3	64.5	42.6	28.0	11.6	9.5	10.5	10.4	10.9	9.6	13.4	5.3	11.4	10.6	11.8
United States	0.378	0.390	0.401	15.1	17.9	18.8	1.6	5.2	16.0	68.2	45.5	30.0	17.3	17.9	17.6	19.6	20.1	15.2	21.5	11.9	..	19.5	19.4
OECD	0.314	0.314	0.315	9.2	9.5	9.6	2.9	7.7	20.6	62.2	39.4	24.6	11.0	11.2	11.2	13.3	13.8	9.9	12.6	8.7	7.6	9.5	9.9

Table 1.A1.1. Key indicators on the distribution of household disposable income and poverty, 2007, 2011 and 2013 or most recent year *(cont.)*

Note:

Income distribution data refer to the total population and are based on equivalised household disposable income, i.e. disposable income adjusted for household size. The Gini coefficient takes values between 0 (where every person has the same income), and 1 (where all income goes to one person). The S90/S10 income share ratio refers to the ratio of average income of the top 10% to the average income of the bottom 10% of the income distribution. The poverty threshold is 50% of median disposable income in each country. Working poor are those with income below the poverty line, living in households with a working age head and at least one worker.

The latest available data refer to 2014 for Hungary; 2013 for Finland, Hungary, Israel, the Netherlands and the United States, 2011 for Canada, Chile and Turkey, 2009 for Japan, and 2012 for the other countries. Data shown for 2011 refer to 2012 for Hungary, Korea and the United States; 2010 for Mexico; and 2009 for Japan. Data shown for 2007 refer to 2008 for Australia, France, Germany, Israel, Mexico, New Zealand, Norway, Spain, Sweden and the United States; 2006 for Chile and Japan. There is a break in series for Israel after 2011. In the case of Japan, data are based on the Comprehensive Survey of Living Conditions, submitted to the OECD by Japan. Other surveys, such as the National Survey of Family Income and Expenditure suggest lower levels of income inequality and poverty in 2009. The lack of data beyond 2009 is due to the fact that no recent estimates were provided by the Japanese authorities. The OECD average does not include Israel. The OECD average for 2011 includes 2012 data for Hungary. The OECD average for the latest year available includes 2011 data for Canada, Chile and Turkey, and 2009 data for Japan.

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

Box 1.A1.1. Towards a better understanding of people's perceptions of income inequality

Statistics on income inequality are regularly produced by researchers and statistical offices around the world, and easily make it to the headlines news. What remains unclear is how much inequality people perceive, and what degree of inequality they regard as "ideal" or "acceptable". The second issue, i.e. preferences for how income and other valuable resources are distributed, has a long history in social sciences (Bénabou and Tirole, 2006; Osberg and Smeeding, 2006). The first issue, i.e. to what extent people have a good appreciation of income distributions in their country and of their position in it, has received less attention although it is, arguably, just as important.

Research based on data from the 2009 wave of the International Social Survey Programme on social inequality shows that people systematically misperceive the level of income inequality in their countries, although often in different directions (Niehues, 2014). For example, while people living in Hungary, Slovenia and the Czech and Slovak Republics overestimate the income inequality in their country, those living in the Nordic countries seem to be aware of living in a relatively equal society, and those in the United States substantially underestimate the extent of income inequality.

The issue of people's (mis)perception of income inequality has also attracted the interest of national statistical agencies. In 2011, the French National Institute of Statistics and Economic Studies (INSEE) launched a survey asking respondents to position themselves on the income scale: results showed that, while for 45% of respondents there was little discrepancy between perceptions and realities, most poor people (three out of five) overestimated their position, and most rich people (four out of five) underestimated it. Similarly, a survey conducted by TNS Gallup in Finland showed that, while most people's idea of "low income" corresponds quite closely to that used by Statistics Finland, respondents' own income influenced their perception: the higher their income, the higher their view of what "low" and "high" income is.

The OECD's "Compare your income" web-tool (www.oecd.org/statistics/compare-your-income.htm) allows users from different OECD countries to compare perceptions and realities, i.e. where in the income distribution of their country they fit. The tool, which is similar to those available in a range of countries, is based on the most recent data from the *OECD Income Distribution Database* (http://stats.oecd.org/Index.aspx?DataSetCode=IDD). While the application is completely anonymous, it will generate information on users' perceptions and characteristics that could allow different types of analysis, once sufficient data have been collected.

In It Together

Why Less Inequality Benefits All

OVERVIEW OF INEQUALITY TRENDS, KEY FINDINGS AND POLICY DIRECTIONS

The gap between rich and poor keeps widening. Growth, if any, benefited disproportionally higher income groups while lower-income households were left behind. This long-run increase in income inequality does not only raise social and political but also economic concerns: it tends to drag down GDP growth, and it is the rising distance of the lower 40% from the rest of society which accounts for this effect. Lower-income people cannot realise their human capital potential, which is bad for the economy as a whole. This book highlights the key areas where inequalities originate and where new policy approaches are required, including the consequences of the recent period of crisis and consolidation policies on household incomes; structural labour market changes with rising non-standard work and job polarisation; persisting gender gaps; the challenge of high wealth concentration, and the role for redistribution policies.

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

Consult this publication on line at ***http://dx.doi.org/10.1787/9789264235120-en.***

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