

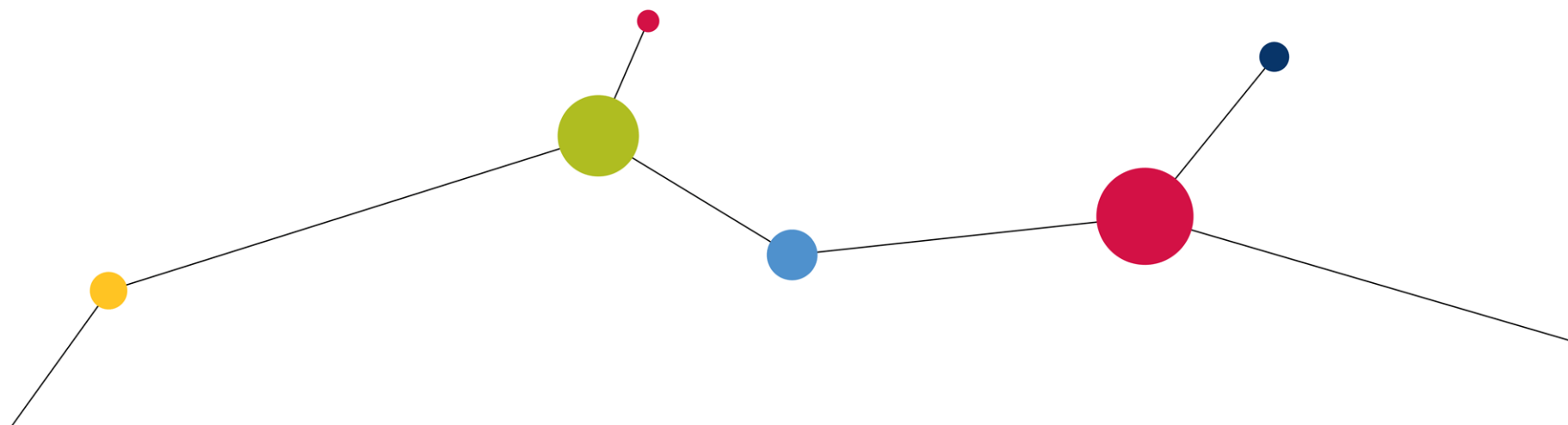


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Inequality and Inclusive Growth in Rich Countries

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UN Division for Inclusive Social Development,
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The Context



Rising inequality has become such a widespread concern in rich countries in large part because it is seen to be associated with long-term stagnation in living standards for ordinary working households, compounded by the Great Recession

- calling into question the sustainability of their long-standing economic and social models, as voters reject mainstream parties and anti-elite sentiment is rife

Globalisation and technological change seen as inexorable external forces, hollowing out the jobs market, squeezing 'the middle', concentrating benefits from economic growth right at the top, and damaging economic growth



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Inequality and Inclusive Growth in Rich Countries



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Income Inequality

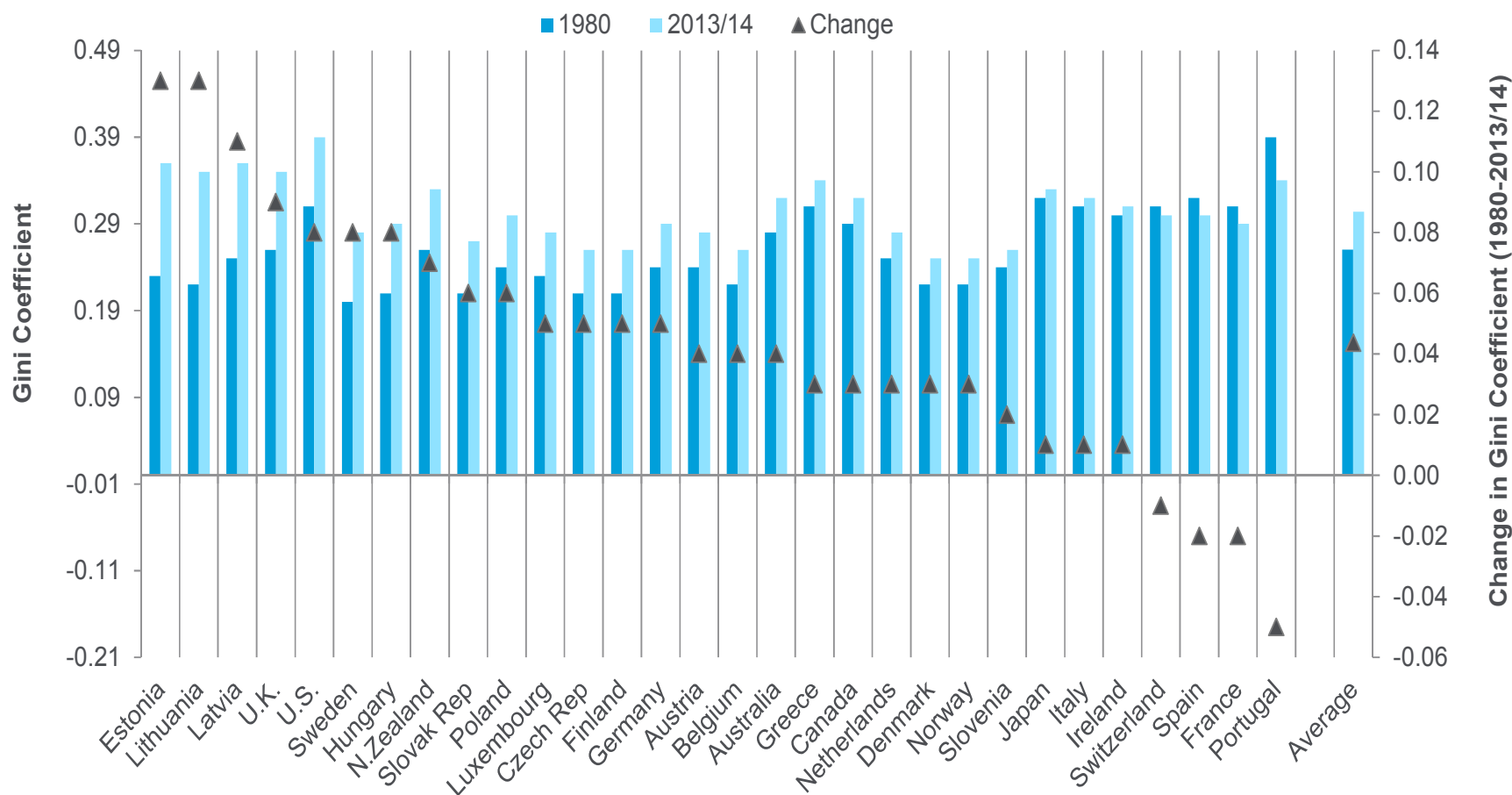


Striking feature is how varied country experiences in terms of income inequality over time have been

- inequality soared for UK and USA; much lower though still substantial increase for Australia, Canada, Germany, Italy and the Netherlands; but for Belgium, France, and Spain, inequality now little higher than in 1980;

Income Inequality Since 1980

Gini Coefficient, OECD Countries (1980 and 2013/14)



Notes: Gini coefficient reflects inequality in net equivalized household income (post-tax and redistribution). Country sample for (simple) average includes all countries shown.

Source: Citi Research, LIS, Chartbook of Economic Inequality, Gini Project Database, OECD Income Distribution Database



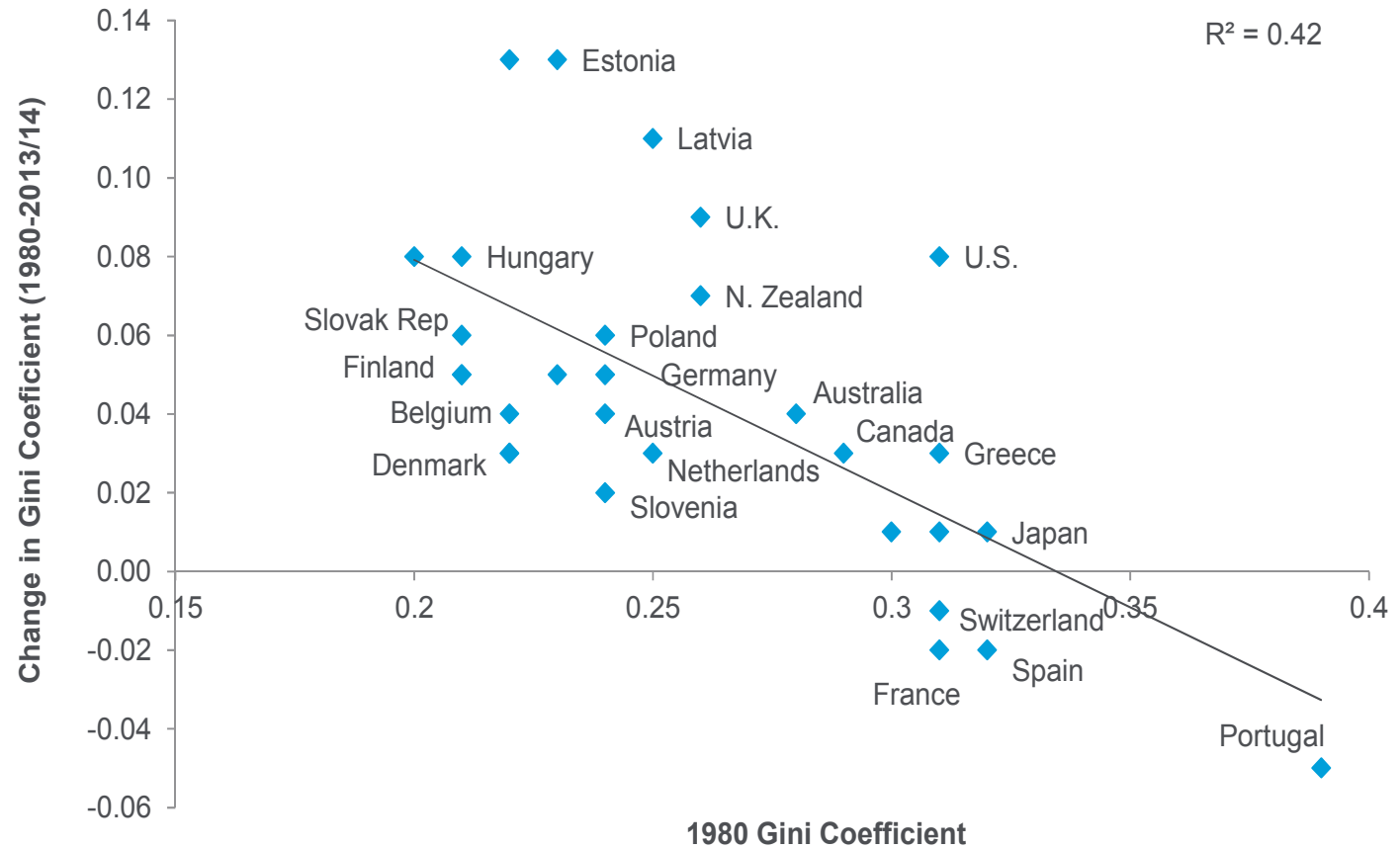
Income Inequality Since 1980



Change in Gini Coefficient 1980-2013/14

Estonia	0.13
Lithuania	0.13
Latvia	0.11
U.K.	0.09
U.S.	0.08
Sweden	0.08
Hungary	0.08
N.Zealand	0.07
Slovak Rep	0.06
Poland	0.06
Luxembourg	0.05
Czech Rep	0.05
Finland	0.05
Germany	0.05
Austria	0.04
Belgium	0.04
Australia	0.04
Greece	0.03
Canada	0.03
Netherlands	0.03
Denmark	0.03
Norway	0.03
Slovenia	0.02
Japan	0.01
Italy	0.01
Ireland	0.01
Switzerland	-0.01
Spain	-0.02
France	-0.02
Portugal	-0.05

Gini Coefficient and Subsequent Change in Gini Coefficient (1980-2013/14)



Note: Gini coefficient reflects inequality in net equalized household income (post-tax and redistribution).
Source: Citi Research, LIS, Chartbook of Economic Inequality, Gini Project Database, OECD Income Distribution Database



Income Inequality Since 1980



Top 1% Share of Aggregate Income

	1980	2009	2012
U.S.	9.4%	17.2%	21.8%
U.K.	6.7%	15.4%	12.7%
Singapore	10.6%	13.7%	13.6%
Canada	8.9%	13.3%	
Germany	10.7%	13.2%	
Korea	7.5%	11.3%	12.2%
Switzerland	8.4%	10.5%	
Ireland	6.7%	10.5%	
Japan	8.4%	10.4%	
Italy	6.9%	9.4%	
Spain	7.6%	9.3%	8.6%
Sweden	4.1%	8.4%	8.7%
Australia	4.6%	8.4%	8.5%
France	7.8%	8.2%	8.8%
N. Zealand	5.7%	7.8%	8.9%
Finland	4.3%	7.5%	
Norway	4.6%	7.1%	
Netherlands	5.9%	6.4%	6.3%
Denmark	5.5%	5.4%	
Average	7.1%	10.2%	11.0%

Notes: Top 1% income shares reflect shares in gross income, either individual or household (depending on the economy). 1980 data for the U.K., Switzerland and the Netherlands is from 1981.

Source: World Wealth and Income Database



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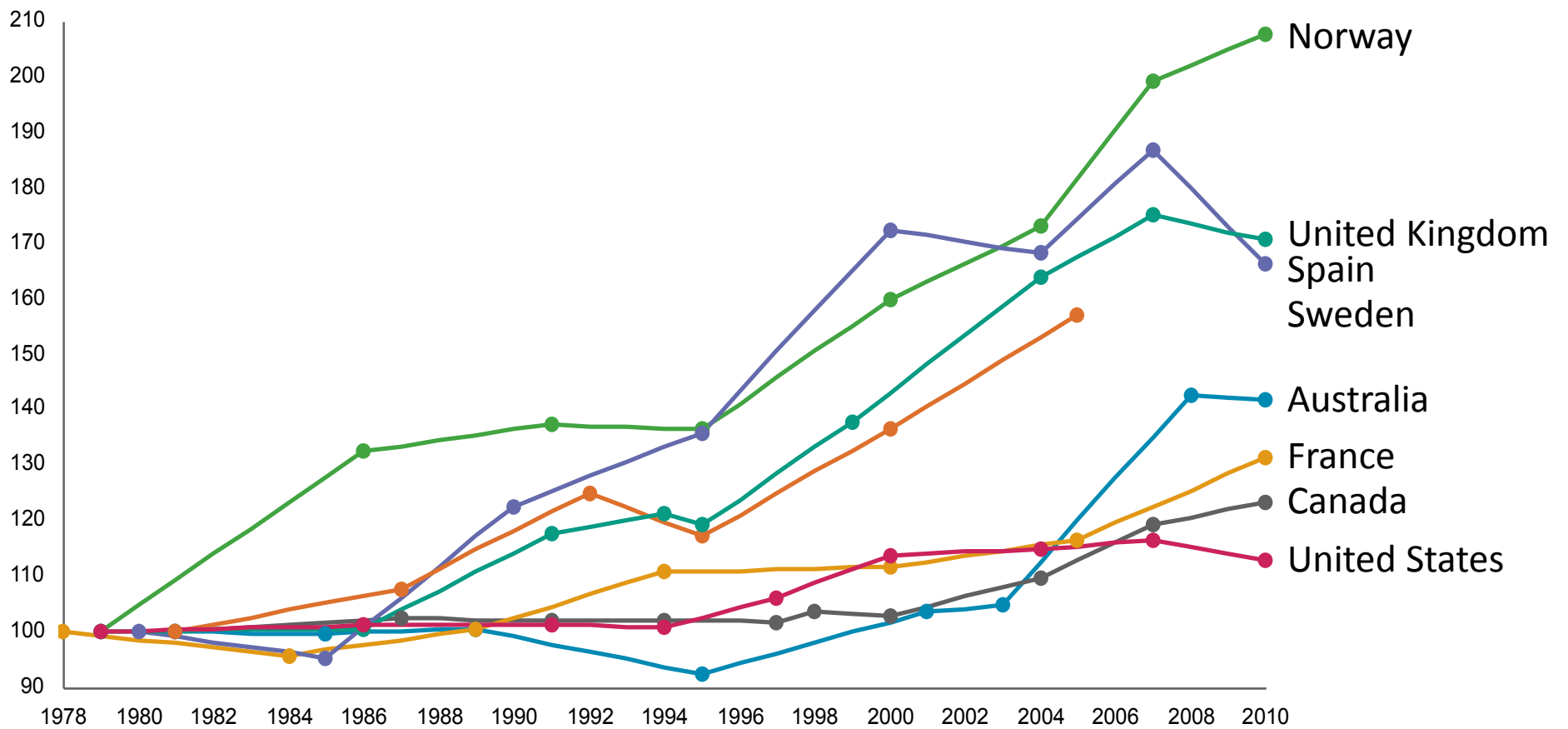
Key Messages



Country experiences have also varied widely in terms of real income growth for 'ordinary' household incomes over time

- median incomes for ordinary working-age households saw little real growth from late 1980s to Crisis in Germany, Italy and the US; Canada, France and Netherlands had some growth; Australia, Belgium, Spain and the UK had substantial growth (1% - 1.5% pa)

Median household income in real terms (Earliest year = 100)





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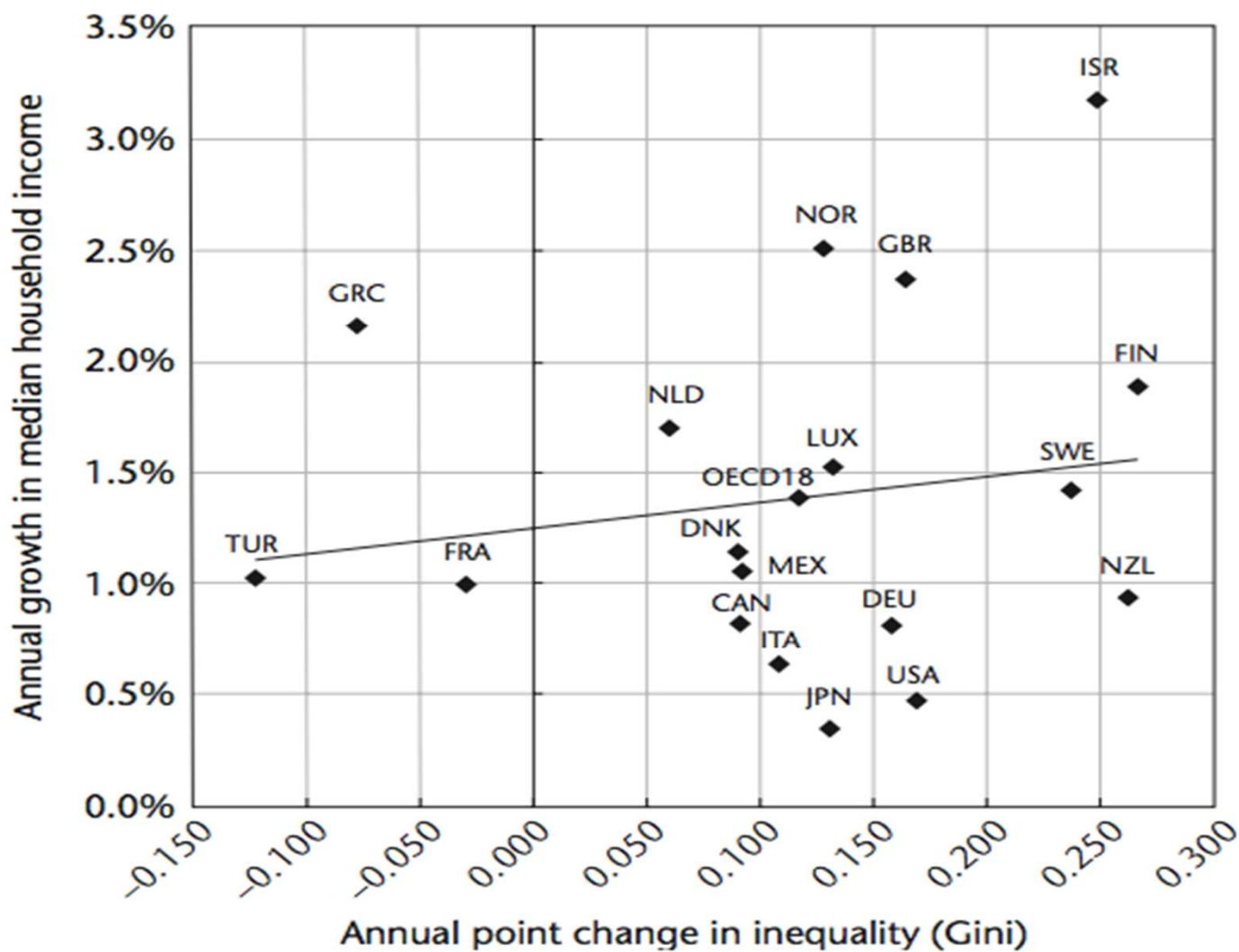
Inequality and Median Income Growth



Has rising inequality been responsible for stagnating middle (and lower) incomes?

- median income growth over 5-year periods from around 1980 only weakly related (without or with lag) to change in inequality as captured by Gini or top income share
- but no support for long-standing argument that higher inequality fuels more real income growth that trickles down to median and lower incomes
- consistent with OECD/IMF studies showing no evidence that more inequality or less direct redistribution is associated with higher real income growth

Inequality and Median Income Growth 1980-2008





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'Decoupling' of Median Income from GDP?



Growth in median household incomes in US has failed to keep up with GDP per capita, exacerbating concerns about relying on latter as 'key performance indicator' for inclusive growth and prosperity

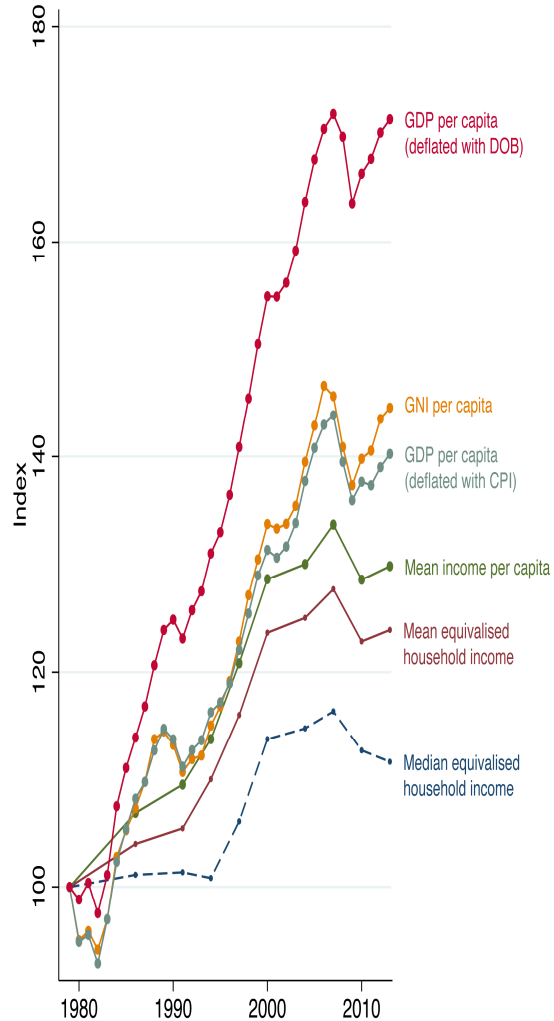
- but US pattern is distinctive, in terms of extent of gap and the factors driving it



'Decoupling' from GDP?

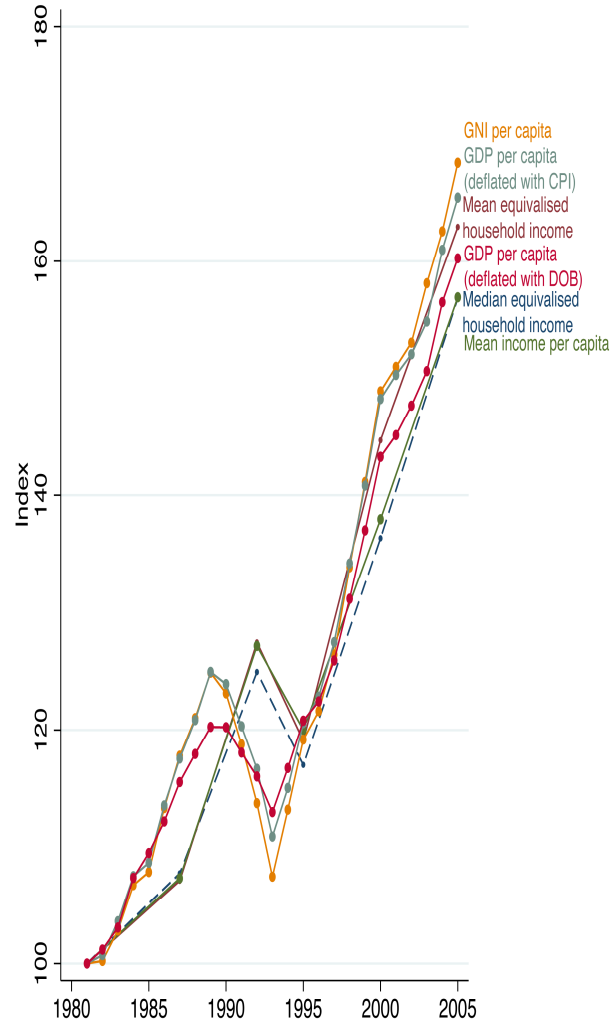


Income definitions for United States



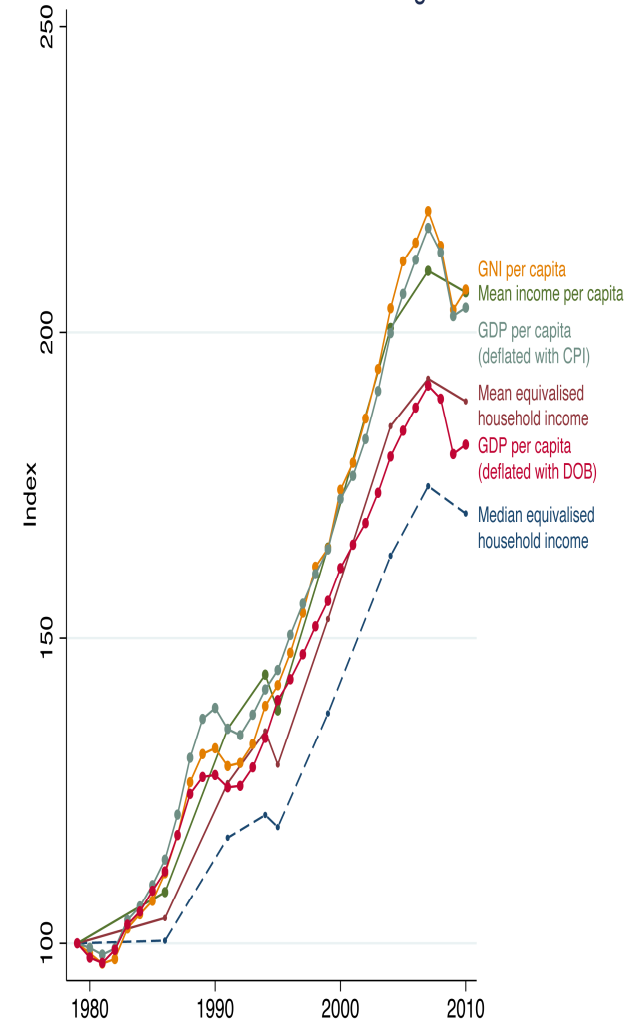
All series are deflated with the CPI, unless otherwise stated.

Income definitions for Sweden



All series are deflated with the CPI, unless otherwise stated.

Income definitions for United Kingdom



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Key Messages



Growth in median household incomes, average wages and wage dispersion varied widely not just across countries but between different sub-periods

Both overall macroeconomic performance and wage and employment- related institutions and policies are key

Neither increasing levels of workforce education nor increasing employment rates necessarily produce rising real incomes and living standards around and below middle of the distribution

But countries with reasonable income growth have generally combined some increase in real wages with rise in the overall employment rate and especially female employment



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Key Messages



Wage-related institutions and policies:

- Belgium: wages indexed to inflation, collective agreements covering most workers, and high minimum wage underpinned significant wage growth across the distribution
- Australia: extension of collectively-negotiated employment terms and conditions over much of work force via 'awards' or collective agreements, together with very high minimum wage
- But Netherlands: despite collective agreements, sustained wage moderation with declining real minimum wage has meant little increase in real wages
- and Germany: moderation plus sharp decline in proportion of workers covered by collective agreements, voluntarist system from which companies withdrew as unions became weaker



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Key Messages



Increases in precariousness of employment across variety of institutional and macroeconomic contexts have been enabled by policy

- France: growth in very short-term contracts result of combination of deliberate policy, whereby earnings from working for part of week supplemented by payment of unemployment benefit for the rest, together with loosening of regulation by court decisions
- Germany: Harz reforms, privatization and deregulation of product markets fuelled growth in mini-jobs and low pay; shows how labour-market institutions long regarded as fundamental can change profoundly in short time



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Key Messages



Direct redistribution via taxes and transfers much more effective in some countries than others in offsetting impact of widening inequality in incomes from the market

- Canada: taxes and transfers offset much of increasing inequality in market income from early 1980s, but not mid-1990s
- Germany: inequality in disposable income rose by almost as much between 1991 and 2014 as inequality in market income
- Spain: market-income inequality rose in 1980s but disposable did not, whereas in 2000s market inequality fell but not disposable
- Child/family benefits play important role in many countries



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Key Messages



Greater equality and income growth for ordinary households can be complementary rather than competing goals; forces driving inequality up can be countered with policies that enhance living standards and prospects of middle and below

Inequality and ordinary living standards need to be core goals for policy, with success or failure judged on that basis rather than in terms of aggregate economic growth or employment

Both changing how income is generated and distributed in the market and how it is redistributed by cash transfers and direct taxes must be central