

*GINI*  
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***(# 3) Drivers of Inequality –***  
*Economic inequalities; labour market; wealth*  
*Chapters 2, 3 and 4*

Comments by

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[www.oecd.org/social/inequality.htm](http://www.oecd.org/social/inequality.htm)

# Chapter 2: Increasing Economic Inequalities?

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## Chapter covers:

- The story (stories) of increasing income inequality since the 1980s, including discussion of the top 1%
- Discussion of drivers of increasing income inequality, distinguishing:
  - i. Direct drivers (proximate causes, or “hints”)
  - ii. Underlying causal factors
- Discussion of the role of inequality for the economic crisis
- Implications for policies are discussed inherently but not explicitly

# Chapter 2: some suggestions and questions to authors

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- Inclusion of top 1% debate useful and necessary but difficult to combine with HDI inequality (esp. drivers); also, distinct country patterns are noteworthy;
- Discussion of hours worked vs. hourly wages better fits in chapter 3 (also, difficult to generalise on the basis of 5 countries)
- National/regional patterns of inequality: key message?
- Role of capital and SE income as a proximate cause seems overestimated
- To focus (limit?) the discussion on redistribution on taxes will miss some important driving forces; except for the US, benefits have been the main explanatory factor for changes in redistribution
- Role of demography/household structure changes – though arguably less of a driving factor – merits more than one paragraph

# Causes of growing inequalities:

## The usual suspects

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- “Globalisation”, brought by rapid economic integration;
  - Skill-biased technological changes;
  - Institutional and regulatory reforms (role of “ideology”?);
  - Changes in employment patterns;
  - Changes in tax and benefit systems;
  - Changes in family formation and household structures.
- It would be important to stress and discuss more the issue of interactions

# Chapter 2: Some extra points

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- To which extent did increasing (income) inequality trigger the Great Recession? Discussion in 2.1.5 but also 2.3 and 2.4
  - Most empirical evidence relates to the US – difficult to generalise;
  - Probably fair to describe the crisis not so much as “natural outgrowth of inequality“ but as the *“consequence of a deliberate effort to sustain a model of economic growth based on inequality”* (Galbraith).
- Two conclusions:
  - Distinction of two sub-periods, with earnings being main driver in 1<sup>st</sup> period and reduced redistribution and labour-capital shift in the 2<sup>nd</sup> : needs back-up in text
  - *“A wider concept of income that includes tax payments on expenditure, in-kind benefits and incomes is necessary to track actual changes in well-being of households”*

# Chapter 3: Earnings, employment and income inequality

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- The chapter provides a new and valuable piece in the puzzle for overcoming the “*gulf between the analysis of personal earnings and household income*”
- As other recent pieces, it has to remain partial
- A main novel finding refers to the effects of ranking when moving from personal to household earnings distribution
- “*Labour market inequality in and of itself is a very important determinant of household earnings inequality*”

# Chapter 3: some suggestions and questions to authors

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The descriptive analysis crosses the bridge between individual wage disparity and household earnings inequality – but it is restricted to employees. Additional bridges will need to be crossed to get the connection with (net) income:

- i. “Labour” is defined as dependent labour – this hides part of the story, particularly in SE and CE, also Korea (and LACs)
- ii. The factors unemployment and non-employment are not considered explicitly; but estimating inequality of “total labour income” necessitates assumption on value of leisure/shadow wages
- iii. Equivalisation needs to be considered
- iv. The final bridge is that to income distribution: addressing other sources of income, esp. taxes and benefits

## Chapter 3: Some extra points

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- What is the contribution of demography vs. “pure” labour market effects (employment, earnings, hours)? In view of coping strategies, household formation is partly endogenous
  - One way of coping with this issue has been to use reverse-order decomposition techniques;
- How useful are geographical/geo-political country groupings?



# Chapter 4: Wealth inequality and the accumulation of debt

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- The chapter (carefully) uses a wealth of data to shed light not only on levels of wealth inequality but also trends; possible driving factors; and the relationship with income
- Limited role of demography for explaining cross-country differences: does non-equivalisation matter?
- Social expenditures explain better cross-country variability, but capital, financial assets explain better trends over time
- What explains the (general?) increase in wealth inequality in the first crisis years?
- It will be increasingly important to look at the joint distribution of income and wealth (see AS, IT)

## Some extra points

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- In the case of wealth, reliance on the Gini may turn problematic (see e.g. Sweden); discussing top 10% shares may be more “tangible”, see table 4.2
- In the case of wealth, it may prove useful to discuss “absolute” alongside “relative” inequality, see fn 18
- Although mentioned in the conclusion, the “superstar” and “billionaire” phenomenon does not seem to be the most promising explanation
- *“The capacity to tax wealth has not kept pace with the increasing importance of financial and housing wealth”.*

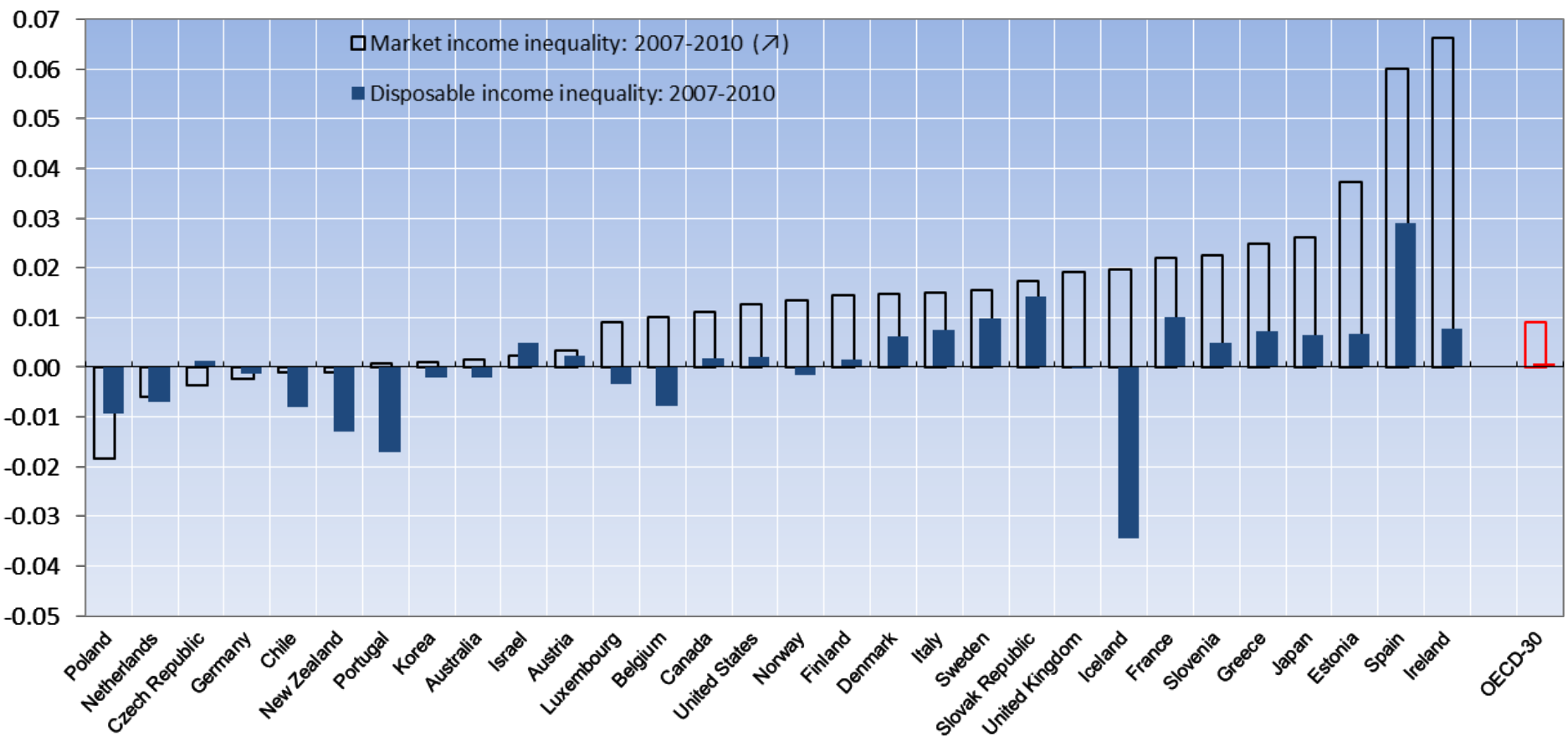
# How did the Great Recession and policies since 2008 change the picture of inequality?

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- Can/shall the chapters (book) devote specific room to this discussion – sufficient data? Sufficient time?
- Currently, chapter 2 includes some discussion; chapter 3 does not; chapter 4 has more post GR data but does not discuss effects of GR in detail
- Important to distinguish the different periods of the crisis (and policies), as well as different country paths

# During the 1<sup>st</sup> phase of the crisis, market income (but not net income) inequality rose considerably

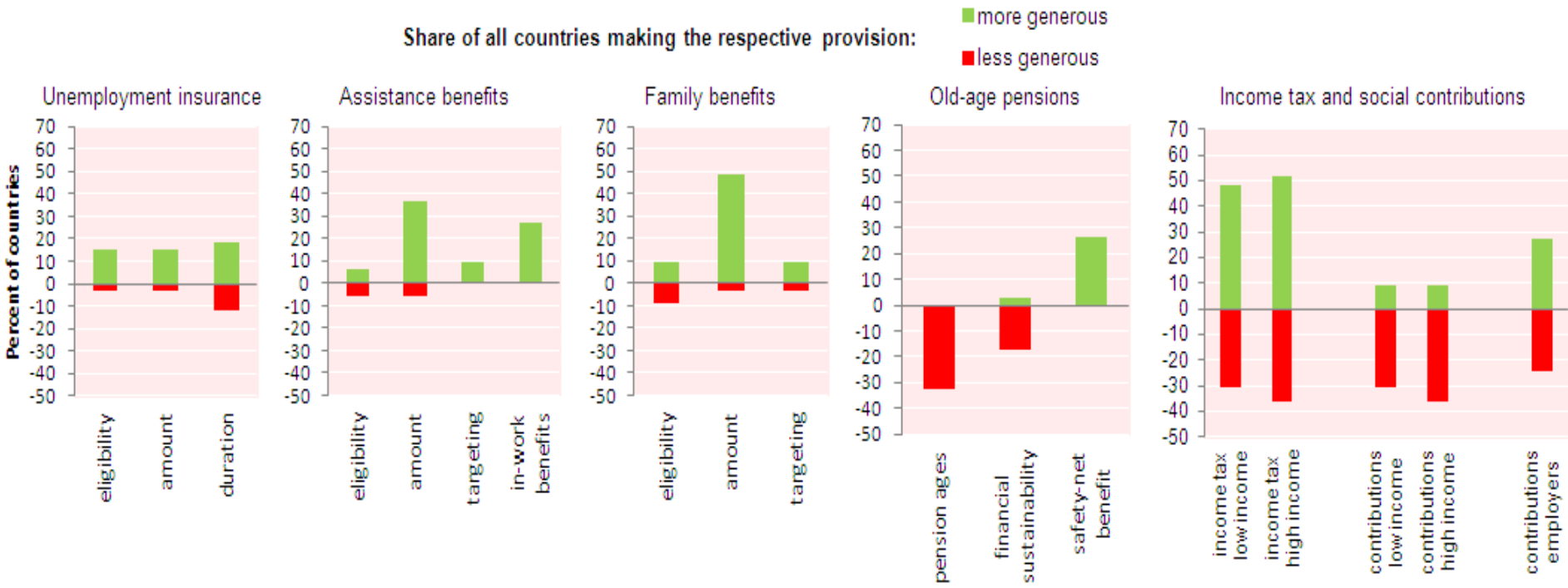
Percentage point changes in inequality of household market and disposable income, 2007 - 2010



Source: OECD (2013), *Crisis squeezes incomes and puts pressure on inequality and poverty*, [www.oecd.org/social/income-distribution-database.htm](http://www.oecd.org/social/income-distribution-database.htm)

# Initial crisis response raised social protection

## Changes to redistribution policies, mid-2008 – mid-2010



Source: OECD (2011), *Economic Crisis and Beyond: Social Policies for the Recovery*. OECD Ministerial Meeting on Social Policy.

... but the trend reversed thereafter!

*Thank you for your attention !*

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