



Distribution of household income

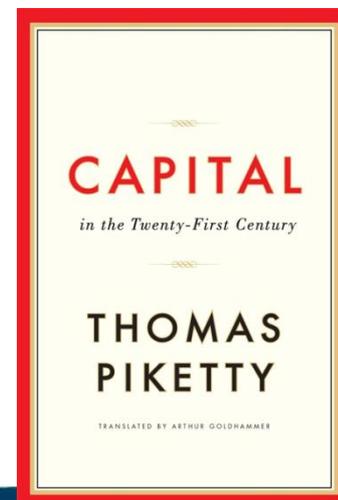
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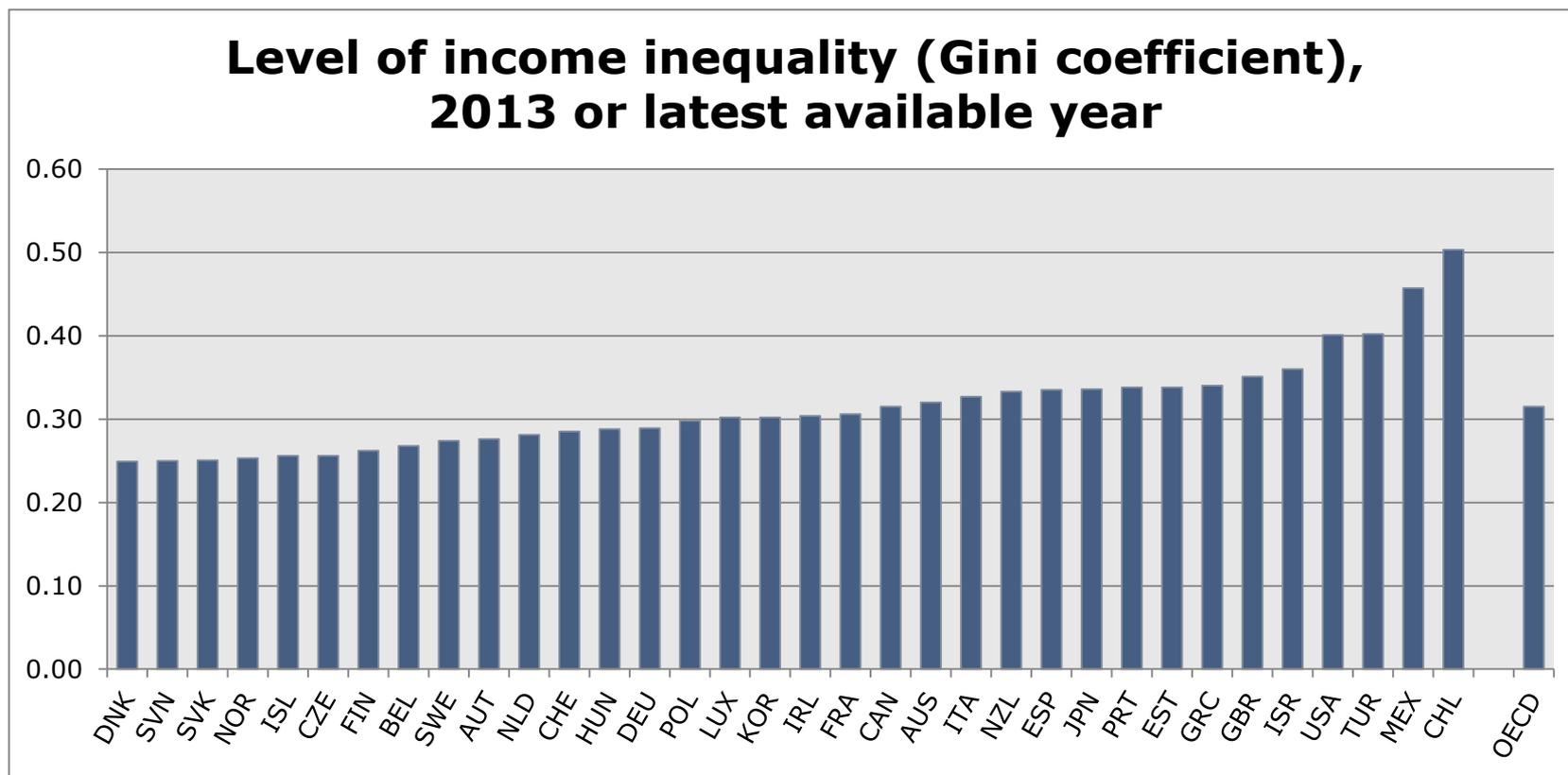
Distribution of household income

- Increased attention for inequality of household incomes over past years
- See e.g.
 - OECD (2015) In It Together. Why less inequality benefits all.
 - OECD (2011) Divided We Stand. Why Inequality Keeps Rising
 - OECD (2008) Growing Unequal? Income Distribution and Poverty in OECD Countries
 - Thomas Piketty (2015) Capital in the Twenty-First Century





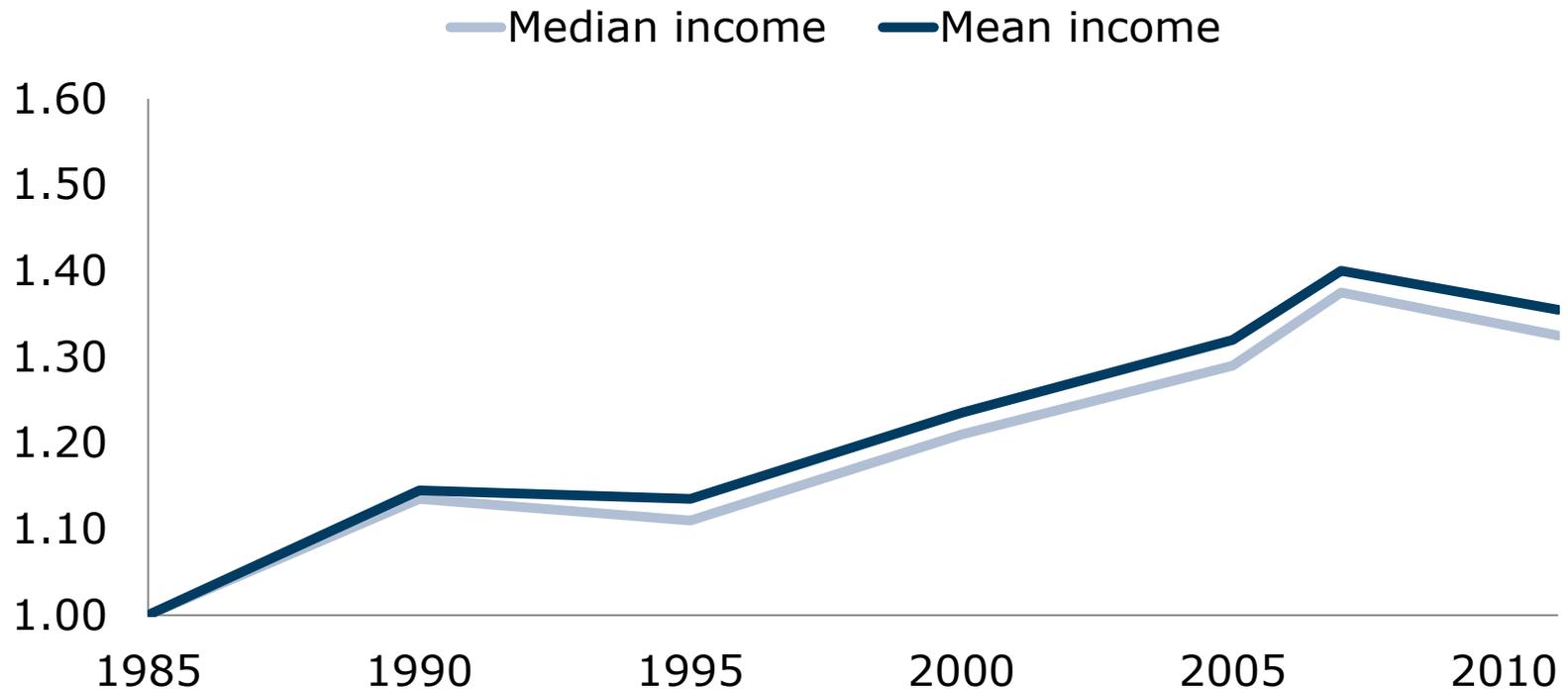
Income inequality varies greatly across OECD countries





Trends in household disposable income by income group over last 25 years

Percentage change, index 1985=1, OECD17¹, Total population

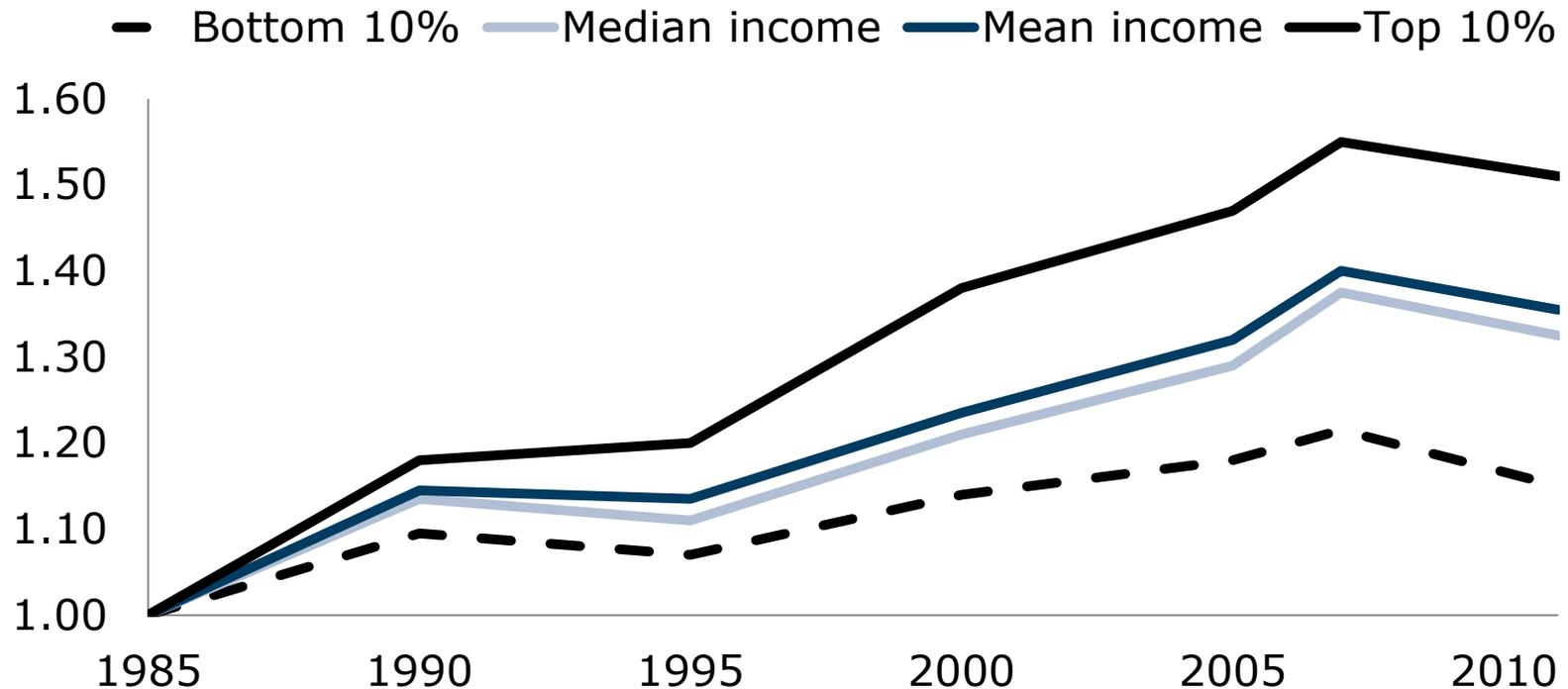


1. OECD is the unweighted average of 17 countries: Canada, Germany, Denmark, Finland, France, United Kingdom, Greece, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Norway, New Zealand, Sweden and United States.



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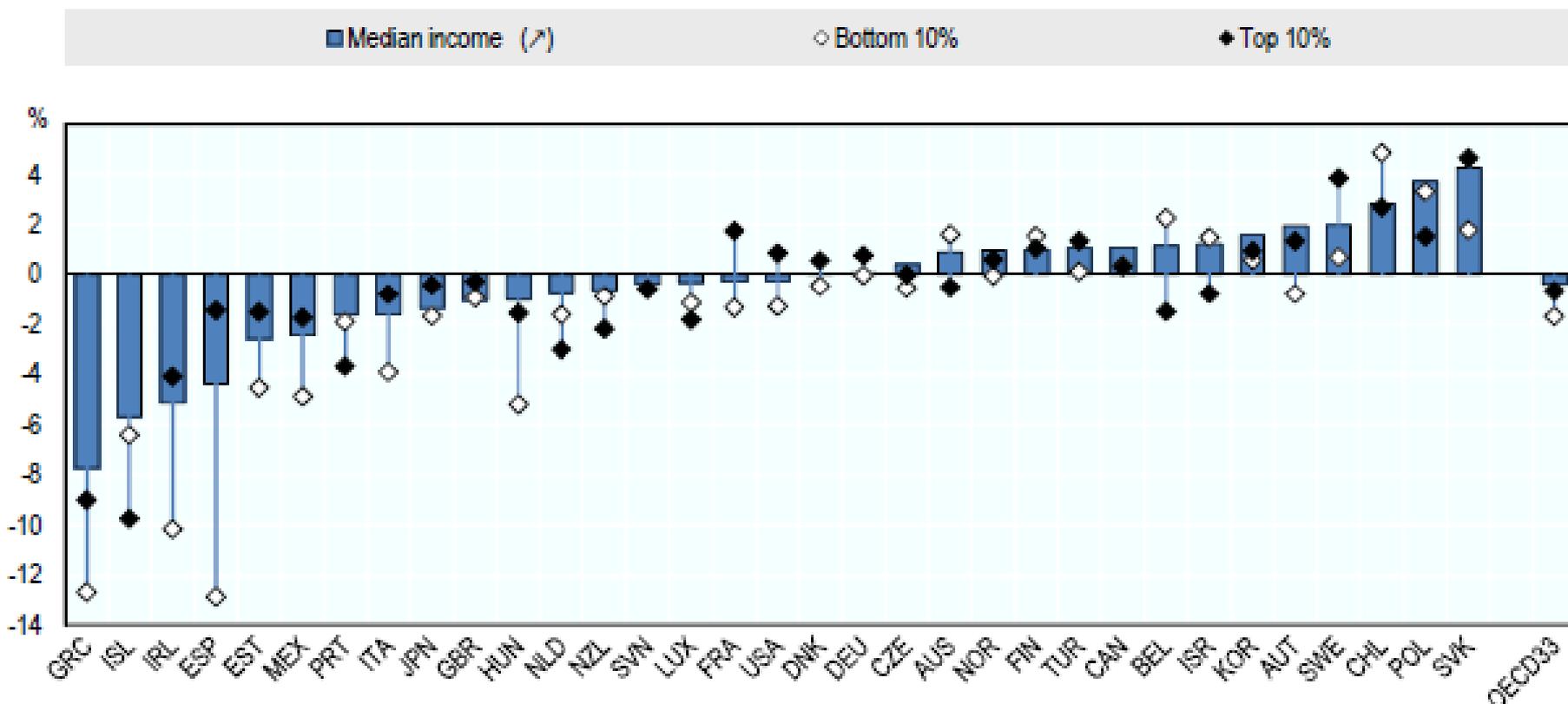


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Changes in inequality 2007-2011

Figure 3.3. Changes in household real disposable income by income group
Annual percentage change between 2007 and 2011,¹ total population





Determinants of household income inequality

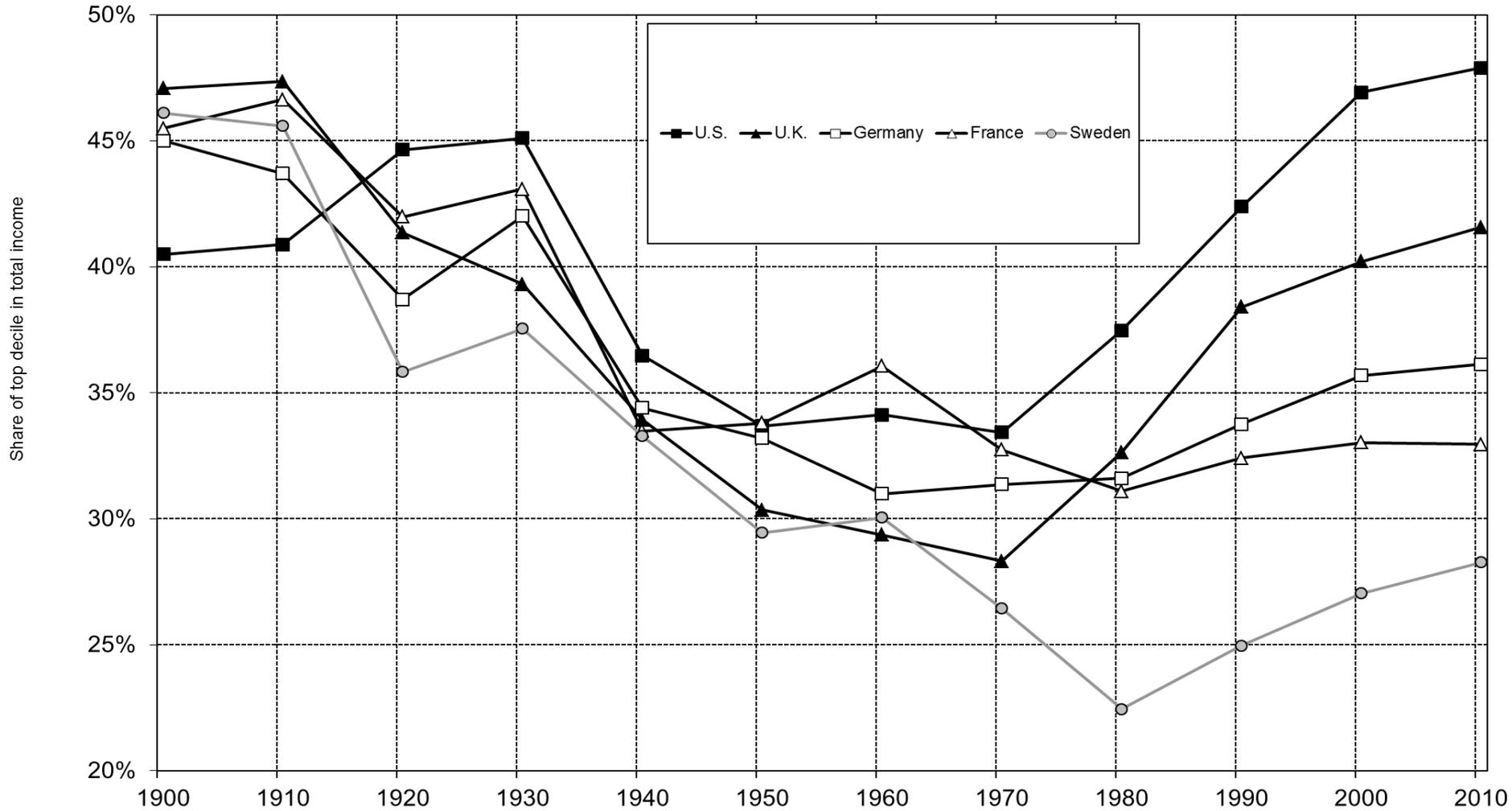
- Socio-demographic composition
- Market income (capital and labour)
- Social contributions
- Personal income taxes
- Cash benefits
- In-kind benefits (from publicly provided services)



Market income

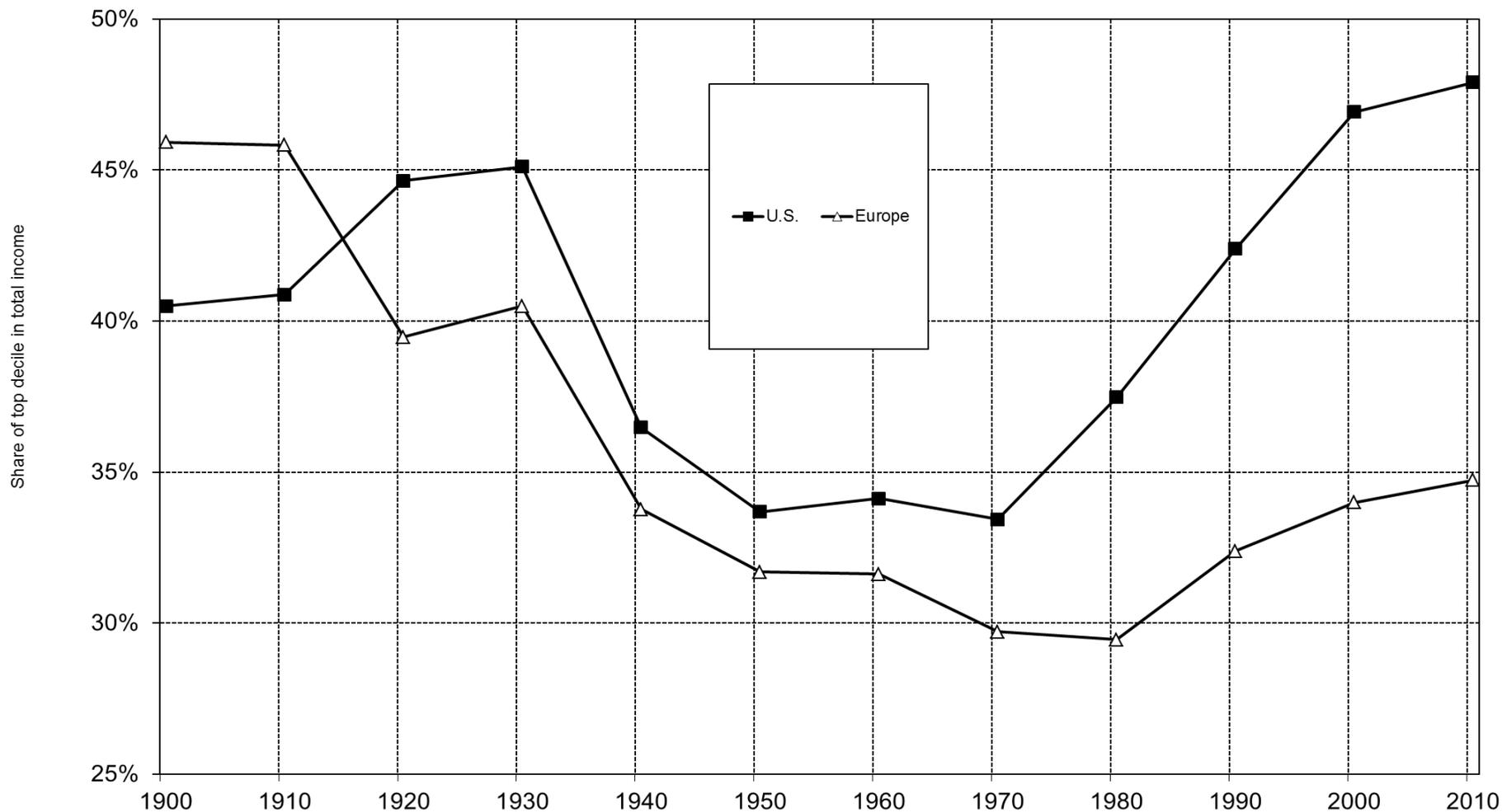
- Piketty: increase in market income inequality over the past decades
- Changes in capital income
 - Stronger concentration over past decades
- Changes in income from work
 - Employment effect
 - Wage effect

Figure 9.7. The top decile income share: Europe and the U.S., 1900-2010



In the 1950s-1970s, the top decile income share was about 30-35% of total income in Europe as in the U.S.
 Sources and series: see piketty.pse.ens.fr/capital21c.

Figure 9.8. Income inequality: Europe vs. the United States, 1900-2010



The top decile income share was higher in Europe than in the U.S. in 1900-1910; it is a lot higher in the U.S. in 2000-2010. Sources and series: see piketty.pse.ens.fr/capital21c.

Table 1. Real Income Growth by Groups

	Average Income Real Growth (1)	Top 1% Incomes Real Growth (2)	Bottom 99% Incomes Real Growth (3)	Fraction of total growth (or loss) captured by top 1% (4)
Full period 1993-2014	20.6%	80.0%	10.8%	55%
Clinton Expansion 1993-2000	31.5%	98.7%	20.3%	45%
2001 Recession 2000-2002	-11.7%	-30.8%	-6.5%	57%
Bush Expansion 2002-2007	16.1%	61.8%	6.8%	65%
Great Recession 2007- 2009	-17.4%	-36.3%	-11.6%	49%
Recovery 2009-2014	8.4%	27.1%	4.3%	58%

Computations based on family market income including realized capital gains (before individual taxes).

Incomes exclude government transfers (such as unemployment insurance and social security) and non-taxable fringe benefits.

Incomes are deflated using the Consumer Price Index.

Column (4) reports the fraction of total real family income growth (or loss) captured by the top 1%.

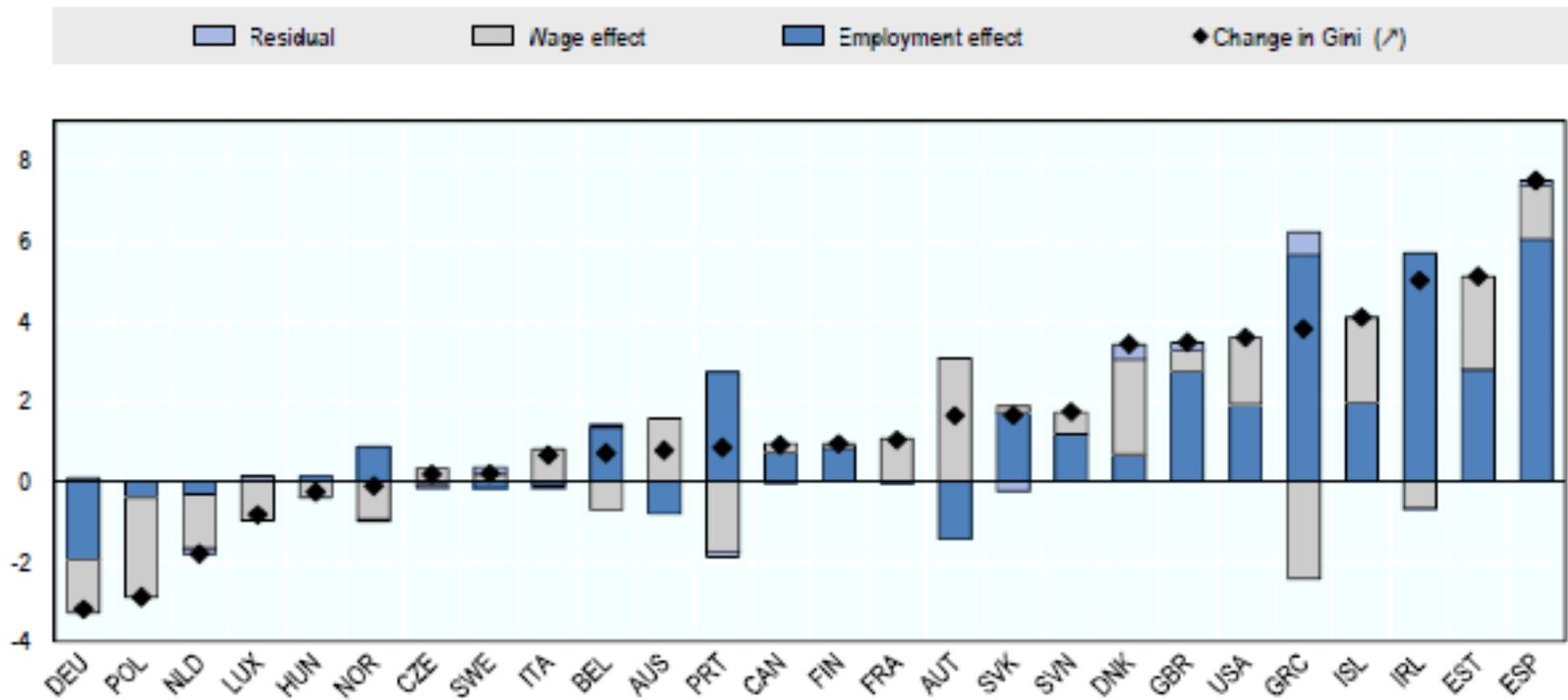
For example, from 2002 to 2007, average real family incomes grew by 16.1% but 65% of that growth accrued to the top 1% while only 35% of that growth accrued to the bottom 99% of US families.

Source: Piketty and Saez (2003), series updated to 2014.



Figure 3.2. Decomposition of changes in the Gini coefficient of labour income

Percentage point change in Gini coefficient, 2007-11, working-age individuals¹



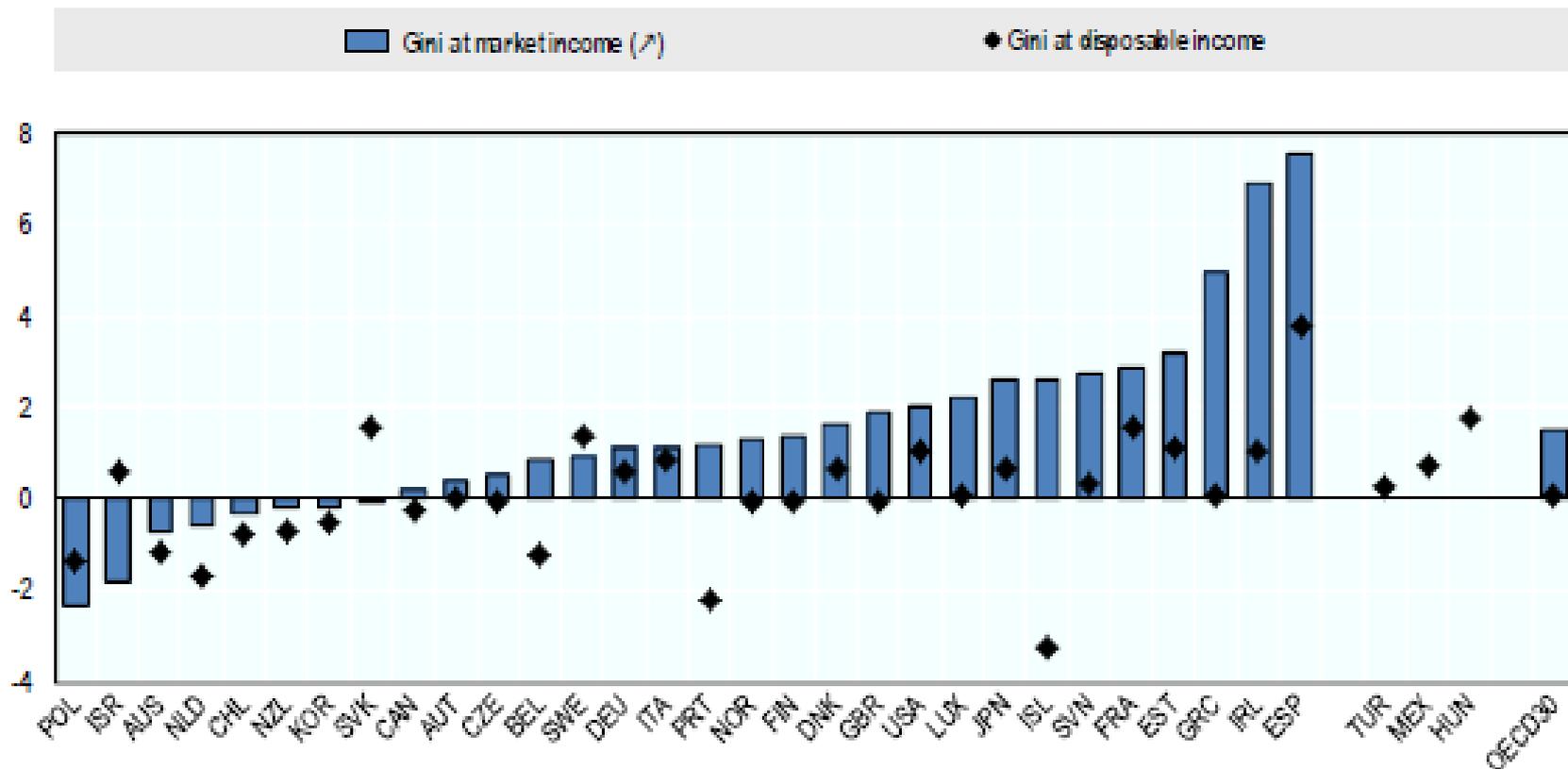


The role of the tax-benefit system

- In general: tax-benefit system is very important redistributor
- Taxes and benefits cushioned the impact of the crisis on household income, but mostly during the first years

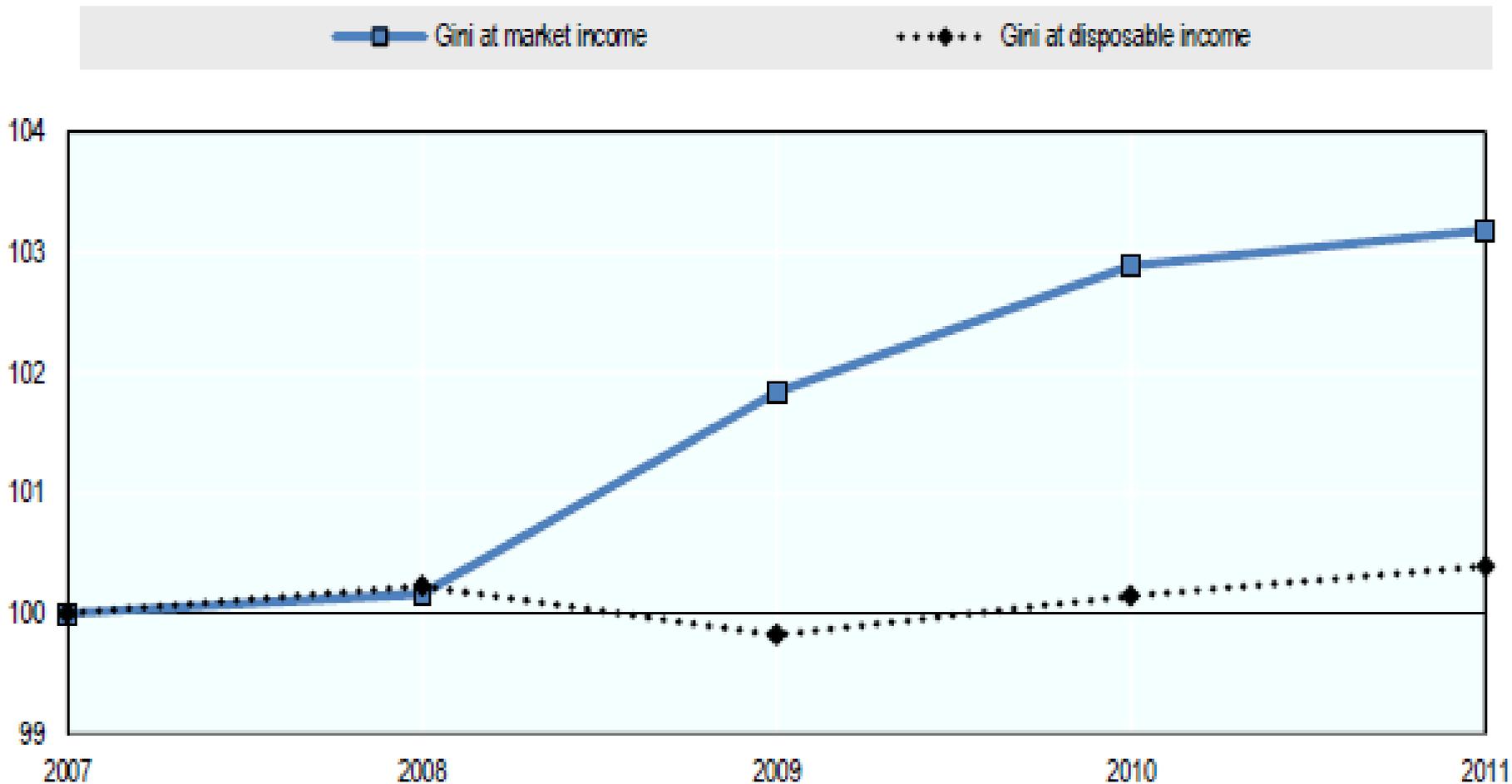
Figure 3.1. Income inequality during the crisis

Panel A. Percentage point change in Gini coefficient, 2007-11, total population¹



Source: OECD (2015)

Panel B. Percentage change in Gini coefficient, 2007=100, OECD, total population²



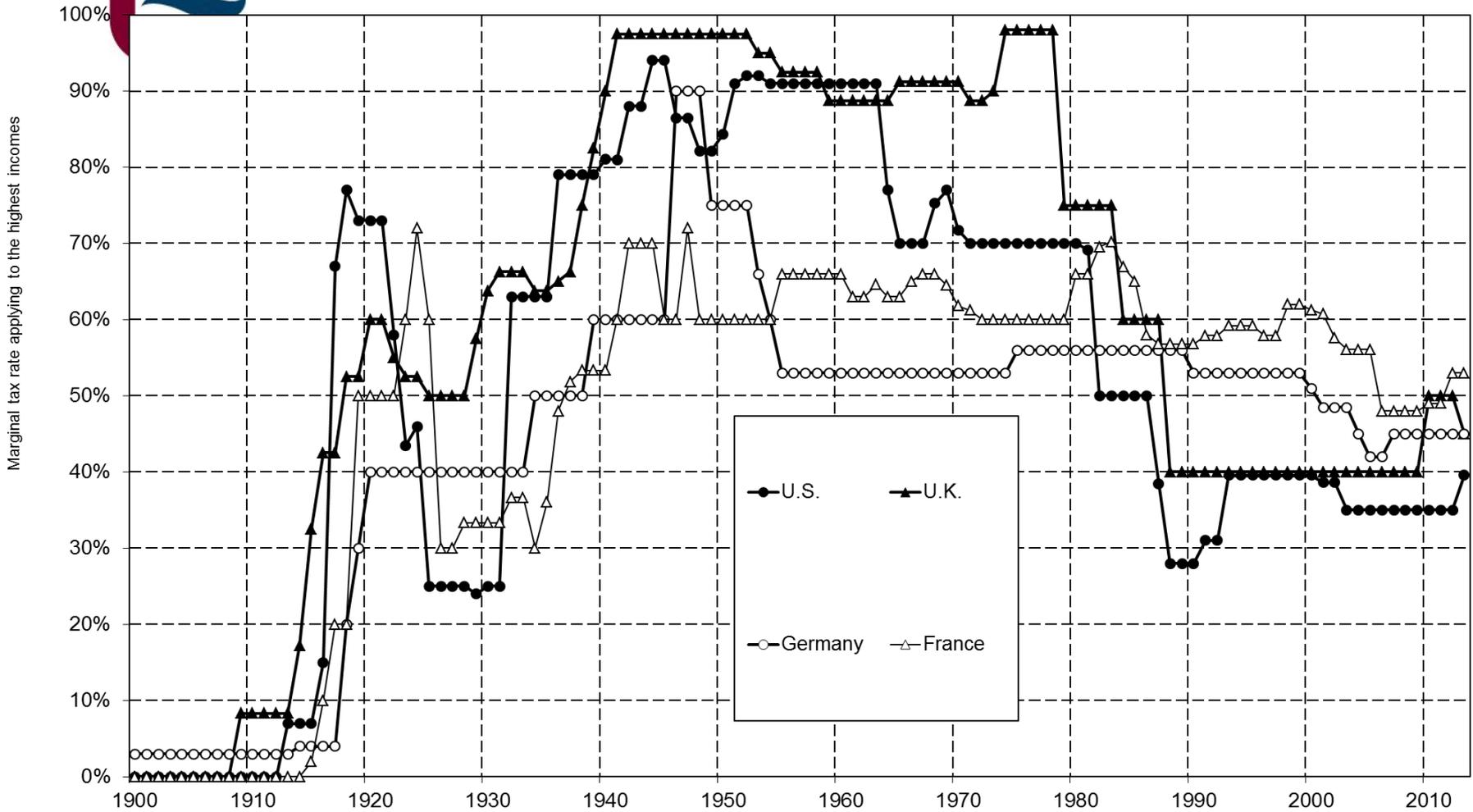
Source: OECD (2015)



The role of progressive income taxes

- Taxes are important part of the redistributive process and reduce inequality when they are progressive.
- But over past decades, redistributive power of taxes has diminished
 - E.g. strong decrease in top rates:
 - has (limited) direct impact on income inequality,
 - but a strong indirect effect.

Figure 14.1. Top income tax rates, 1900-2013

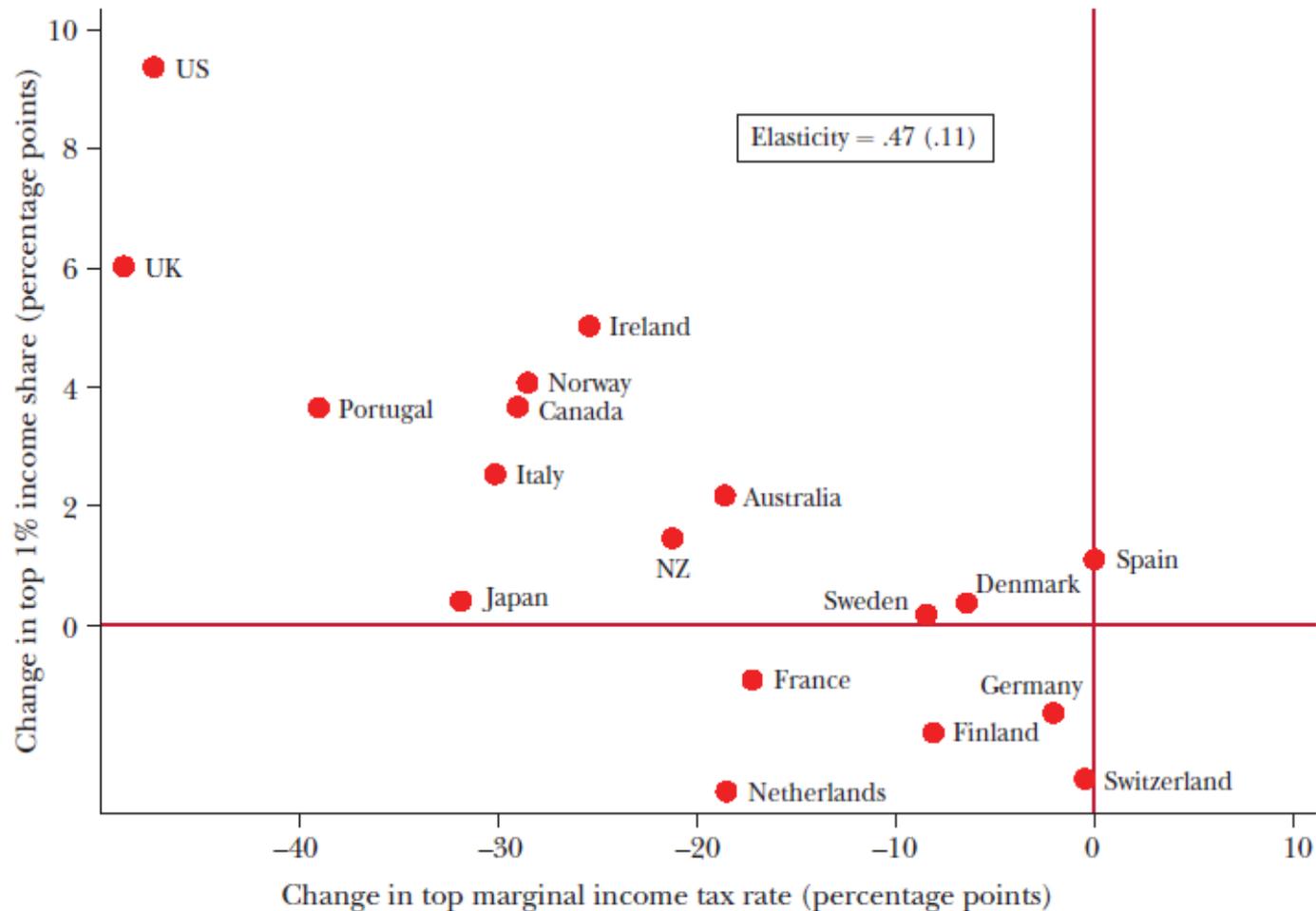


The top marginal tax rate of the income tax (applying to the highest incomes) in the U.S. dropped from 70% in 1980 to 28% in 1988. Sources and series: see piketty.pse.ens.fr/capital21c.



Figure 4

Changes in Top Income Shares and Top Marginal Income Tax Rates since 1960 (combining both central and local government income taxes)



Source: Piketty, Saez, and Stantcheva (2011, revised October 2012, figure 3). Source for top income shares is the World Top Incomes Database. Source for top income tax rates is OECD and country-specific sources.

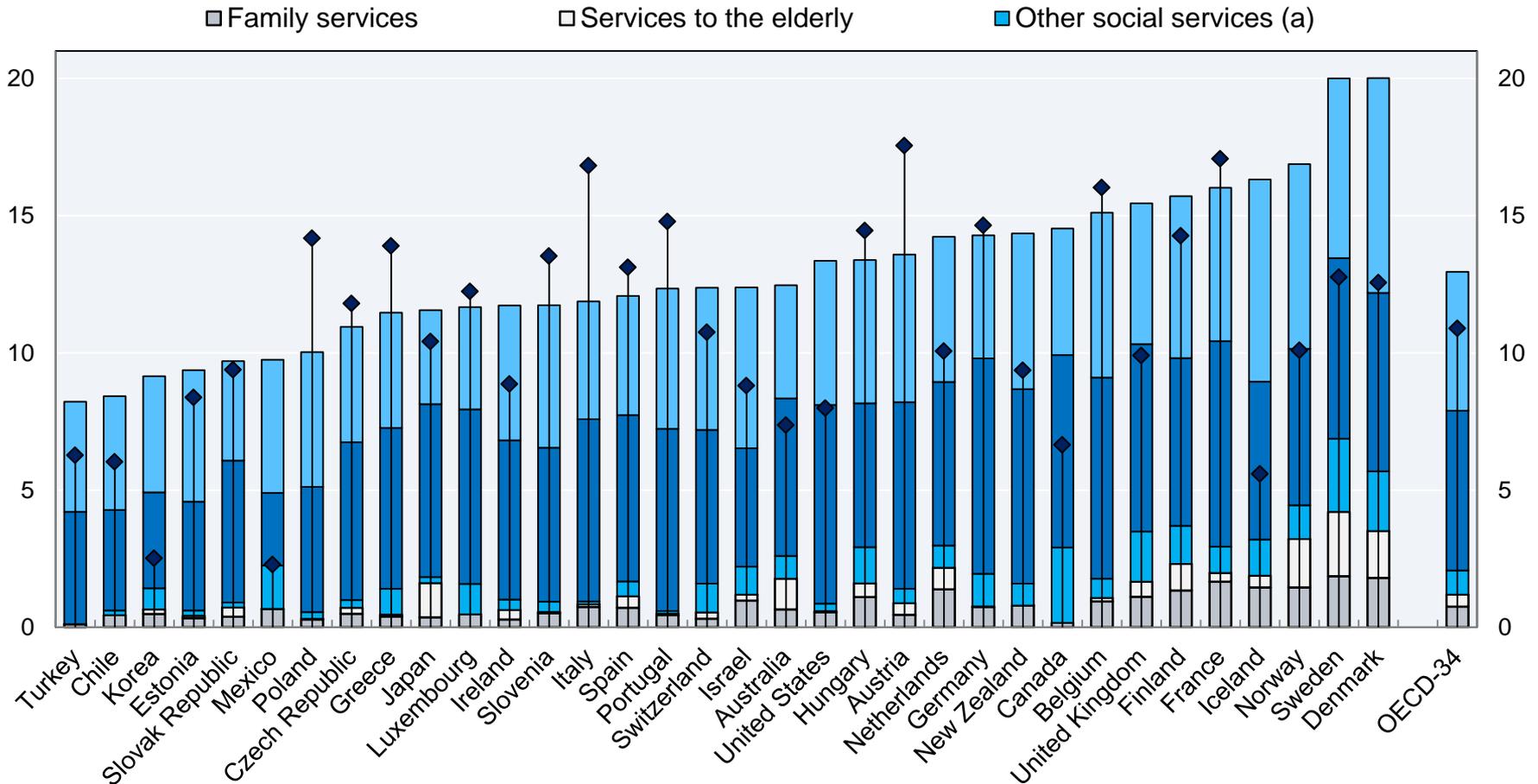


The role of services

- Household income should reflect social services provided by the government , such as subsidized health care and education services (www.stiglitz-sen-fitoussi.fr).
- On average, the size of these services is slightly more important than that of all cash transfers taken together.
- But some countries rely on social services rather than cash transfers much more than others
- Methodologically challenging to incorporate value of services in household income



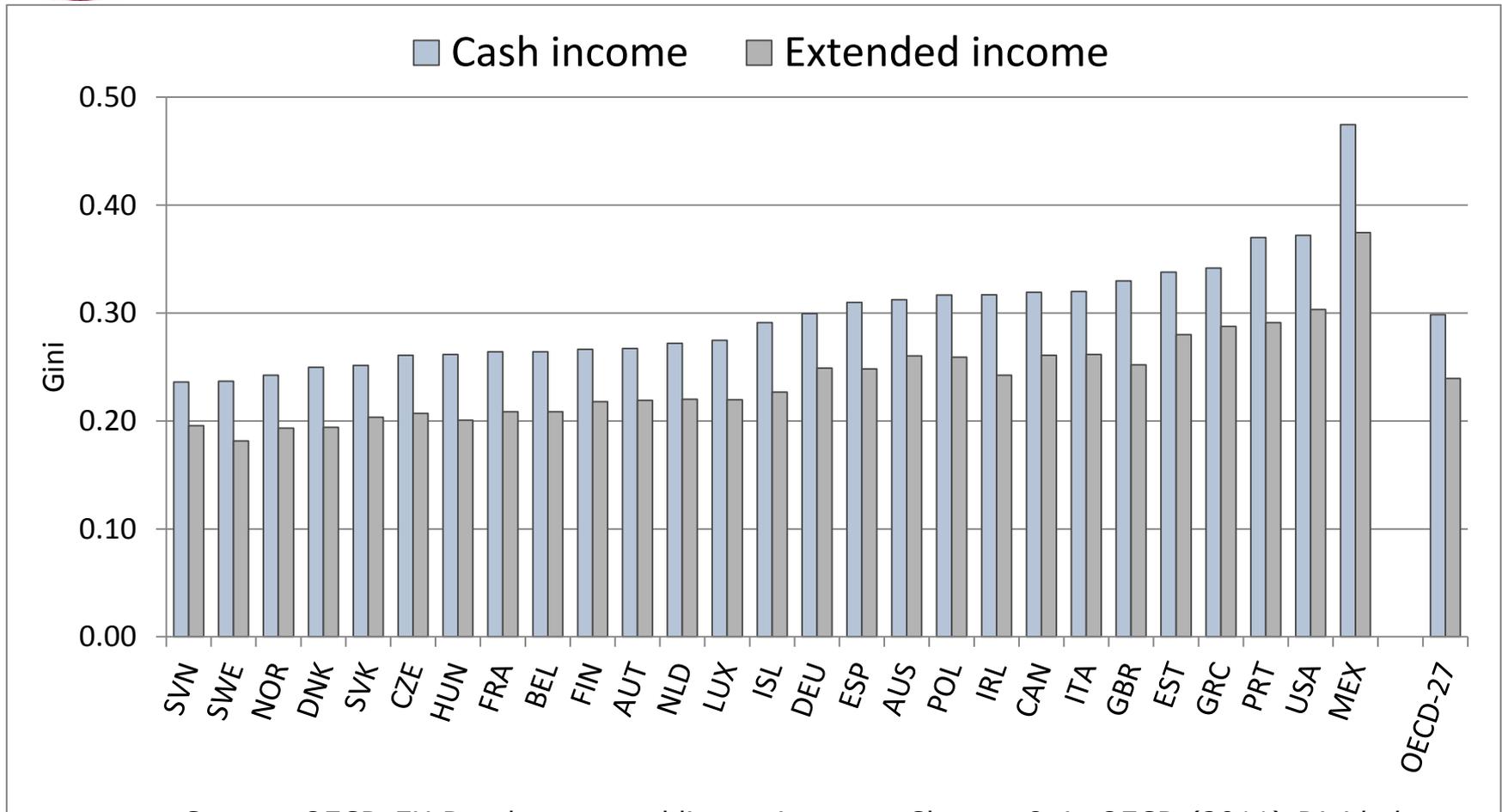
Public expenditure for in-kind and cash transfers, percentage of GDP, 2007



Source: OECD Social Expenditure database, OECD Education database, OECD Health database. See also **Chapter 8** in **OECD (2011) *Divided we stand: Why Inequality Keeps Rising***.



Gini coefficient before and after inclusion of all types of public services, 2007

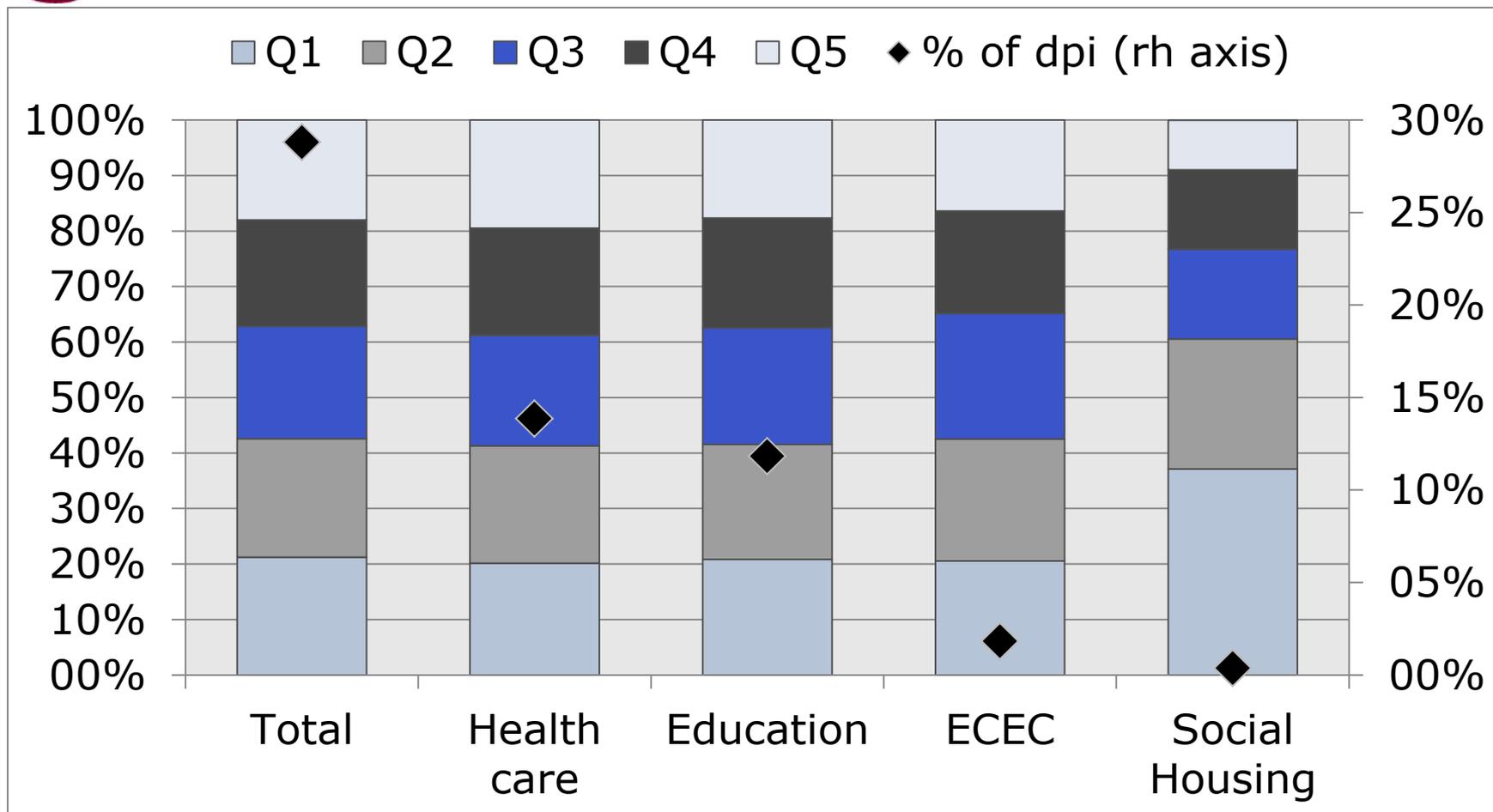


Source: OECD-EU Database on public services, see Chapter 8 in OECD (2011) *Divided we stand: Why Inequality Keeps Rising*, & Verbist et al. (2012).

Note: Countries are ranked according to Gini of cash income (from low to high)



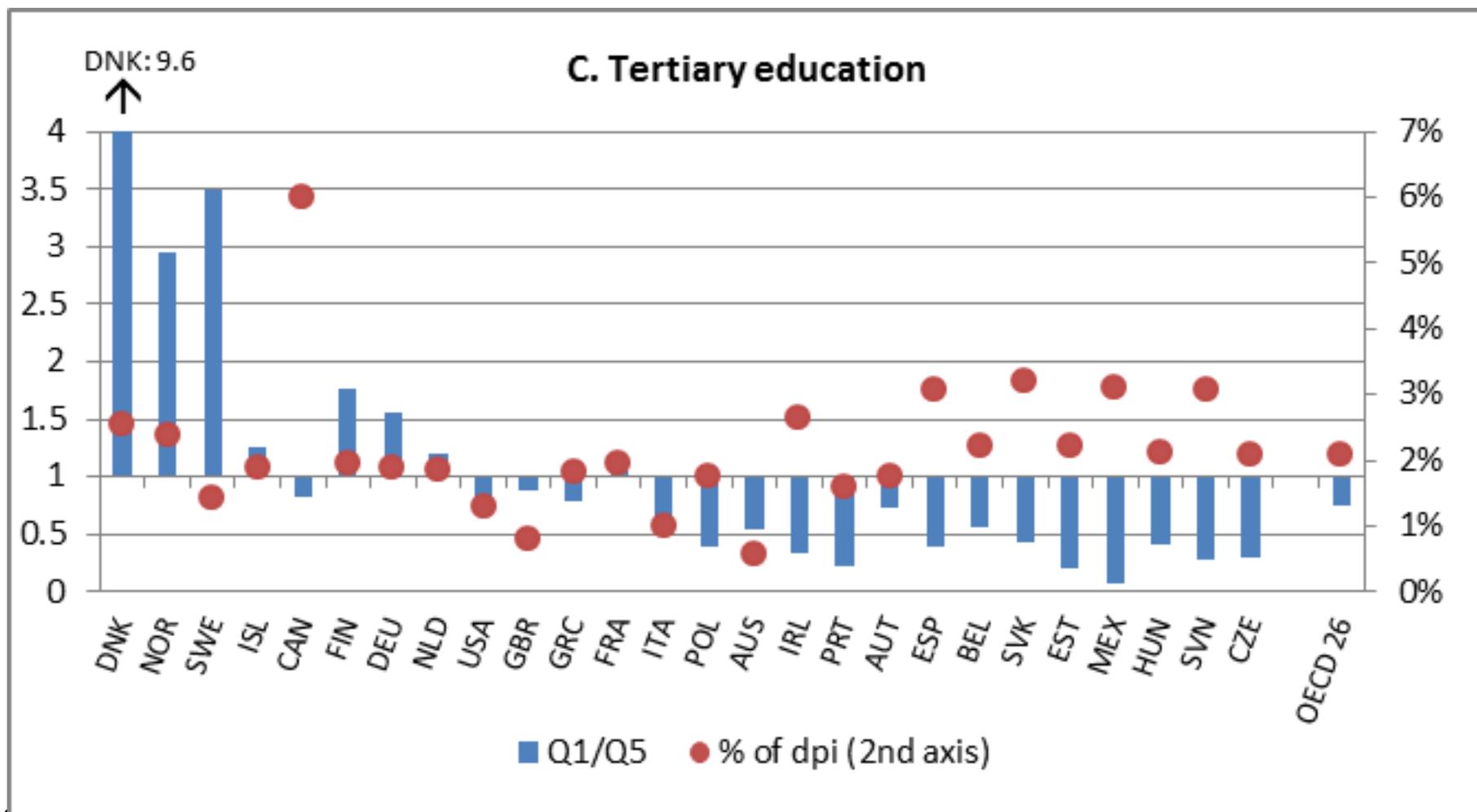
Distribution of value of public services over quintiles, 2007



Source: OECD-EU Database on public services, see Chapter 8 in OECD (2011) *Divided we stand: Why Inequality Keeps Rising*, & Verbist et al. (2012).



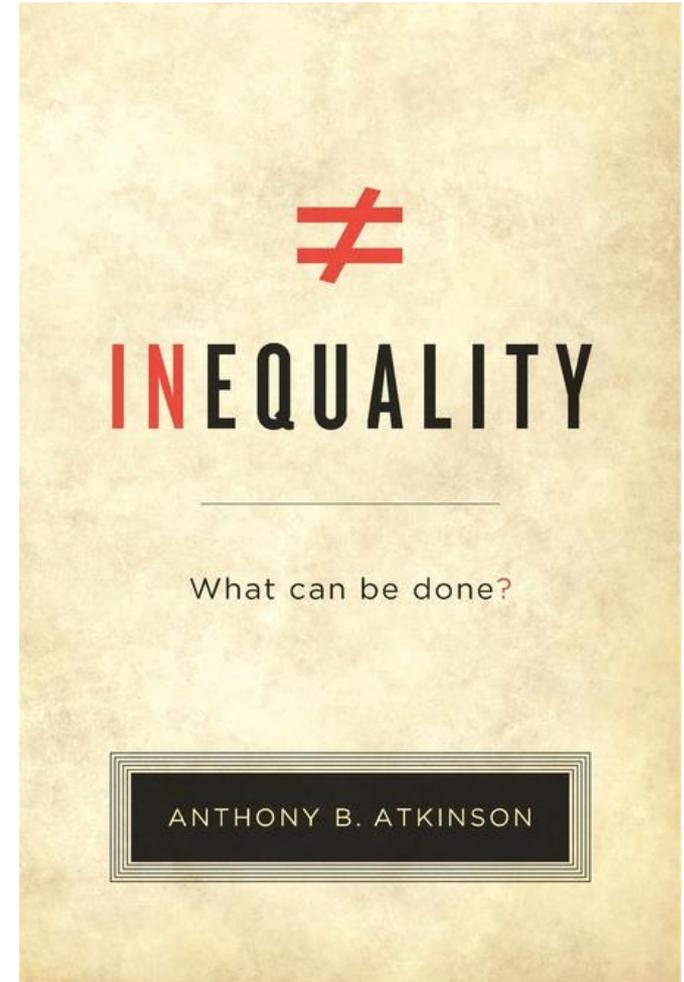
Tertiary education





Why look at inequality?

- Intrinsic: justice
- Instrumental:
 - Social cohesion
 - Economic growth
- What can be done? See e.g.
 - Atkinson (2015)
 - Piketty (2014)
 - OECD (2015)





Atkinson: What can be done?

- 15 proposals to combat inequality in four broad domains
 1. Harnessing technological progress and income shares
 2. Earnings and employment
 3. Wealth taxation
 4. Small savings and minimum inheritance
 5. Social security for all



What can be done? Examples

- Direction of technological change: encourage innovation that increases employability of workers
- More progressive rate structure (65% on top 1%)
- Guaranteed public employment at living wage for everyone who seeks this
- Increased taxation of investment income through re-introduction of earned income tax relief
- Fresh examination of annual wealth tax
- A capital endowment for all, either at adulthood or at a later date
- An EU initiative for a participation income as a basis for social protection, starting with a universal basic income for children



Thank you for your attention!