Inequality and Well-Being in OECD countries: What do we know?

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Have inequalities increased?

Trends in inequality of market and disposable household income, changes in Gini coefficients, mid-1980s to mid-2000s

Do people care about inequality?

Actual and perceived levels of income inequality

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

Who supports redistribution and why?

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

- Differences in income are an important source of comparisons with others.
- Income comparisons can be good or bad for happiness: signal effects vs. status effects.
- Positive signal effects tend to dominate in former state socialist countries and the US, negative status effects in Western Europe.
- Comparisons with family members and “others” hurt more than comparisons with colleagues, prompting a demand for redistribution.
- Effects of reference income and own income are often of the same magnitude but with opposite signs: the net benefit of higher income for all would be zero.
- Income comparisons can have a negative impact on well-being, but they may also increase life satisfaction when they create prospects for mobility.
How does inequality affect well-being?

• Risk-aversion and prospects for upward mobility matter: up or down the ladder?

• Inequality measures (e.g. Gini coefficient) do not affect well-being in the U.S., independent of political leaning or income level

• European’s satisfaction decreases with the degree of inequality in their country, most strongly for poor and left-wing people
Conclusion

- Literature is still in its “unruly teenage years”, and strong policy conclusions are not yet available.
- The positive but diminishing relationship between income and subjective well-being suggests scope for redistributive policies.
- The strong evidence of loss aversion suggests that it may only be marginal additional income which can be redistributed.
- People’s happiness is affected in different ways by income inequality in different countries and depending on comparison groups.
- From the subjective well-being perspective alone, economic growth with increasing inequality would not deserve to be classified as progress.