

Growing Unequal?

International trends in inequality and poverty

Michael Förster
OECD, Social Policy Division
www.oecd.org/els/social/inequality/

OECD, Directorate for Employment, Labour and Social Affairs

Overview

- 1) Longer-term trends in the OECD area
- 2) Key factors explaining increasing inequality
- 3) How do South Africa and other emerging economies compare?
- 4) Key challenges ahead

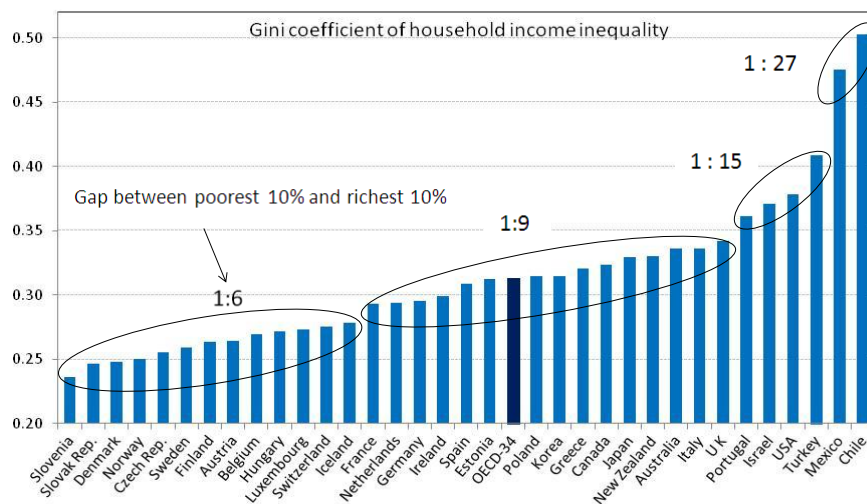
Main trends: Results of recent OECD studies



- Household income inequality and income poverty increased in a large majority of OECD countries during the past 20 – 30 years.
- This increase was modest but significant.
- Developments on the labour market were key in shaping the income distribution.
- In many countries, the tax/transfer system became less effective recently.

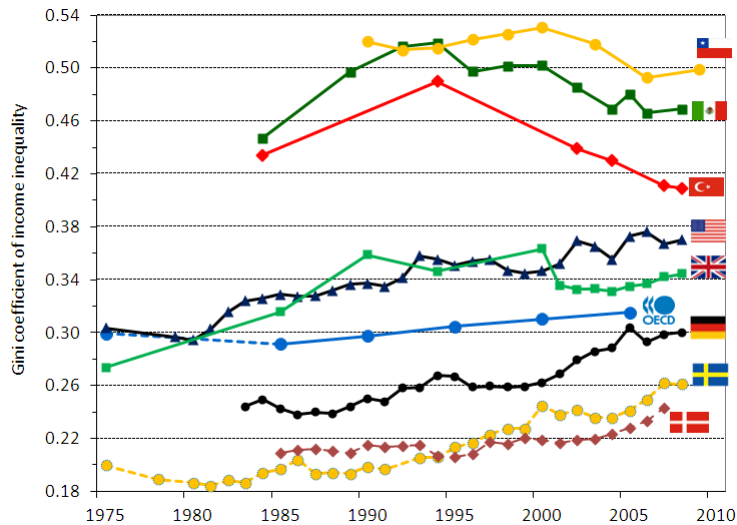
3/19

Huge country differences in levels of income inequality across OECD countries



4/19

Longer-term trends in income inequality: convergence to a common, higher level?



5/19 Source: OECD Income Distribution Database.

Which direct factors shaped the trends in income distribution in OECD countries?



- Changes in the household structure: smaller households, more single parents, more elderly
- Labour market, I: wage effect – increasing earnings dispersion among full-time workers
- Labour market, II: employment effect – work patterns and persisting household joblessness among less-educated persons
- Market incomes other than wages (self-employment, capital etc.) are increasingly concentrated
- Redistributive effectiveness of tax/transfer systems reduced in a number of countries

6/19

What was the role of *underlying* factors, such as economic globalisation?



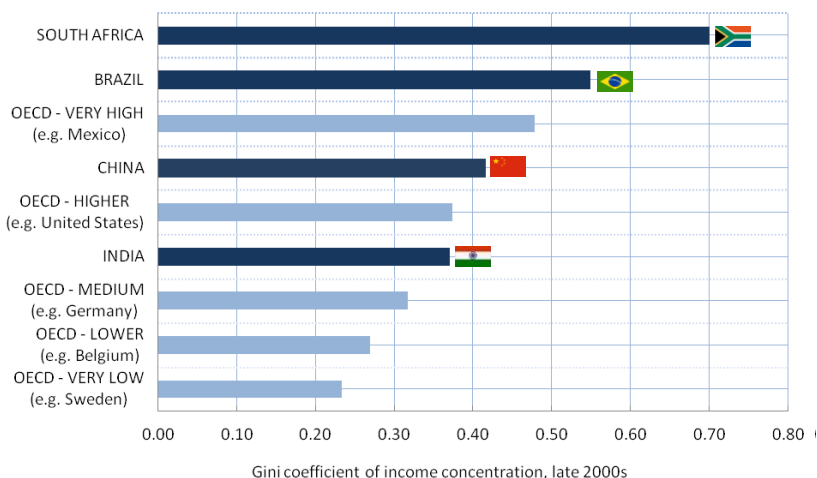
- Globalisation (trade integration, financial deepening) had little impact on wage inequality;
- Technological change increased inequality – but the rise in the supply of skilled workers was a major counterweight in reducing wage differentials;
- Contrasting effects of regulatory reform and institutional changes which aimed at promoting growth and productivity...
 - ... also had a positive impact on employment...
 - ... but at the same time have been associated with increased wage inequality;

7/19

How do emerging economies compare in terms of inequality and poverty trends?



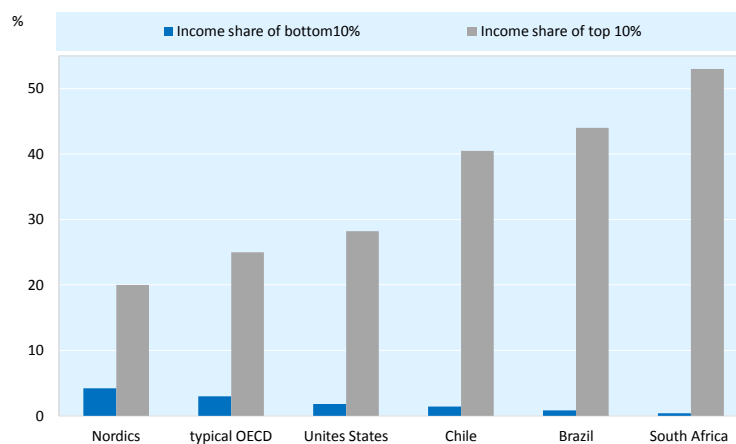
International levels of income inequality



Source: OECD, *Tackling Inequalities* (2010).
Gini coefficients based on equivalised incomes for OECD countries; per-capita incomes for Brazil, China and South Africa; and per-capita consumption for India.

8/19

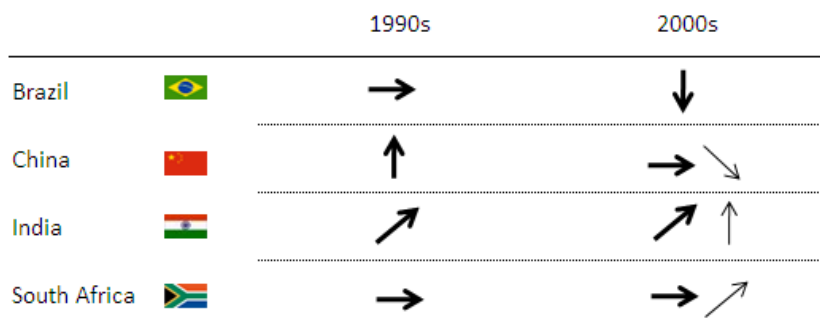
A very high share of top incomes in South Africa



Source: OECD, *Tackling Inequalities* (2010).

9/19

Summary of trends in income inequality in four emerging economies



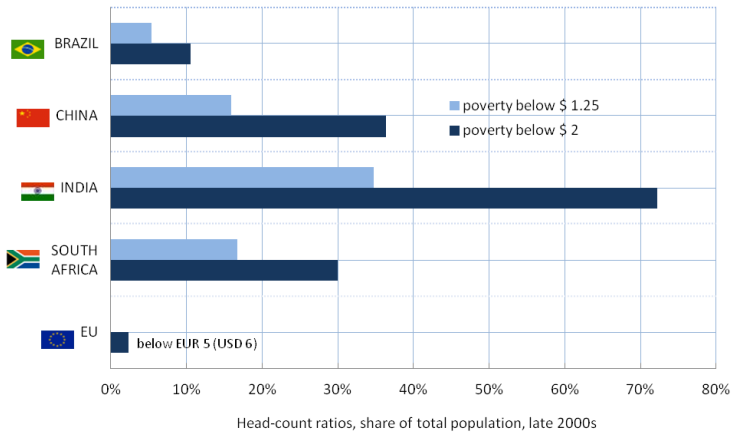
Source: OECD, *Tackling Inequalities* (2010).

10/19

Extreme poverty is still high in EE countries



Poverty rates, two absolute poverty lines



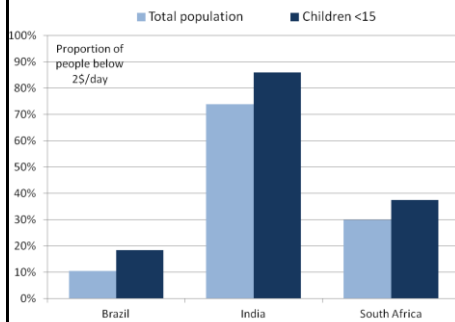
Source: OECD-EU database on emerging economies., World Bank WDI indicators for China.

11/19

Children are still at higher risk of poverty



Poverty rates



Source: OECD-EU database on emerging economies.

Poverty risk for children and elderly (total population = 1)

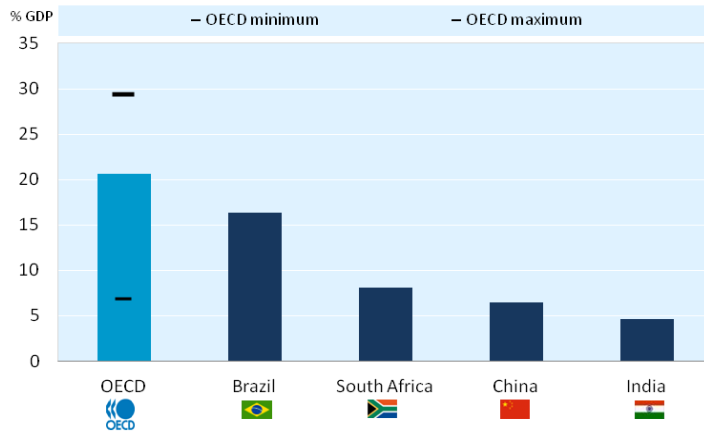
		Children	Elderly
OECD	early 1990s	1.1	1.5
	late 2000s	1.2	1.2
Brazil	early 1990s	1.4	0.5
	late 2000s	1.6	0.4
India	early 1990s	1.4	1.0
	late 2000s	1.5	0.9
South Africa	early 1990s	1.3	0.7
	late 2000s	1.3	0.5

12/19

Levels of social spending are generally lower in EE countries



Total public social expenditure, late 2000s



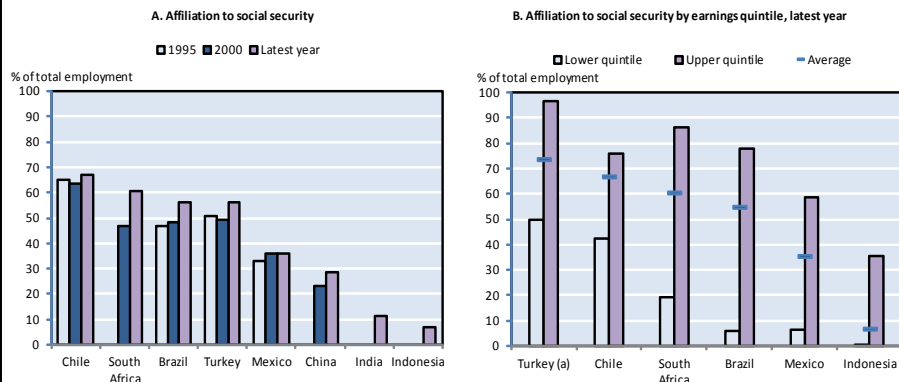
Source: OECD Social expenditure database, OECD *Employment Outlook* (2010).

13/19

In addition, coverage is often low



Though coverage has increased, it remains limited, especially among poorer people



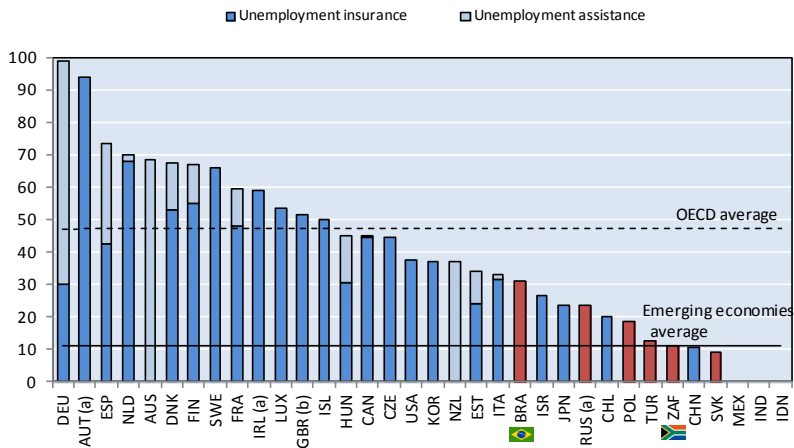
Source: OECD *Employment Outlook* (2011, forthcoming).

14/19

Unemployment benefit reciprocity is lower, too



Unemployment benefit recipients, share of total unemployed persons

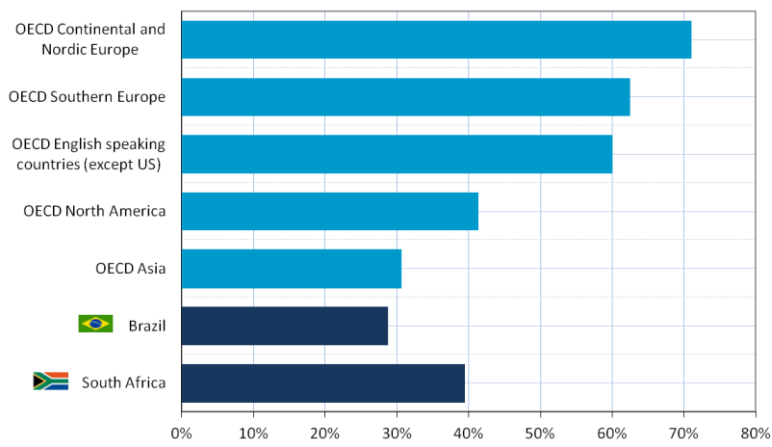


Source: OECD *Employment Outlook* (2011, forthcoming).
15/19

Large differences across countries in the magnitude of public redistribution



Poverty reduction effect of public net transfers

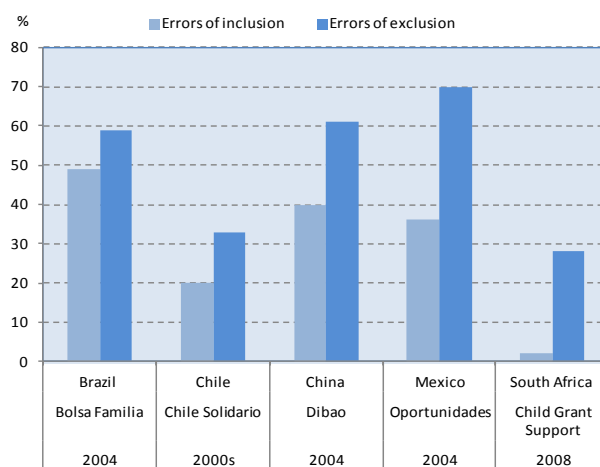


Source: *Growing Unequal?*, OECD 2008; OECD, *Inequalities in emerging economies* (2010, forthcoming).
Poverty defined with regard to 50% of national median income, for all countries.
16/19

But targeting efficiency remains an issue for cash transfers



Estimates of inclusion and exclusion errors, selected CT programmes



17/19

Source: OECD *Employment Outlook* (2010, forthcoming).

Summary of main challenges ahead



- Income inequalities are high in EE countries and decreased only in Brazil recently;
- Social protection is generally weak in EE countries, leaving households vulnerable to shocks;
- The various social protection schemes are often fragmented and coverage and benefit rates are often low, calling for more policy integration;
- High informality limits the impact of 'traditional' policy instruments;
- In the longer run, the main challenge will be to promote formal employment and sustainable social policy frameworks.

18/19

Thank you for your attention!
More information:



- michael.forster@oecd.org
- www.oecd.org/els/social/inequality
- www.oecd.org/els/social/inequality/emergingeconomies

