



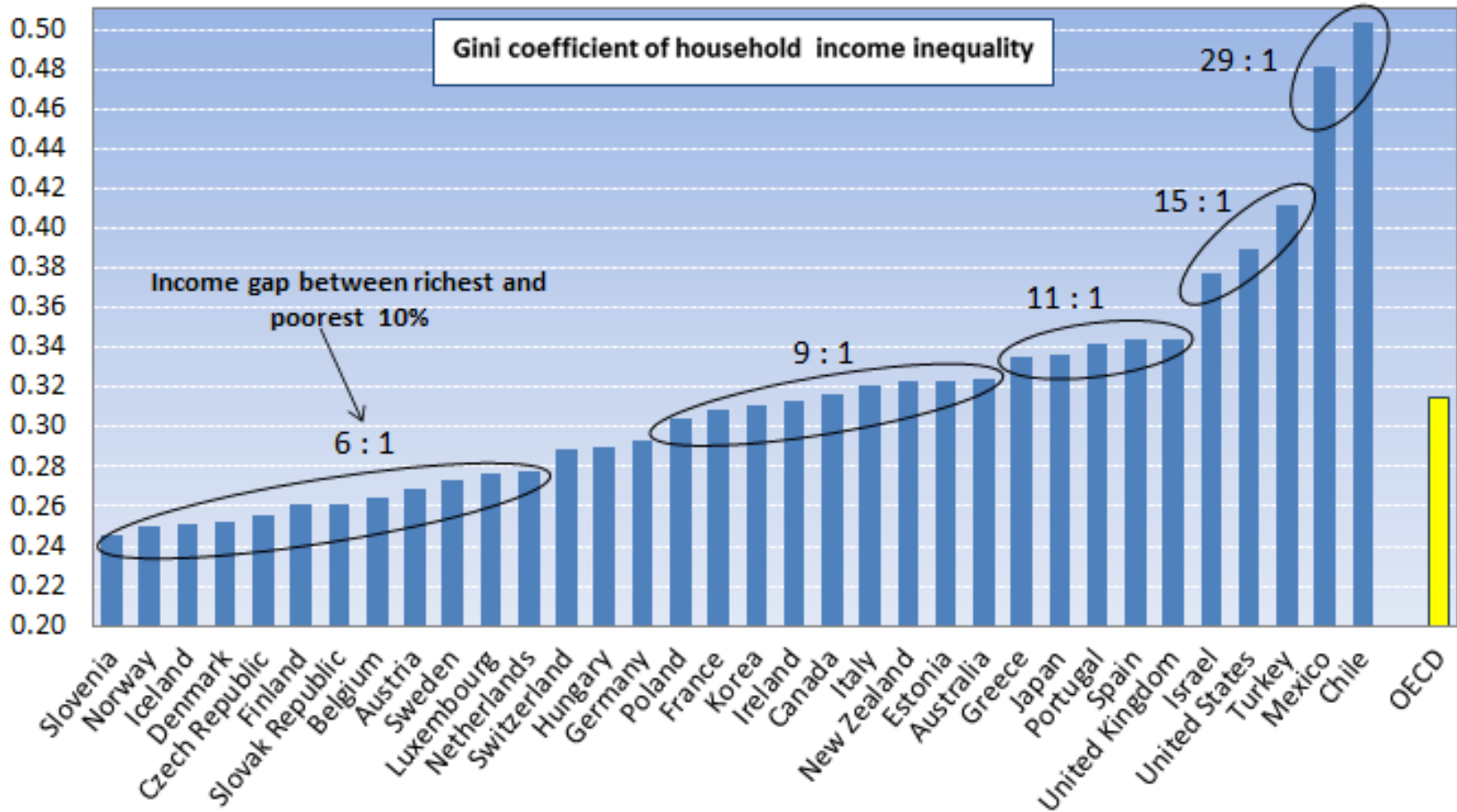
Green Growth and Sustainable
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GROWTH AND INCOME INEQUALITY

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Large country differences in levels of income inequality



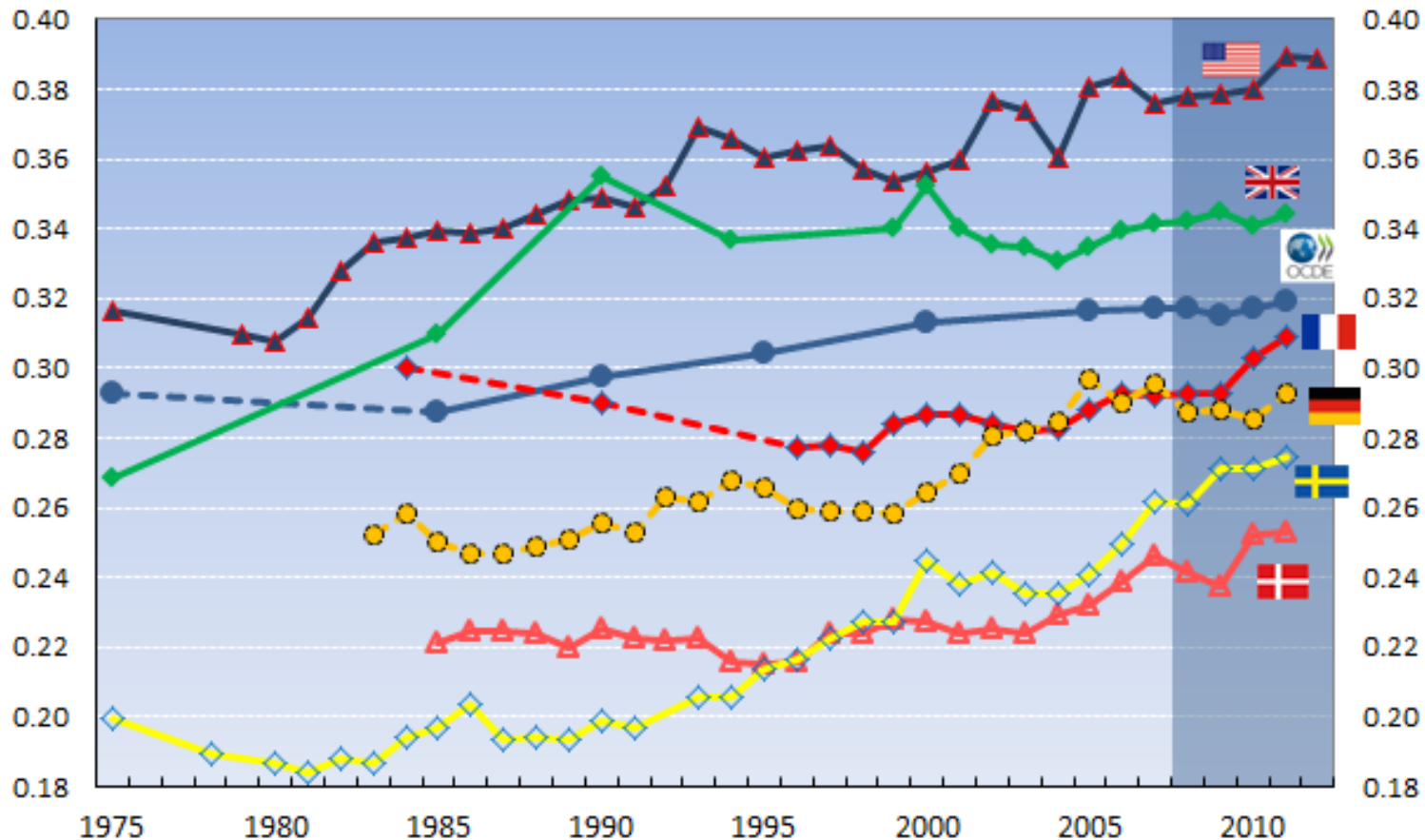
Data refer to 2011 or latest year available. Source: OECD Income Distribution Database (www.oecd.org/social/inequality.htm).

Note: the Gini coefficient ranges from 0 (perfect equality) to 1 (perfect inequality). Gaps between poorest and richest are the ratio of average income of the bottom 10% to average income of the top 10%. Income refers to cash disposable income adjusted for household size.



Income inequality before and since the Great Recession: the facts

Long-term trends in inequality of disposable income (Gini coefficient)



Source: OECD Income Distribution Database, www.oecd.org/social/income-distribution-database.htm.

Note: Income refers to disposable income adjusted for household size.



Inequality is not only a social and political concern: there is also an economic rationale

- *“Inequality has deepened. Upward mobility has stalled. The cold, hard fact is that even in the midst of recovery, too many Americans are working more than ever just to get by; let alone to get ahead.”* (US President Obama)
- Recent OECD work finds that higher (net income) inequality slows economic growth:
 - Increasing income inequality by 1 Gini point lowers yearly GDP per capita growth by around 0.1 p.p. in the long run
 - Result is driven by disparities at the lower end of the distribution, involving lower middle classes, not just the poor.
 - Redistribution through direct taxes and cash transfers has *not* led to bad growth outcomes.



OECD evidence on the main drivers of rising household income inequality

- Skill-biased technological change widened *market* income inequality;
- Globalization had little impact on inequality trends *per se* but put pressure on policies and institutional reforms;
- Some regulatory reforms and pro-growth policies while promoting growth and productivity...
 - ...also had a positive impact on aggregate employment...
 - ...but at the same time have been associated with increased wage inequality;
- Taxes and transfers while remaining key became less redistributive
- Rise in education was the most important counterweight, reducing inequality *and* increasing employment



Towards green and inclusive growth

Why green growth needs to be inclusive

- Precondition for political buy-in
- Equity matters in its own right and can be pro-growth

Potential tensions between green growth policies and inclusive growth

- Environmental taxes can be regressive (energy poverty)
- Job losses due to carbon leakage or restructuring

Aligning environmental and social policy

- Revenue recycling can compensate losers
- Employment and training policies can prevent workers being left behind