



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

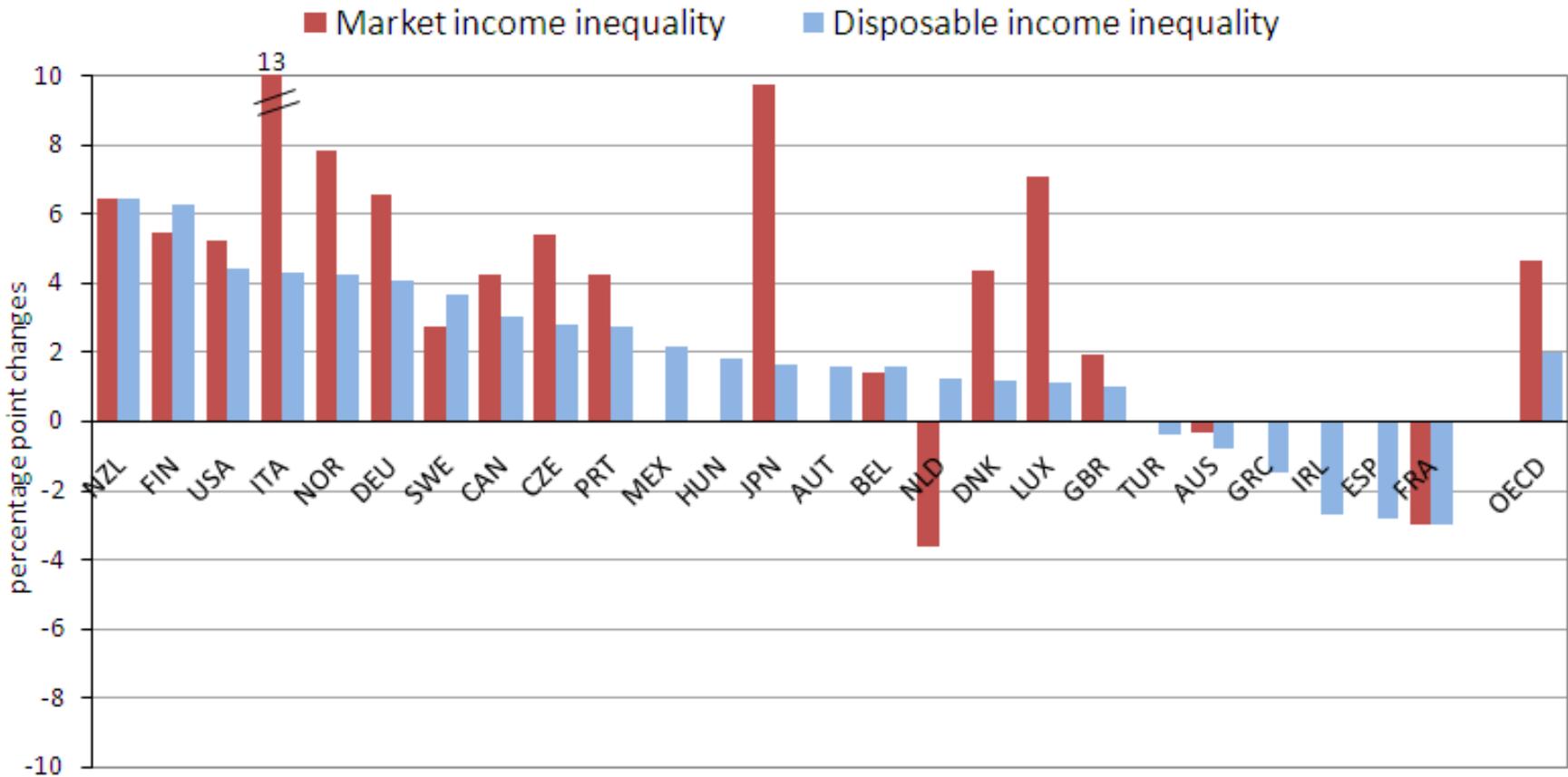
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Have inequalities increased?

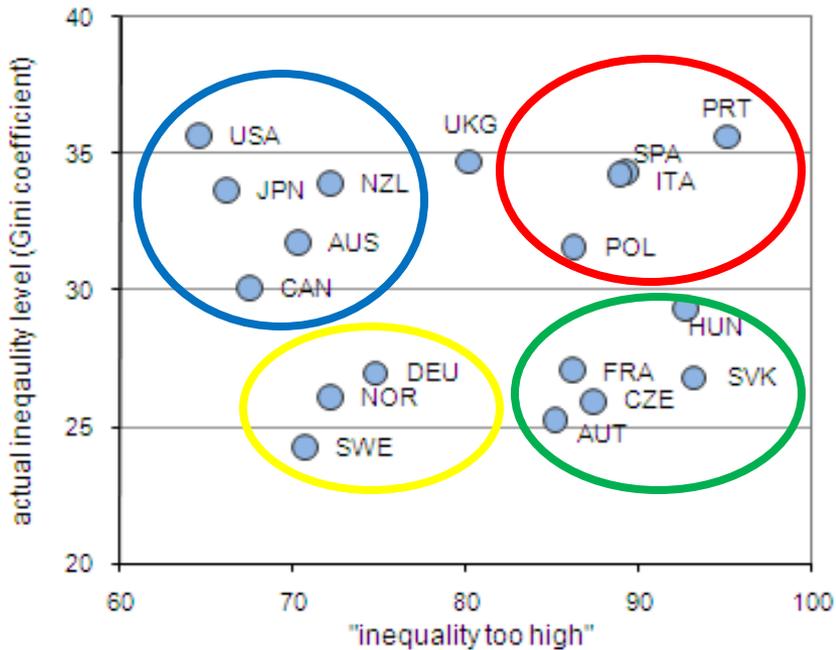
Trends in inequality of market and disposable household income, changes in Gini coefficients, mid-1980s to mid-2000s



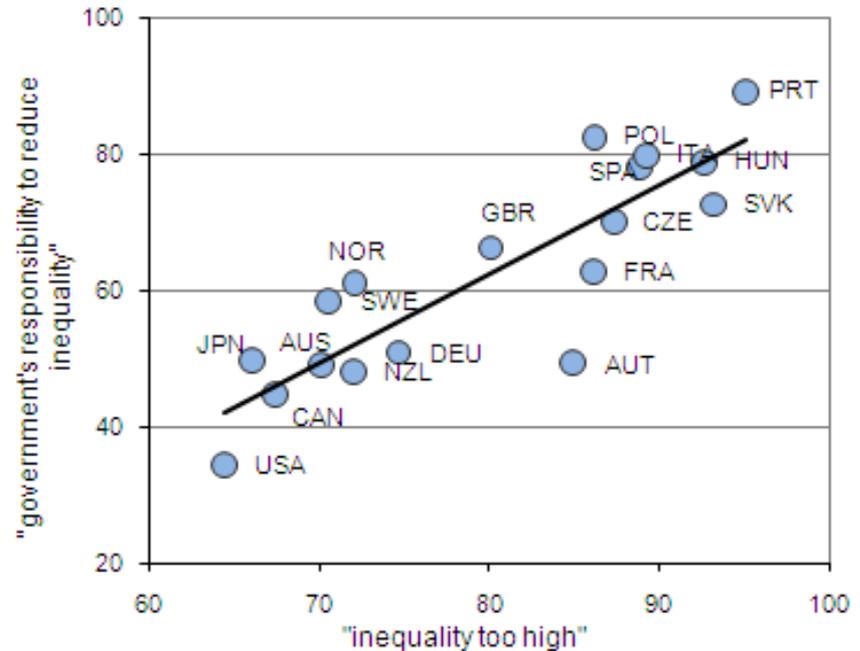
Source: *Growing Unequal?*, OECD 2008 (www.oecd.org/els/social/inequality).

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 Joneses” 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