Growing unequal

Poverty and incomes over 20 years

DELSA Newsletter Issue 7

In this issue…

Income inequality and poverty galvanises public opinion. Polls suggest that two out of three people in developed nations agree with the statement that the economic growth of recent years has not been shared fairly. Most also support the view that this is a major problem facing their country and the world today which could well be exacerbated by the current global economic slowdown.

Inequality of income and inequality of opportunity go to the heart of people's concerns about fairness: does work pay enough to keep families out of poverty? Is government behaving responsibly when it redistributes income through the tax system and social spending? And, perhaps most acutely, do the children of poorer families have an equal chance of doing as well as those of affluent families? OECD governments and policy-makers are, quite rightly, profoundly engaged with these questions.

Growing Unequal analyses the changes in income inequality and poverty rates in OECD countries over the past 20 years and shows that the reasons for differences between countries are, at least in part, due to different government policies. The report had enormous media impact, some of which is presented here; generated extensive comment from ministers; and the first print run sold out within a week.

The key message is that there is no need to feel helpless in the face of growing inequality: good policy can make a difference.

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Getting hold of the DELSA newsletter

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OECD

Growing unequal

The gap between rich and poor in most OECD countries has widened over the past two decades. Children and young adults have borne the brunt of the change, and are now more likely to be poor than people around retirement age. But the trend to greater inequality is not inevitable: governments can close the gap with effective social policies.

Both income inequality and poverty have risen over the past 20 years. The rise has been significant and widespread, affecting more than three-quarters of OECD countries. Although incomes at every level have risen over the past two decades, the income gap between the richest 10% and the poorest 10% has grown. In some countries, such as Canada, Finland, Germany, Italy and the United States, the gap has also increased between the rich and the middle-class.

The increase has not been on the scale that most people probably think: public disquiet about growing inequality is driven, in part, by media reports of the celebrity super-rich and the staggering salaries and bonuses enjoyed by a tiny minority. And the trends towards greater inequality and poverty have not been universal. But the data bear out concerns that the benefits of economic growth have not been shared equally. To put it another way, the change has been equivalent to taking $880 from each of the poorest half of the population, and giving it to the richest half.

How unequal are we?

The income of the richest 10% of people is, on average across OECD countries, nearly nine times that of the poorest 10%. But the size of income differentials varies. In Mexico, the richest have incomes of more than 25 times those of the poorest and, in Turkey, the ratio is 17 to one. The income gap between rich and poor is also well above the OECD average in Portugal, Poland and the United States.

In Denmark, Sweden, Finland and Luxembourg, the gap is much smaller. The incomes of the richest 10% average around five times those of the poorest 10%. A number of countries are bunched around the OECD average. This group comprises most of the English-speaking countries (but not the US) and some southern European nations, such as Greece, Italy and Spain.

On average, the poorest 10% of the population have annual incomes of $7000. But there is a wide variation in incomes of the poor, ranging from $1 000 in Mexico to $15 000 in Luxembourg. The poor in Europe have incomes, on average, of $7 500 compared with less than $6 000 in the United States.

The inequality see-saw: before...

How widespread is poverty?

'Poverty' is a *relative* concept in developed economies. A poor person in the UK has more money than the average Portuguese person. But what matters is the standard of living relative to other people in the country. The benchmark for poverty for the purposes of this report is prevalent national living standards, measured by the median household income. Poverty is defined as an income below half of the national median.

Around one person in ten in OECD countries in 2005 was, by this definition, poor. But this rate differs hugely between countries, from one in 20 in Denmark to one in five in Mexico. Poor people make up around 17% of the population in Turkey and the United States and 15% in Spain. Overall, the poor increased from 9.3% to 10.6% of the population in OECD countries between 1985 and 2005.

Countries with high income inequality tend to have more widespread income poverty, although this does not always go hand-in-hand. In the English-speaking countries, income inequality is above the OECD average. However, poverty rates are above average in Australia, Canada, Ireland and the United States; about average in New Zealand; but significantly below average in the United Kingdom.

The most substantial shifts in poverty over the past two decades are between age groups. The risk of poverty for older people has fallen – people aged 66-75 are now no more likely to be poor than the population as a whole; whereas children and young adults have poverty rates that are now around 20 - 25% higher than the population average, while they were below or close to that average 20 years ago. There are also many more single-parent households at greater risk of poverty.

Explaining the changes

Earnings make up more than 70% of household incomes (before taxes). Developments in labour markets are the main driver of changes in income distribution. The gap between the low- and high-paid has, in the main, increased since the early 1990s.

Greater earnings inequality between individuals is offset, to an extent, by the fact that there are now more people in work in OECD countries than ten or 20 years ago. Paid work reduces the risk of poverty: six times as many jobless families live below the poverty line than working families. However, full-time work has a much bigger impact on reducing poverty than part-time work.

There is no guarantee that more jobs mean fewer poor people, however. Japan and the United States, for example, have high employment rates and above-average poverty. And there remains persistent joblessness, particularly among the low-skilled and those with few educational qualifications.

Government plays a big role in determining incomes and living standards through the taxes it levies and the social benefits it pays out. Redistributive tax systems – taking money from the rich and giving to the poor – reduce inequality across OECD countries by one third. Poverty is around 60% lower than it would be without benefits and taxes. *Indirect* taxes on consumption affect the lower-paid disproportionately, as they save less of their income than the rich. They therefore increase inequality, but by much less than direct taxes reduce it.

But the impact of redistributive tax and benefit systems on curbing poverty and inequality has been reduced over the past ten years. Launching the report in Paris, OECD Secretary-General Angel Gurria emphasised that governments must find new ways of tackling inequality:

'Changes in the labour markets account for the largest increase in inequality, and this is where governments must act. Low-skilled workers are having ever-greater problems in finding jobs. Countries have to do better at educating their populations, to get people into work. In-work benefits to provide working families with a boost in income is a better solution to poverty and inequality than unemployment, disability and early retirement benefits.'

...and after

Follow-up

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Mobility and inequality

Some argue that equality of income is not desirable: talent and hard work should be rewarded. What matters - what is fair - is equality of opportunity, not of outcomes. The scales shouldn't be so weighted that advantage or disadvantage is transmitted down the generations. *Growing Unequal?* also looks at the links between inequality of income and inequality of opportunity.

Measuring equality of opportunity is difficult. A widely accepted method is to assess how well children do in relation to their parents. If most people end up at a similar place in the earnings distribution as their parents, then advantage and disadvantage are passed down the generations. If, however, sons' earnings are less closely related to their fathers', there is greater economic mobility.

Earnings mobility between the generations varies across OECD countries. Less than 20% of the differences in parental earnings are passed on to the children in some of the Nordic countries, Australia and Canada, compared with between 40 and 50% in Italy, the United Kingdom and the United States.

Countries with more unequal incomes (higher on the vertical axis on the chart) tend also to have lower differences in earnings between fathers and sons. So, income inequality is broadly associated with lower earnings and social mobility between generations.

This holds true particularly for those in the bottom 20% of the income distribution. When mobility for those at the bottom is low, growing up in a family on welfare increases the chance of becoming a welfare recipient as an adult.

In short, societies where incomes are very unequal tend not to offer greater equality of opportunity. Inherited advantage and disadvantage are especially pronounced in Italy, the United Kingdom and the United States. More unequal countries are prone to developing an 'underclass' who are persistently poor, and who hand on this disadvantage to their children.

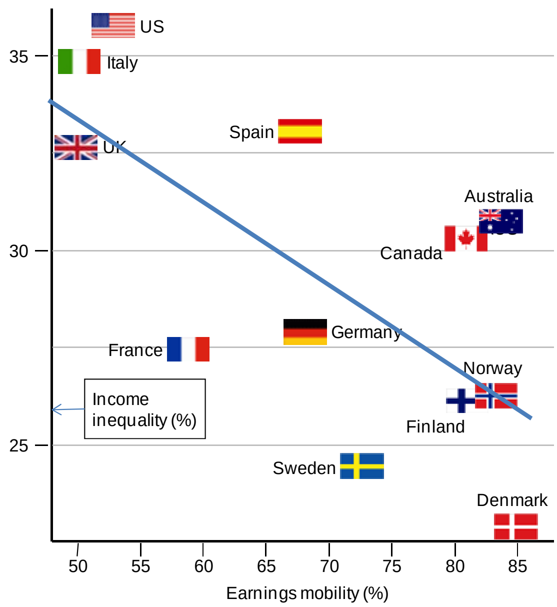
Moving on up – government's role

Incomes are more equally distributed and fewer people are poor where social spending is high. This does not simply mean more cash transfers in the form of benefits, but also includes publicly provided services such as education, healthcare and housing. These smooth out differences in annual cash incomes, reducing income inequality by a quarter.

Public provision or funding of education in particular may increase mobility, as it provides a substitute for parental inputs, and counteracts constraints on the ability of low-income parents to invest in their children's education. Australia and Canada are interesting cases: although more unequal than some European nations, they are among the most mobile across generations. Public interventions in early education and care may be a critical factor here.

For policy makers, helping poor families help their children is the key to promoting social mobility. Getting parents into work, making work pay and targeting educational and care services on deprived households to improve outcomes for children is an effective means of breaking the cycle of disadvantage across generations.

Earnings mobility and income inequality



Note: the inequality measure is the Gini coefficient, expressed as a percentage. The measure of earnings mobility is calculated from the intergenerational elasticity of earnings: see the report (chapter 8) for details.
Source: *Growing Unequal?* OECD, 2008.

Media coverage of *Growing Unequal*

'The middle classes underestimate their prosperity because they spend so much time reading about the super-rich...Treasure what you have and stop buying *Hello!* immediately', was how *The Times* interpreted the key message of *Growing Unequal* at its launch. With this report, the OECD social policy division appears to have coined a new economic term: the *Hello!* effect.

The phrase, which appears on the first page of the introduction to the report, signifies the gap between public perceptions of growing inequalities and the reality of the underlying data. It grabbed the attention of many journalists. *The Daily Mail* and *Sky News* – not regular consumers of OECD news – took the opportunity to publish pictures of wealthy celebrities Victoria Beckham (mostly famous for wearing clothes) and Katie Price (mostly famous for taking her clothes off) to illustrate the point.

Such celebrity shots probably secured more column inches, more (in advertising parlance) 'opportunities to see', and a wider readership than OECD economic reports generally command. Coverage was widespread, extending to countries whose media rarely pick up OECD reports: Austria, Greece, Hungary, Mexico, Poland, Portugal and Turkey.

In Germany, the report was launched at a press conference attended by 38 journalists. The OECD's findings that inequality and poverty had increased faster there than elsewhere generated a huge media impact, with front-page coverage in all major dailies and prime-time slots on all broadcast news programmes. The *Frankfurter Rundschau* said, 'No-one else has called for...change in such a clear way as the OECD.'

The British media focused on the report's findings that income inequality has fallen in the UK over the past decade; but reflected too that the UK remains 'one of the world's most unequal countries' (*The Guardian*) and that social mobility remains stubbornly low. 'Britons get neither equal outcomes nor equal chances,' said *The Economist*, '…a son's income depends more strongly on his father's in Britain than in any other country for which the OECD has data.' *The Financial Times* welcomed the OECD's proposals for better design of social policies and social spending, targeted at those most at risk of poverty and of passing on poverty to their children. Improving education and training, making work pay through in-work benefits rather than unemployment benefits and a continuing focus on children and young people were widely agreed to be sustainable solutions which governments would do well to adopt, whatever the political colour of the newspaper.

In the French media, the OECD's finding that inequalities had fallen in France was contested by Louis Maurin of NGO Observatoire des inégalités: 'On peut, au mieux, parler de stagnation' (The situation is, at best, one of stagnation).

Jonathan Kay, writing for the *National Post* in Canada declared that governments are powerless because income inequality is caused by 'mate-selection in the feminist age.' Well-educated women snaffle all the well-educated men at 'grad school' and together they produce extra-wealthy households with two high incomes. Ministers and the media in Australia welcomed the data concerning social mobility as confirming, 'the Australian cultural narrative…of success through personal endeavour, not unearned privilege.' (*The Australian*)

Speaking on the BBC's flagship news programme, *Today*, Mark Pearson drew attention to the success of the Blair/Brown government in reducing income inequality in the UK since 2000. The Labour government has helped the poor, 'by stealth,' said Mr Pearson. 'The Blairite approach is that you do redistribution by stealth and don't advertise the fact that you have put an awful lot of resources into helping the least well-off in society.' Eschewing shyness, James Purnell, the UK work and pensions secretary, cited the report as evidence that the government's particular brand of redistribution was working.

But another 'r' word – recession – raised its ugly head too, in most reports, as commentators noted that the effects of the economic crisis was likely to curtail the gains of the past decade, and hit the poor harder than the well-off, world-wide.

Wikichild.org: a Wiki working for children

The social policy division is building a wiki-website for research on child well-being. Wikichild.org will be an interactive website, like Wikipedia, but designed specifically for the global community of analysts and researchers working on child policies and child well-being. Wikichild will be launched in mid-2009.

Wiki-sites allow browsers to contribute to a knowledge database. Wikichild will provide a service for academics, researchers, policymakers, advocacy groups, NGOs and all those with an interest in child policies and well-being. The site will make child-specific statistics and research available, and contribute to the global discussion and development of knowledge-based policymaking targeted at children.

From the outset, Wikichild has been a collaborative project. In order to ensure quality and quantity of content, to encourage browsers to visit the site and add to it, the OECD social policy division established a consortium of partner institutions. These include the UNICEF Innocenti Research Centre, the International Society of Child Indicators, the University of Auckland (New Zealand) and Action for Children and Youth Aotearoa/New Zealand. The consortium holds regular virtual meetings to manage pre-launch developments. The group will also be the first contributors to Wikichild, uploading in-house child-related research and data before the site goes live.

> 'Childhood decides'
>
> Jean-Paul Sartre
> in *Les Mots*, 1964

Further child research institutions and experts have been invited to contribute to the pre-launch content of the site, and to help ensure the quality and integrity of the site. The real work will begin as Wikichild partners start to review, collate and upload research and data to the site. Processes for monitoring and reviewing content are to be established by an invited expert group of academics.

Support for software development will be provided by the University of Auckland Business School. David Sundaram, a professor at the university, said: 'The key purpose of Wikichild is to be a practical and easily-usable vehicle through which we can integrate resources from diverse databases, collaborate with researchers and practitioners, educate and advocate to advance the well-being of children.'

When Wikichild goes live later this year, browsers will be able to access a broad range of child research and explore other data on the site using interactive statistics software. Registered users will be able to upload articles and data, post comments, or suggest amendments to uploaded articles via varied online features.

Wikichild will complement existing sites on child well-being, child poverty and child development by facilitating links to such sites and by providing opportunities for Wikichild users to become familiar with the range of existing initiatives.

Wikichild will be one of the first pillars in a host of websites designed to act as an online research and data hub for the OECD global project on 'Measuring the progress of societies'.

The Wikichild project continues to gain momentum. The pre-launch network of contributors is growing. Organisers of Wikichild welcome input from all members of the child research community.

Follow-up

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Lives of leisure

The French spend more time in bed than anyone else in the OECD countries. They also devote more time to eating than anyone else - nearly double that of people in Mexico, Canada and the United States. Pity the poor Japanese, who not only sleep the least in OECD countries, but also spend longer at work and commuting than they do indulging in leisure activities.

These are some of the insights into the differing ways in which OECD countries use that most fundamental of resources - time – contained in the forthcoming edition of *Society at a Glance*. A special chapter in the report investigates leisure time in the 18 OECD countries for which up-to-date time-use surveys are available.

If leisure is considered as nothing more than the time spent away from paid work, then it seems we are, on the whole, getting more of it. From 1970 to 2005, the overall pattern shows a declining number of hours worked in most countries. There are very few countries which have had periods of rising growth in hours of paid work per person. The notion of a general, OECD-wide 'time-crunch' arising from changing conditions in the paid workforce does not appear to be supported.

How do OECD adults divide their 24-hour days among different activities? The research divides time into five main categories. These categories are:

- leisure, defined as time spent free of obligation or necessity;
- paid work, including commuting times and study;
- unpaid work, such as housework and looking after children;
- personal care; and
- the rest: time which is either unaccounted for or undefined.

Across all 18 OECD countries, people spend most time in personal-care activities. Variation in the share of time spent in personal care is relatively low, ranging from 43% of total time in Norway, Sweden and Canada to 49% in France.

What activities make up personal care? The primary component is in fact *sleep*, with people sleeping on average eight hours and 22 minutes per day, or 77% of personal-care time. The average sleeping time in France is an hour a day longer than in Japan, where people sleep the least in the OECD. The second major component is eating, which accounts for a further 14% of personal care time or one hour and 37 minutes per day on average. Again, the French are the leaders in this category. The remainder of personal time covers activities such as personal hygiene, going to the doctor, getting the car repaired, and so on.

Leisure is typically the next largest time category, accounting for 22% of time on average. It is highest in Norway at 27% of time and lowest in Mexico at 16%. Japan and Mexico are the only two countries where paid work has a higher share of time than leisure, while paid work and leisure are equal in Korea. All other 15 countries surveyed report more leisure time than paid work.

So what are we doing with our leisure time? TV executives will be happy to read that watching television is the preferred leisure activity across all surveyed OECD countries. Watching TV absorbs 55% of leisure time in Japan and falls to a low of 25% in New Zealand. New Zealanders are among the more gregarious OECD-dwellers, however, reporting 24% of leisure time spent visiting or entertaining friends – the OECD average is 11%. Turkey is the most sociable nation, spending 35% of leisure time entertaining friends. But OECD countries are not very physically active: Spain reports the highest proportion of leisure time spent doing regular physical activities. Even there, exercise accounts for just a mere 13% of leisure time.

Follow-up

Society at a Glance will be published in April 2009. The special feature will examine a range of issues involving leisure time, including the impact of gender, the relationship of well-being to leisure, and policies concerning mandatory paid leave.

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In brief

An evaluation of the tax-transfer treatment of married couples in European countries

Herwig Immervoll, Henrik Jacobsen Kleven, Claus Thustrup Kreiner and Nicolaj Verdelin

Social, Employment and Migration Working Paper no. 76, OECD, 2008

This paper analyses the tax-transfer treatment of married couples in 15 EU countries using the EUROMOD microsimulation model. In many tax-transfer schemes in Europe, the tax rate on one person depends negatively on the earnings of the spouse. This is driven by family-based and means-tested transfer programmes combined with tax systems which generally now treat spouses separately. The paper also considers the distortion to work decisions of secondary earners relative to primary earners and the welfare effects of reforms to the relative taxation of spouses. Microsimulation results show that simple, revenue-neutral reforms that lower the tax burden on secondary earners can increase welfare. A further finding is that there are large 'marriage penalties' at the bottom of the income distribution, mainly due to the transfer system.

The remuneration of general practitioners and specialists in 14 OECD countries: What are the factors influencing variations across countries?

Rie Fujisawa and Gaetan Lafortune

Health Working Paper no. 41, OECD, 2008

This paper shows the pay of general and specialist doctors in 14 OECD countries, both in US dollars (adjusted for purchasing-power parity) and relative to national average earnings. There are large pay variations between countries, but these are greater for specialists than for GPs. In Finland and the Czech Republic, GPs earn twice the national average, compared with three-and-a-half times in the United States and Iceland. Pay of specialist doctors varies even more between countries, ranging from around twice average earnings in Hungary and the Czech Republic, to 5-7 times higher for self-employed specialists in the Netherlands, the United States and Austria. Some, but not all of the variation is a result of different remuneration methods (e.g., salaries or fee-for-services for self-employed doctors), GPs' role as gatekeepers to specialist medical services and differences in workload. The pay gap between GPs and specialists widened over the past decade.

OECD evidence in Human Rights Review Tribunal, New Zealand: Child Poverty Action Group (plaintiff) versus the Attorney-General (defendant)

Decision no. 31/08; reference HRRT 41/05

Mark Pearson and Herwig Immervoll of the social policy division gave evidence in support of the Attorney-General of New Zealand against a complaint by the Child Poverty Action Group that the 'Working for families' package of benefits (incorporated in the Income Tax Act 2007 – ITA07) was discriminatory and inconsistent with the New Zealand Bill of Rights Act.

The Tribunal decided in favour of the defendant, concluding that, although the ITA07 was discriminatory, this was 'discrimination of a kind justified in a free and democratic society.' The OECD experts offered evidence that in-work benefit (IWB) schemes had been effective in promoting 'both efficiency and equity by fostering both employment and decent family income levels'. Evidence gathered from over 15 OECD countries strongly suggests that while IWB schemes do not 'solve the problem of low pay and low skills', they can be 'a valuable strand in a comprehensive strategy to tackle poverty and exclusion.'

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