Why Less Inequality Benefits All

In most OECD countries, the gap between rich and poor is at its highest level since 30 years. Today, the richest 10 per cent of the population earn almost 10 times the income of the poorest 10 per cent; for comparison: in the 1980s this ratio stood at 7:1 and has been rising ever since (8 : 1 in the 1990s and 9 : 1 in the 2000s). Furthermore, household wealth is much more concentrated at the top than income, with half of total wealth being owned by the 10% wealthiest households while the 40% least wealthy own just 3%. Growth, if any, benefited disproportionally higher income groups while lower-income households were left behind. This long-run increase in income inequality does not only raise social and political but also *economic* concerns: it tends to drag down GDP growth, and it is the rising distance of the lower 40% from the rest of society which accounts for this effect. Lower-income people cannot realise their human capital potential, which is bad for the economy as a whole. It implies large amounts of wasted potential and lower social mobility.

Two important drivers of increased inequality stand out. First, labour markets have been undergoing profound transformations due to globalisation, technological change and policy reforms. People with skills in high demand have seen their earnings rise significantly, while workers with low skills have been left behind. The rise of non-standard work can create job opportunities but also contributes to higher inequality. Second, reforms of tax and benefit systems prior to the crisis reduced redistribution as benefit levels were cut, access to benefits tightened and transfers failed to keep pace with earnings growth. During the initial years of the crisis, automatic stabilisers and fiscal stimulus measures still cushioned the fall in household income and prevented inequality going from bad to worse. However, as the crisis continued, the effect diminished as entitlements to social benefits expired and most governments implemented fiscal consolidation programmes. The crisis thus added urgency to deal with the policy issues related to inequality as the social compact is starting to unravel in many countries.

To counter the trend of growing inequality, new policy approaches are required, focusing on:

- Women's participation in economic life
- Employment promotion and good-quality jobs
- Skills and education
- Tax-and-transfer systems for efficient redistribution

The presentation will draw on the analyses and empirical evidence from the recently published OECD report "*In It Together –Why Less Inequality Benefits All*" (OECD, May 2015).

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