

‘Middle’ Household Incomes across OECD Countries Up To and Through the Great Recession: Decomposing by Source

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Paper Abstract: The combination of rising income inequality and stagnating living standards for ordinary households in rich countries has brought ‘inclusive growth’ centre-stage. While the role of different sources of household income to inequality have been studied, much less is known about their contribution to real income growth for different parts of the distribution. This paper investigates the proximate sources of income growth for households around the middle, versus towards the top or bottom, of the distribution across OECD countries in recent decades, using a decomposition approach and data assembled by the OECD from household surveys. It shows that for households around the middle, the wage of the main earner is generally still the single most important source of income, and although declining over time as a share of the total still contributed substantially to real income growth. Wages going to the spouse are of growing importance and were an even more important source of income growth up to the onset of the Great Recession, when they fell back considerably. Cash transfers were an important source of income for the middle when the recession period is included, although direct taxes/social contributions paid more than offset such transfers on average. The bottom decile, by contrast, relies for more than half of its income on public transfers and this has increased over time, with wages declining in importance and transfers driving growth. For the top decile, wages were mainly responsible for income growth, though income from capital and self-employment also played a role. The extent to which wages of secondary earners can be relied on to generate income growth for ordinary households in future is open to question.