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Institute for
New Economic Thinking
AT THE OXFORD MARTIN SCHOOL

RISING INEQUALITY AND LIVING STANDARDS IN OECD COUNTRIES HOW DOES THE MIDDLE FARE?

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Introduction (1)

The existence of a "squeezed middle"

- Disappearance of the middle class, and their ability to pass on to their children (Gornick & Jantti, 2013)
- "Polarisation": SBTC and offshoring hollow out the middle occupations (Autor *et al.*, 2003; Goos *et al.*, 2014)
- "Decoupling" and wage stagnation (Pessao & Van Reenen, 2013)
- Poor transmission of growth (Stiglitz, 2012) and rent-seeking by the top end (Hacker & Pierson, 2010)

Introduction (2)

Do inequality scalars and economic growth help?

- Per capita economic growth is (1) an average and (2) does not fully transmit to the household sector
- Inequality scalars and top shares (1) only map the distribution and (2) top share information is pre-tax
- Requires insight into real disposable household income or living standards across the distribution

Introduction (3)

Contributions

- Moving beyond inequality and economic growth, by bringing in living standards
- Related to discussions on "inclusive growth" (OECD) and "shared prosperity" (World Bank)
- Transmission of economic growth to living standards in a developed country context (Dollar *et al.*, 2013; Kakwani & Son, 2008)
- Connecting national accounts and household survey data (Piketty, Zucman, Saez, OECD)

Introduction (4)

Our argument

- Substantial variation in levels and growth rates of living standards across countries and periods
- Focusing entirely on dispersion or growth blurs differences in the evolution of living standards – both gets us further but not all the way

Outline

1. Dataset and trends
2. Simple OLS model to explain living standards

Dataset

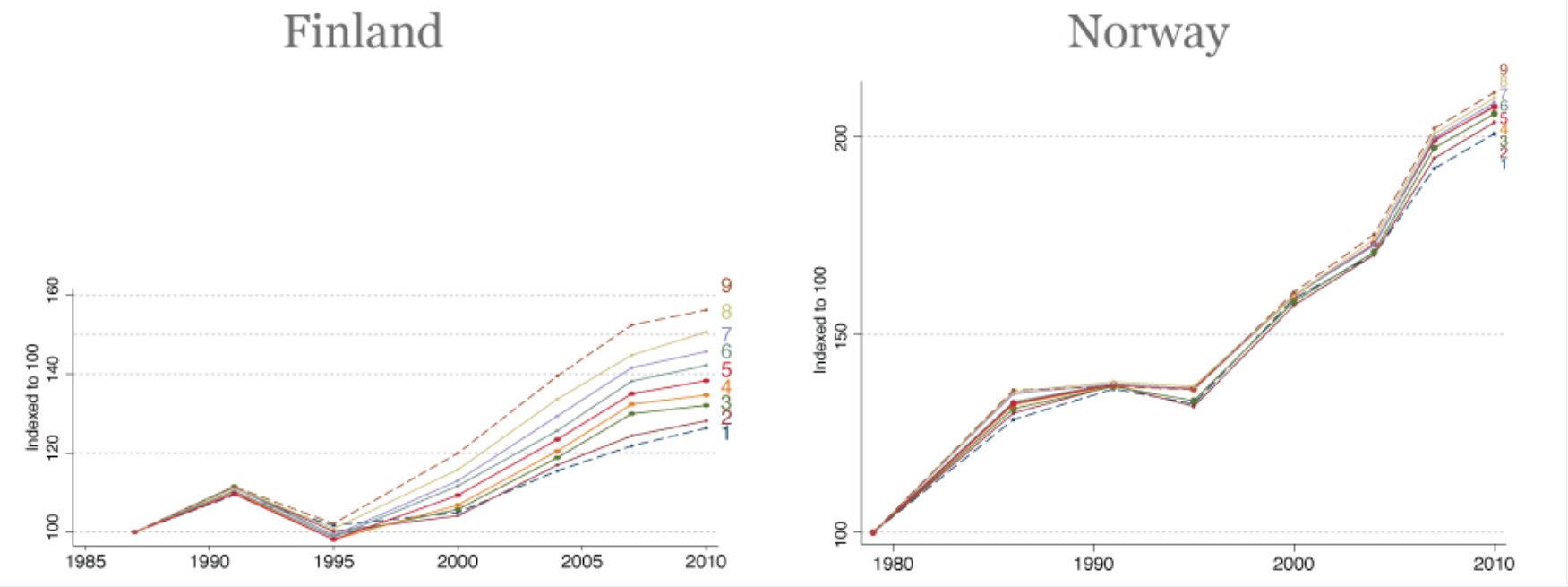
The INET EEG dataset

- Standardised disposable and factor income
- Equivalised in real PPP terms
- Decile cut-offs and means
- Entire and working age population
- Inequality scalars with confidence intervals
- Income composition (under construction)
- 32 countries, 1975-2013, LIS and OECD

Living standards (1)

Growth rates vary significantly

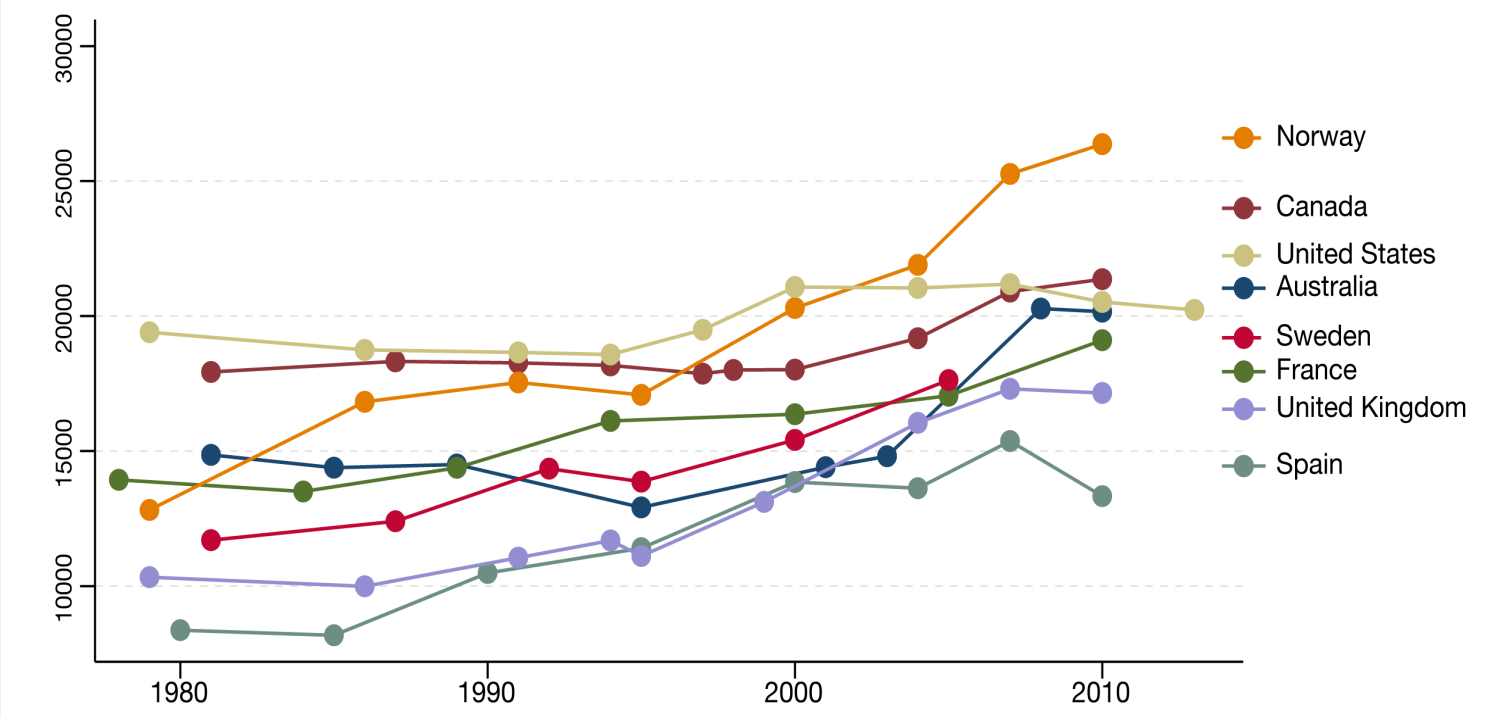
- On average 1.2% (p10), 1.5% (median), to 1.7% (p90)
- Variation across deciles, countries, and periods



Living standards (2)

Levels vary widely as well

- E.g., for p30 in last year: from $8220 (Hungary) to $26840 (Luxembourg)



Inequality (1)

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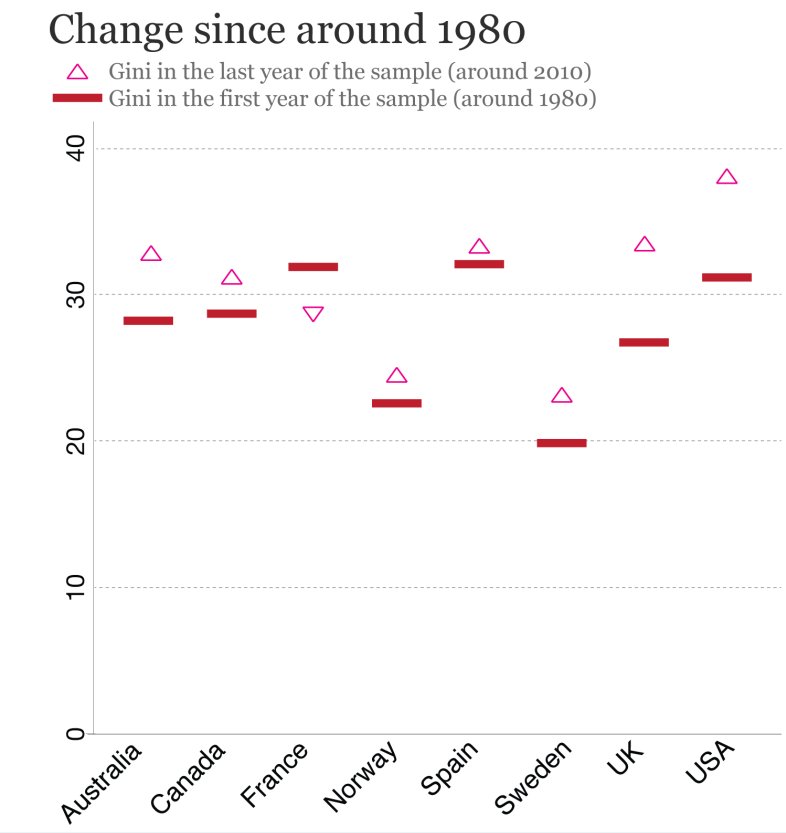
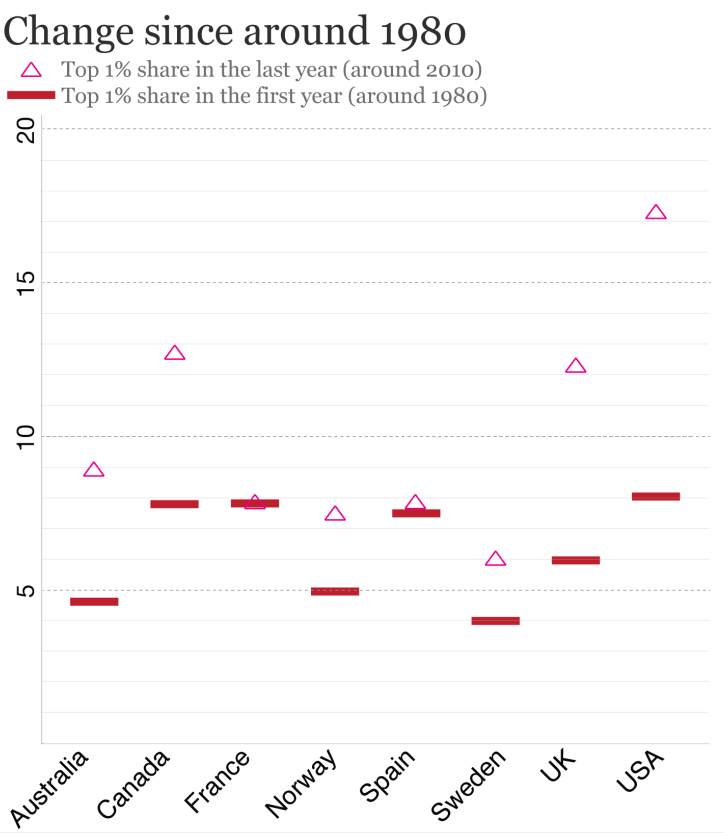
Wide variation in extent and timing of increase, but some only in Gini and top income shares





Inequality (2)

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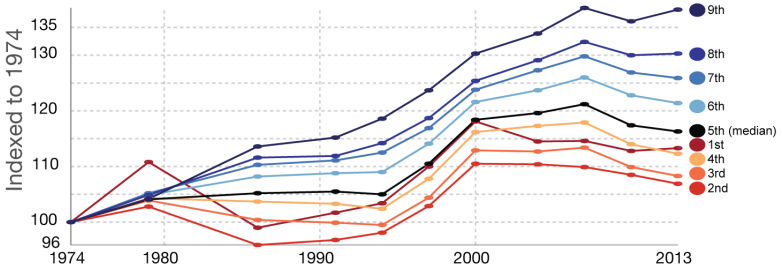
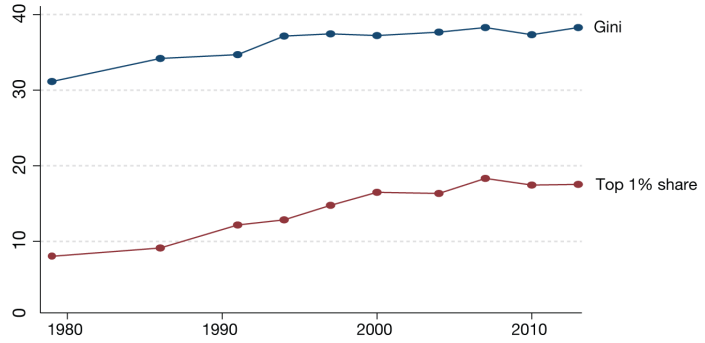
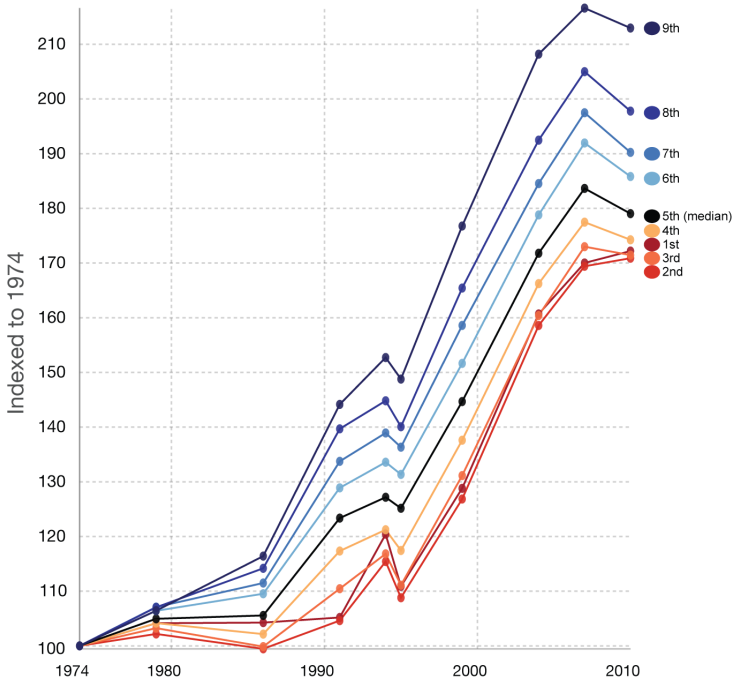
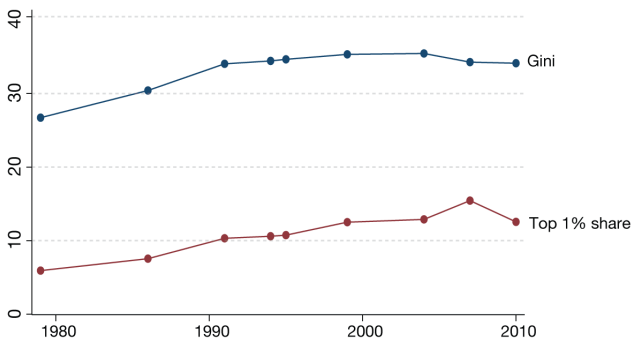
USA





United Kingdom





Economic growth (1)

National accounts vs. household income survey

- Indicator of total size economy, not revenues available to resident households
- In particular retained profits, in-kind benefits, imputed rent, certain employer contributions do not reach household sector (Micklewright *et al.*, 2012; Pessao & Van Reenen, 2013; Atkinson *et al.*, 2015)
- Per capita rather than equivalised

Economic growth (2)

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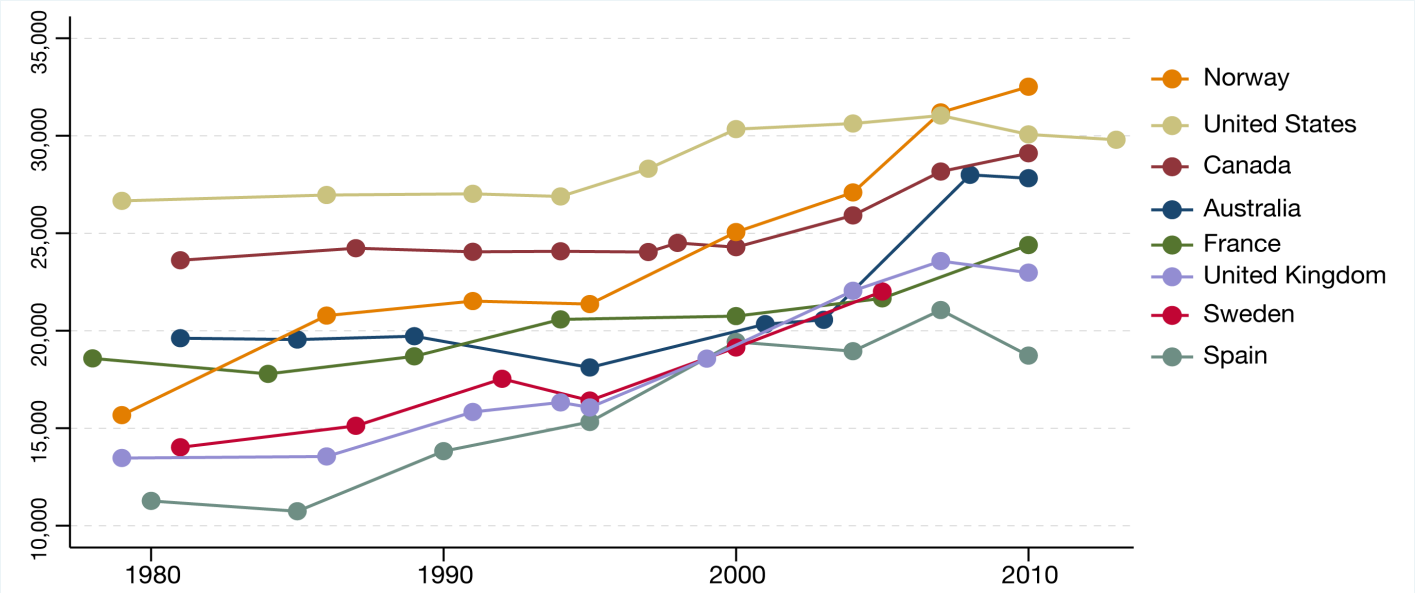
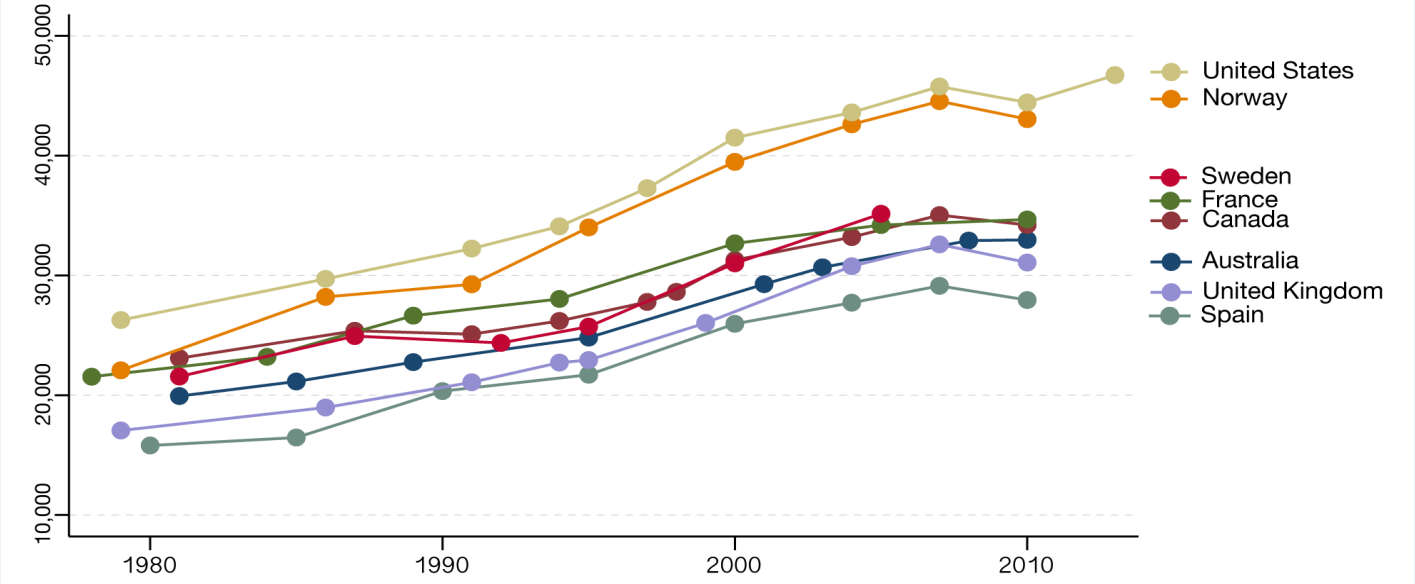
Median



GNIc



Explaining living standards (1)

Simple OLS regressions in differences

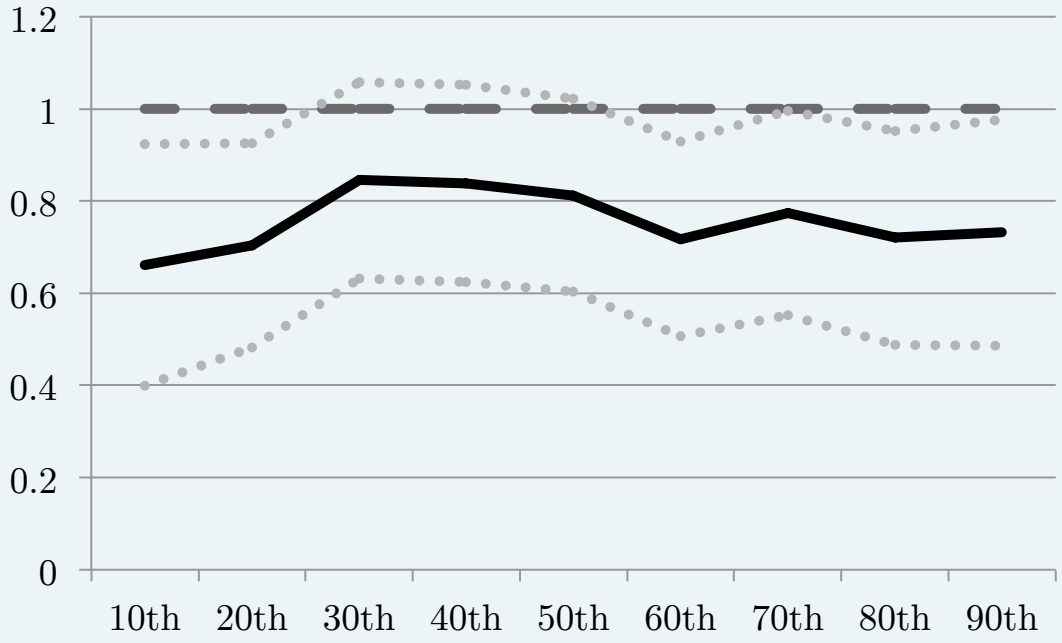
- Negative association with inequality
- GNI positively but elasticity is < 1
- Comparable results for p30

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Δ Growth				0.714***	0.708***	0.838***	0.812***
Δ Gini	-1.184*		-0.831**		-1.121*		-0.404**
Δ Top 1%		0.813	1.134			-1.793**	-1.557**
Constant	1.637***	1.179***	1.213***	0.069	0.213	0.000	0.053
N	153	99	99	153	153	99	99
Adjusted R2	0.059	0.004	0.041	0.367	0.422	0.395	0.400

Explaining living standards (2)

Simple SURE elasticity across the distribution

- Gini < 0 for first four deciles, > 0 at top two deciles
- Top 1% income share < 0 for 3-9$^{\text{th}}$ decile (?)
- GNI:



Discussion and conclusion

Conclusions

- Significant variation in trends in living standards at different deciles across countries and periods
- Inequality scalars or economic growth separately do not provide information how middle and below households are faring
- Together they do – but variation is left unexplained
- Future plans: exploiting the decile cut-off (large N, known structure)