RISING INEQUALITY AND LIVING STANDARDS IN OECD COUNTRIES
HOW DOES THE MIDDLE FARE?
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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)
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
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)
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
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
Growth rates vary significantly
- On average 1.2% (p10), 1.5% (median), to 1.7% (p90)
- Variation across deciles, countries, and periods
Levels vary widely as well
• E.g., for p30 in last year: from $8220 (Hungary) to $26840 (Luxembourg)
Wide variation in extent and timing of increase, but some only in Gini and top income shares
Inequality (2)
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)

Median

GNIdc
Simple OLS regressions in differences

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

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<tr>
<td>Δ Growth</td>
<td></td>
<td></td>
<td></td>
<td>0.714***</td>
<td>0.708***</td>
<td>0.838***</td>
<td>0.812***</td>
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<tr>
<td>Δ Gini</td>
<td>-1.184*</td>
<td>-0.831**</td>
<td></td>
<td>-1.121*</td>
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<td></td>
<td>-0.404**</td>
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<tr>
<td>Δ Top 1%</td>
<td>0.813</td>
<td>1.134</td>
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<td>-1.793**</td>
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<td>-1.557**</td>
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<td>Constant</td>
<td>1.637***</td>
<td>1.179***</td>
<td>1.213***</td>
<td>0.069</td>
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<td>Adjusted R2</td>
<td>0.059</td>
<td>0.004</td>
<td>0.041</td>
<td>0.367</td>
<td>0.422</td>
<td>0.395</td>
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Simple SURE elasticity across the distribution

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

![Graph showing the SURE elasticity across the distribution with Gini coefficients for different deciles and top 1% income share comparison.](image-url)
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)