

Earnings Dispersion in OECD Countries: a Simple Race between Supply and Demand?

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The aim of the Lecture and the book is to present in a non-technical way the evidence about the changing distribution of earnings, how far these changes reflect changes in underlying inequality, the possible explanations of these changes, and the impact of labour market institutions and policy.

The first part of the book will summarise the statistical evidence about individual earnings dispersion. It will emphasise three aspects:

- The assembly of comparable data for a range of OECD countries. The data at present employed in many empirical studies are not comparable, as I have shown in work with Andrea Brandolini.
- The study of long-run changes, rather than focusing on the past 20 years.
- Changes at different points in the earnings distribution. How far do the changes largely reflect what is happening to the unskilled at the bottom? How far are the changes driven by top earnings?

The focus is on earnings differentials among individuals, not on total family earnings, nor on industrial wage differentials.

The second part of the book will examine a question that is not often posed – how far do differences in earnings represent underlying inequality? It has long been understood that earnings differences may be compensating and not a sign of inequality. For example, there has been a rise in the premium attached to education. This may reflect a rise in the real rate of interest, with no change in lifetime discounted earnings. On the other hand, a rise in the real rate of interest benefits those who have access to family capital.

The third part surveys different explanations for the distribution of individual earnings. Much of the recent literature has been dominated by the view that what we are observing is a shift in demand away from unskilled workers, with “trade versus technology” being a major theme. At the same time, there is an older literature emphasising, on the one hand, labour market institutions and wage-setting processes, and, on the other hand, the role of family background in transmitting advantage across generations. The aim of the survey is to bring together the different explanations, considering their strengths and weaknesses, and what they tell us about the relation between observed earnings differences and underlying inequality. A particular focus will be the implications for policy and labour market reform.

The book will contain a substantial appendix describing the data sources and bringing together the statistical evidence in a comparable way. It is hoped that the appendix will provide an important resource for future empirical research, since there is at present no such data compendium on individual earnings (as opposed to data on income distribution).