

The Great Recession and the Distribution of Household Income: Comments

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Outline of the intervention

- Comments on the report
- A key missing piece: the role of pre-crisis trends in tax/benefit systems
- Looking ahead: what lessons for future equity and social policies?

Praise, questions, caveats

Strengths of the report:

- Provides timely and pertinent information;
- Is based on cross-country comparisons;
- Makes use of latest available micro and macro data;
- Looks at both absolute and relative income measures;
- Makes the reader aware of advantages and limitations of the study.

Praise, questions, caveats (cont)

Headline finding: no major impact of GR on household income inequality but greater changes to be expected as a result of fiscal consolidation

→ Questions:

- What was the effect of stimulus packages?
- What was the role of labour market institutions?
- Were results influenced by what happened to the rich more than the poor?
- Did the pre-GR trend of rising inequality contribute to the GR?

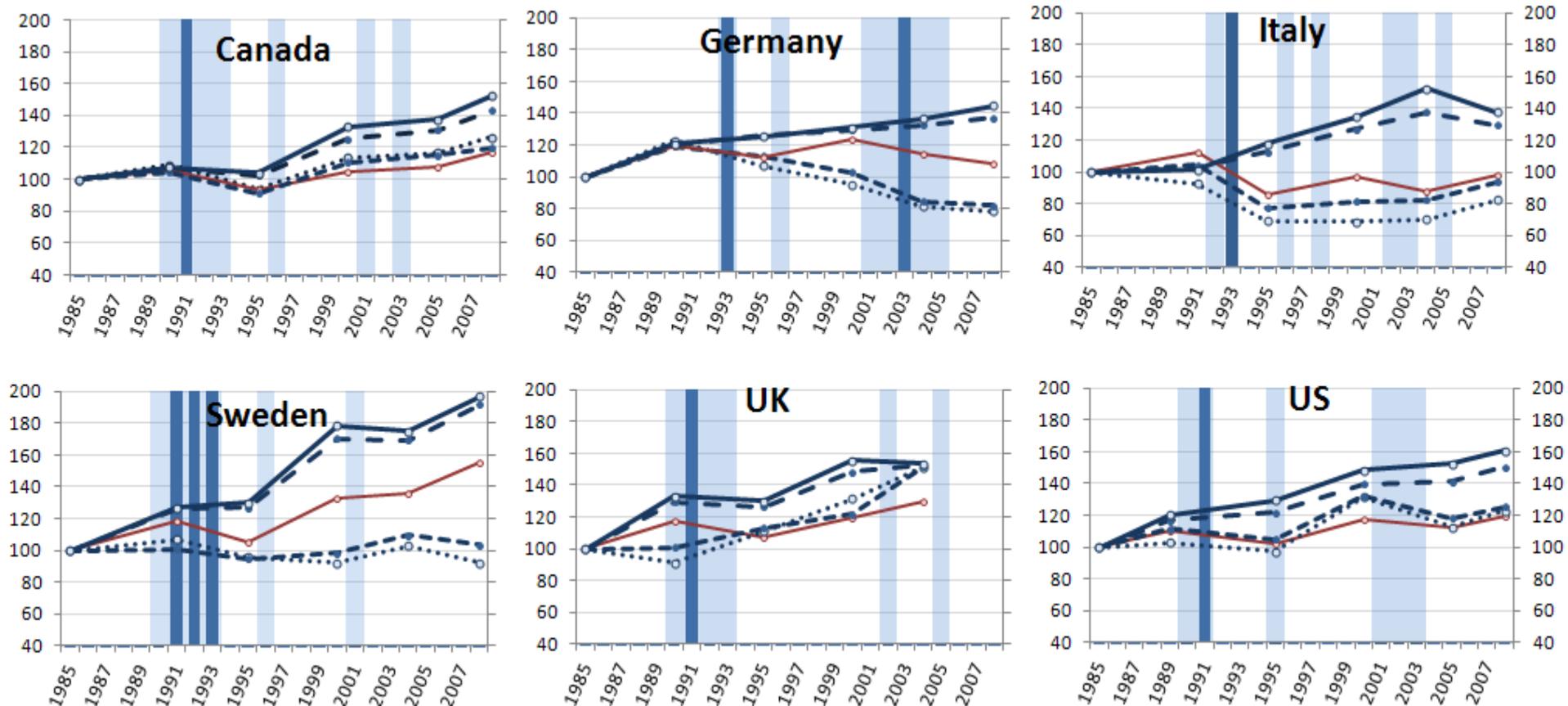
Praise, questions, caveats (cont)

Some caveats:

- Omission of elements other than cash income (public services; indirect taxes; wealth..)
- To which extent can macro estimates be linked to findings from the decomposition analysis? Is the latter appropriate for gauging the effects of taxes and transfers?
- While overall effects may have been weak, particular groups may have been affected (youth, migrants..);
- A different sample of country case studies might show a different picture;
- Not enough attention to pre-crisis trends, especially in redistribution

Trends in market incomes prior to GR

Market income increased – but in particular for higher income groups



Negative growth years
 Low-growth years
 median
 top 20%
 bottom 10%
 top 10%
 bottom 20%

Source: OECD



Inequality before and after tax/transfers

Redistribution became weaker in more recent years

Gini coefficients for the working-age population

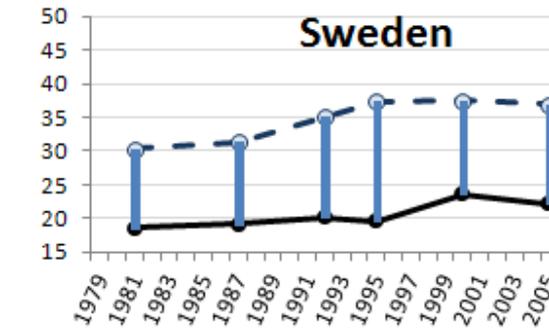
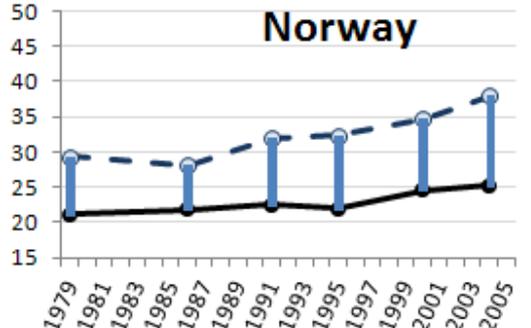
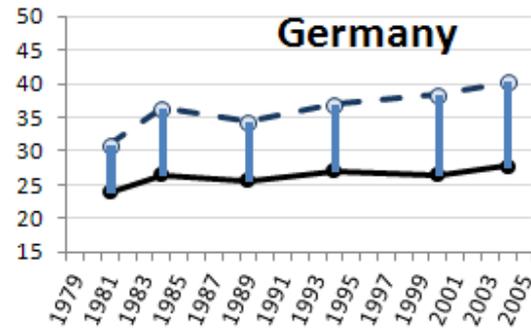
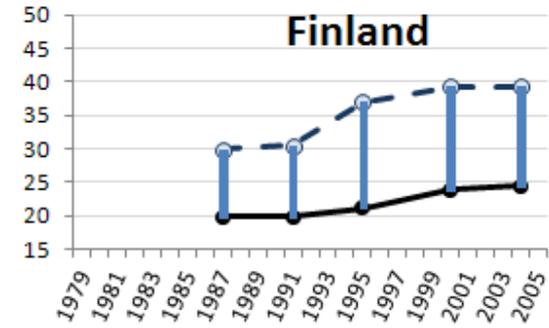
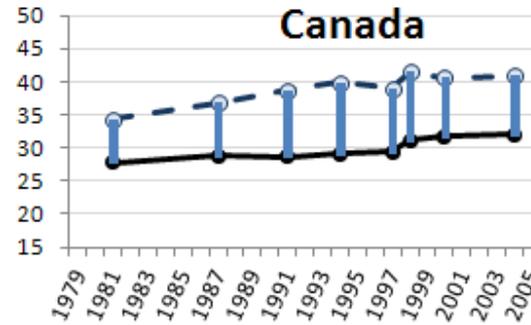
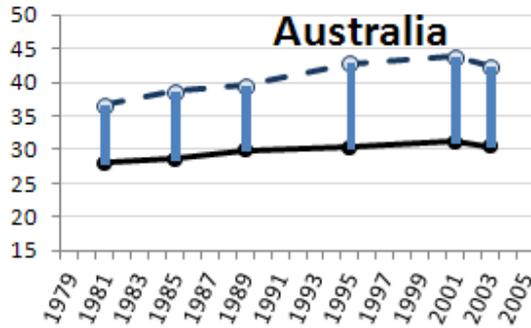
		market income		disposable income	redistribution			
		Gm	change, % of base period	Gd	Gm-Gd	% of Gm [4] / [1]	change, % of base-period Gm	[6] / [2]
		[1]	[2]	[3]	[4]	[5]	[6]	[7]
12-country average	<i>mid-80s</i>	36.2		26.7	9.5	26.4		
	<i>mid-90s</i>	39.2	8.2	27.4	11.7	29.9	6	73
	<i>mid-00s</i>	39.8	9.8	28.3	11.4	28.7	5	53

Countries included: Australia, Canada, Denmark, Finland, Germany, Israel, Netherlands, Norway, Sweden, Switzerland, UK, US.

Source: OECD 2011 (forthcoming)

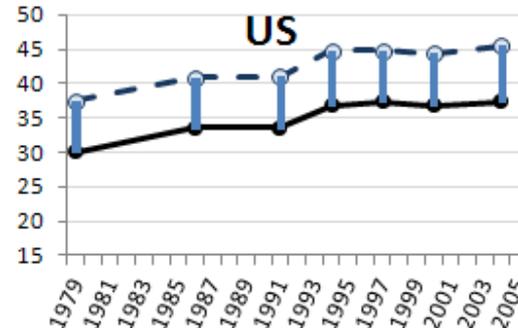
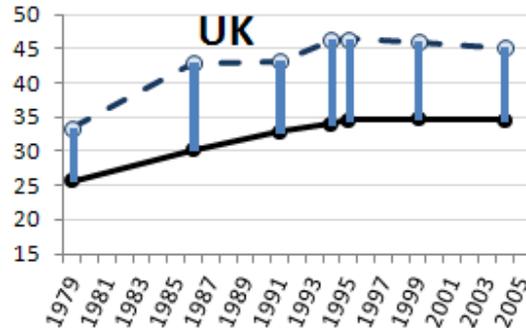
Redistribution trends for selected countries

Gini coefficients before and after taxes and benefits



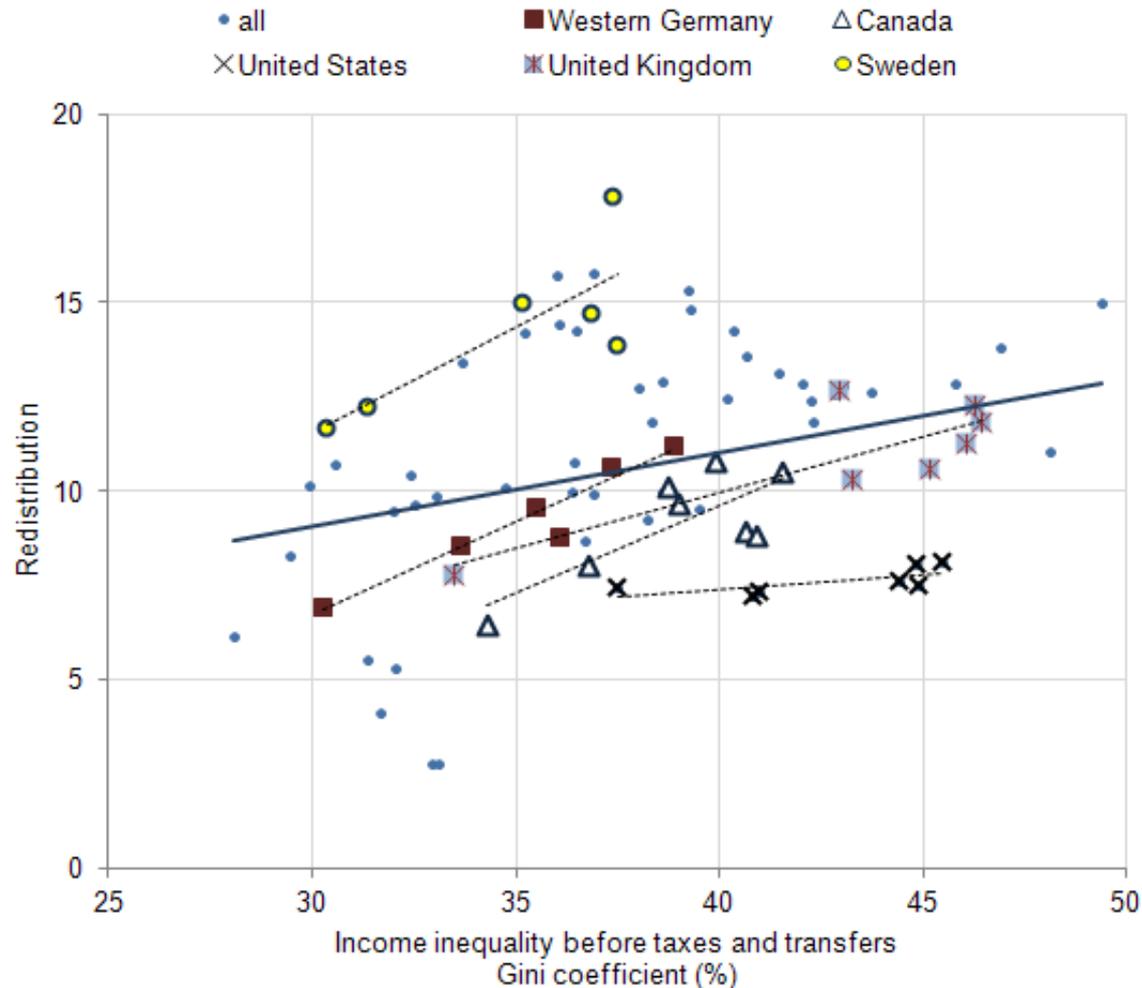
-○- Gross market income

-●- Disposable income



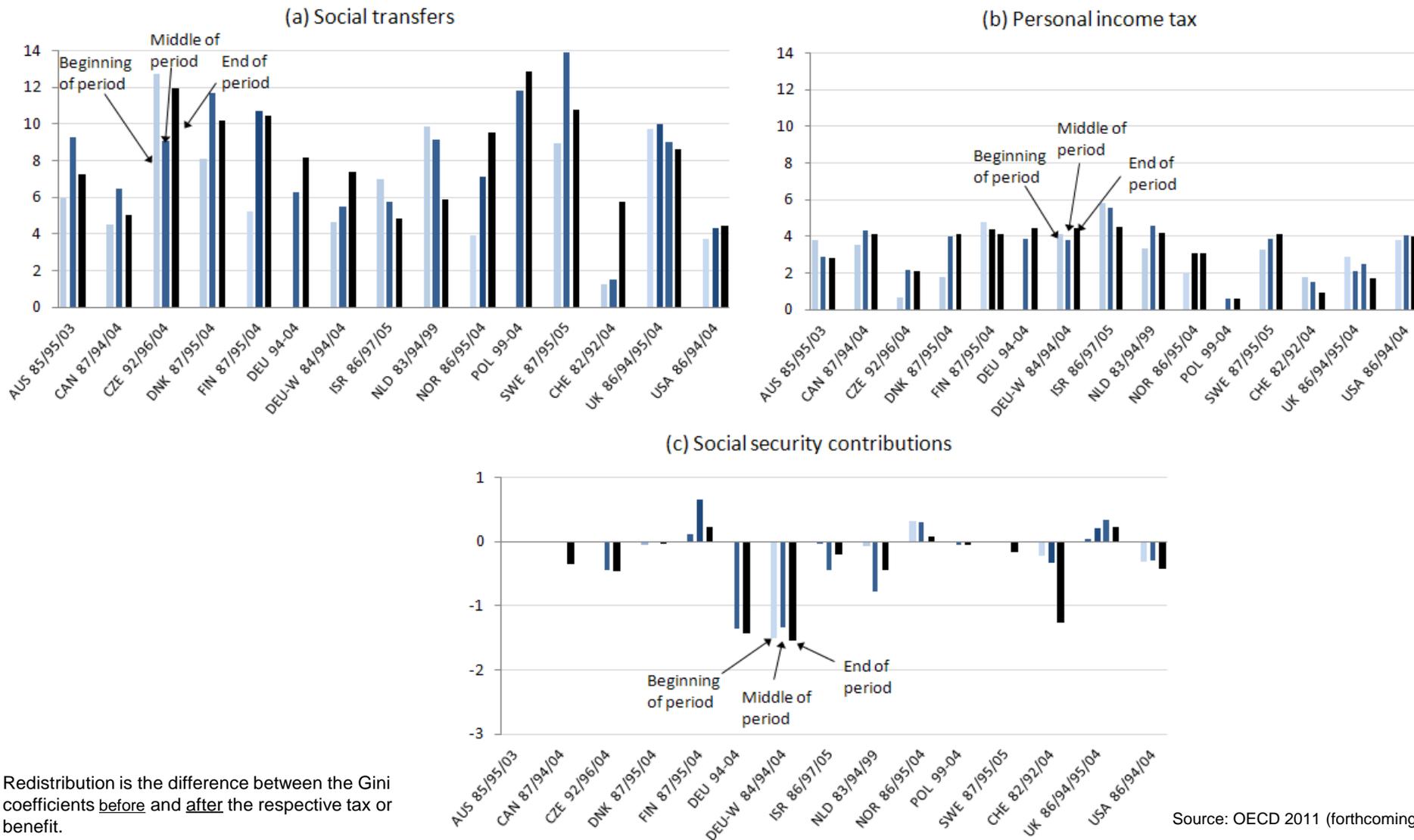
Inequality before and after tax/transfers

Redistribution tends to be higher when incomes are more unequal



Changes in cash redistribution, mid-80s to mid-90s

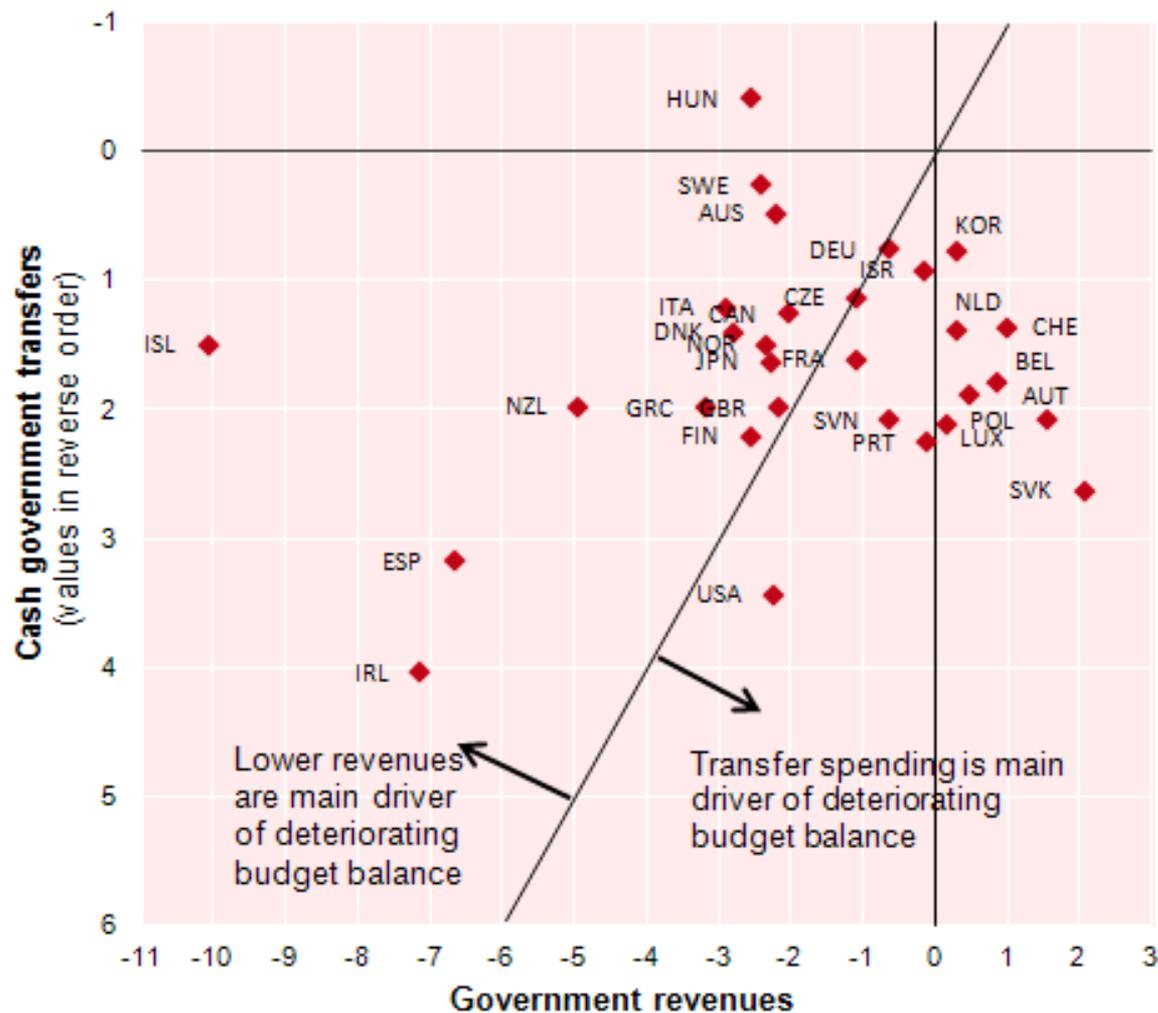
Benefits had a stronger impact than taxes or social contributions



Redistribution is the difference between the Gini coefficients before and after the respective tax or benefit.

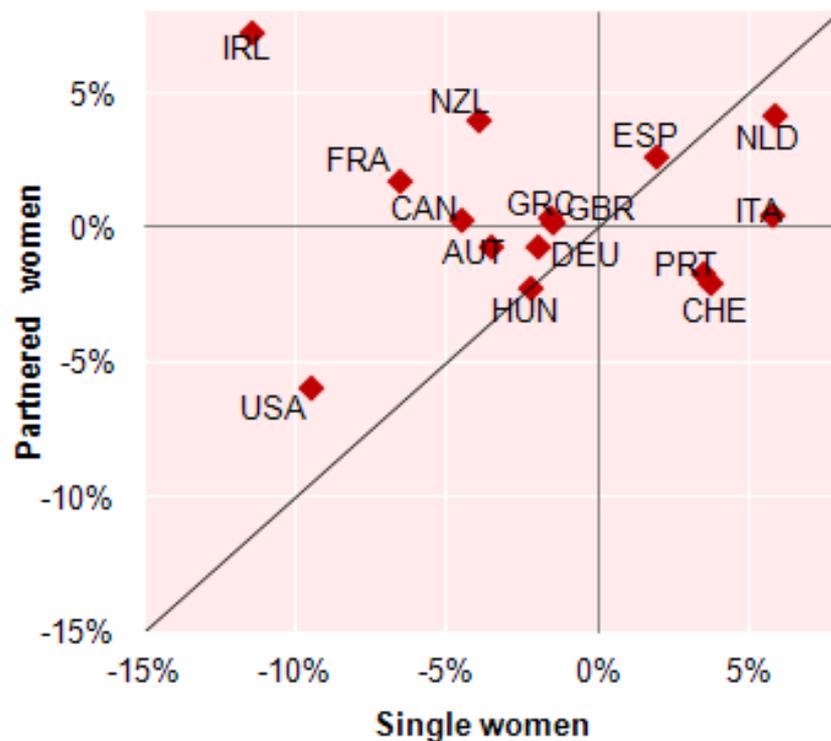
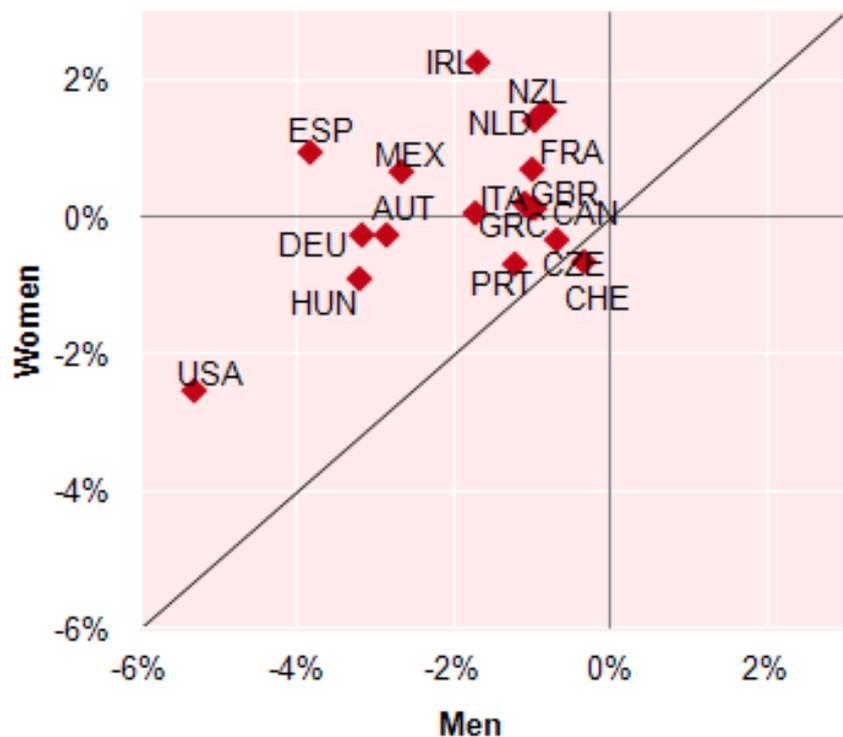
Adverse effects of GR on public finances

Lower revenues and higher benefit expenditures: expenditure and revenue changes 2007 – 2010, % of 2010 GDP



The importance of female employment

Women's employment greatly improves families' resilience to economic shocks: Changes in hours worked since onset of GR



Summing up: What policies for equity

- Congratulations (and thanks) to the team: a timely and illuminating work
- Important to take account of pre-crisis trends:
 - Market-income inequality grew by twice as much as redistribution since the 1980s;
 - Cash redistribution weakened, in particular in the more recent decade;
 - Developments on the benefit side were more important than taxes.
- Historical patterns are informative for designing policy today:
 - With social protection systems under strong pressure, targeting is essential to limit adverse distributional consequences of fiscal consolidation;
 - Moreover, the crisis has added further urgency to meeting the structural challenges facing social systems.