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In It Together: Why Less Inequality Benefits All

Summary in English



Read the full book on: [10.1787/9789264235120-en](https://doi.org/10.1787/9789264235120-en)

Income inequality increased in good times and in bad times

In most countries, the gap between rich and poor is at its highest level since 30 years. Today, in OECD countries, the richest 10% of the population earn 9.6 times the income of the poorest 10%. In the 1980s, this ratio stood at 7:1 rising to 8:1 in the 1990s and 9:1 in the 2000s. In several emerging economies, particularly in Latin America, income inequality has narrowed, but income gaps remain generally higher than in OECD countries. During the crisis, income inequality continued to increase, mainly due to the fall in employment; redistribution through taxes and transfer partly offset inequality. However, at the lower end of the income distribution, real household incomes fell substantially in countries hit hardest by the crisis.

Much of the recent debate surrounding inequality has focused on top earners, especially the “top 1%”. Less well understood is the relative decline of low earners and low-income households – not just the bottom 10% but the lowest 40%. This report places a special focus on these households, investigating some of the factors that have weakened their economic position, and the range of policy options that can help address increasing inequality.

Higher inequality drags down economic growth and harms opportunities

Beyond its impact on social cohesion, growing inequality is harmful for long-term economic growth. The rise of income inequality between 1985 and 2005, for example, is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010, on average across OECD countries for which long time series are available. The key driver is the growing gap between lower-income households – the bottom 40% of the distribution – and the rest of the population.

A main transmission mechanism between inequality and growth is human-capital investment. While there is always a gap in education outcomes across individuals with different socio-economic backgrounds, the gap widens in high-inequality countries as people in disadvantaged households struggle to access quality education. This implies large amounts of wasted potential and lower social mobility.

Rising non-standard work can create job opportunities but also contributes to higher inequality

Temporary and part-time work and self-employment now account for about a third of total employment in OECD countries. Since the mid-1990s, more than half of all job creation was in the form of non-standard work. Many non-standard workers are worse off in many aspects of job quality, such as earnings, job security or access to training. In particular, low-skilled temporary workers face substantial wage penalties, earnings instability and slower wage growth.

Households that are heavily dependent on earnings from non-standard work have much higher income poverty rates (22% on average), and the increase in the number of such households in OECD countries has contributed to higher overall inequality.

Non-standard work can be a “stepping stone” to more stable employment – but it depends on the type of work and the characteristics of workers and labour market institutions. In many countries, younger workers, especially those with only temporary work contracts have a lower chance of moving on to a more stable, career job.

More women in the workforce lowers inequality

Women have made substantial progress in narrowing the participation, pay and career gap with men and this has put a brake on rising inequality. But they are still about 16% less likely to be in paid work and earn about 15% less than men. If the proportion of households with working women had remained at levels of 20 to 25 years ago, income inequality would have increased by almost 1 Gini point more on average. The impact of a higher share of women working full-time and higher relative wages for women added another brake of 1 point.

High wealth concentration limits investment opportunities

Wealth is much more concentrated than income: on average, the 10% of wealthiest households hold half of total wealth, the next 50% hold almost the other half, while the 40% least wealthy own little over 3%. At the same time, high levels of indebtedness and/or low asset holdings affect the ability of the lower middle class to undertake investments in human capital or others. High wealth concentration can weaken potential growth.

Designing policy packages to tackle high inequality and promote opportunities for all

Policy makers have a range of instruments and tools at hand to tackle rising inequality and promote opportunities for all. For such policy packages to be successful, solid trust in institutions and effective social dialogue are essential. Reducing the growing divide between rich and poor and promoting opportunities for all requires policy packages in four main areas:

- Women’s participation in economic life: governments need to pursue policies to eliminate the unequal treatment of men and women in the labour market and to remove barriers to female employment and career progression. This includes measures for increasing the earnings potential of women on low salaries and to address the glass ceiling.
- Employment promotion and good-quality jobs: policies need to emphasise access to jobs and labour market integration. The focus must be on policies for the quantity and quality of jobs; jobs that offer career and investment possibilities; jobs that are stepping stones rather than dead ends. Addressing labour market segmentation is an important element of enhancing job quality and tackling inequality.
- Skills and education: A focus on the early years, as well as on the needs of families with school children, is crucial in addressing socio-economic differences in education. More must be done to provide youth with the skills they need to get a good start in the labour market. With a rapidly evolving economy, further efforts, with the close involvement of business and unions, should be made in promoting a continuous up-grading of skills during the working life.
- Tax-and-transfer systems for efficient redistribution: Adequately designed redistribution via taxes and transfers is a powerful instrument to contribute to more equality and more growth. In recent decades, the effectiveness of redistribution weakened in many countries due to working-age benefits not keeping pace with real wages and taxes becoming less progressive. Policies need to ensure that wealthier individuals but also multinational firms pay their share of the tax burden. Large and persistent losses of low-income groups underline the need for well-designed income-support policies and counter-cyclical social spending.

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doi: 10.1787/9789264235120-en