Introduction

Income inequality has risen in much of the world, sending the issue to the top of the policy agenda. The rise of the "top 1%" gains the lion's share of attention, but there's also concern about large numbers of low earners who look to be slipping further and further behind.

Introduction

In late 2011, a group of protesters set up camp in New York not far from Wall Street, the heart of global capitalism. The Occupy protestors represented a diverse set of interests and concerns, but around one slogan they could unite: "We are the 99%." The movement soon spread. According to Britain's *Guardian* newspaper, at least 750 similar protests followed worldwide, mostly in North America and Europe.

The timing of the protests was significant. It followed a once-in-a-generation financial crisis that brought in its wake sharp falls in economic growth and sharp rises in unemployment. The protests also came at a time when public consciousness was growing of a longer term trend that predated the economic crisis. In its campaigning for "the 99%" against "the 1%," the Occupy movement arguably represented the strongest statement yet of concern over one of today's hottest policy issues – income inequality.

There are few signs that this concern is easing. At the 2015 Davos World Economic Forum – an event one commentator described as "dominated by the proverbial 1%" – income inequality was "top of the agenda". The past few years have also seen a 700-page tome on inequality, Thomas Piketty's *Capital*, rise to the top of the best-seller list. And they have produced survey findings indicating public disquiet over the gap between rich and poor – "a big problem," according to majorities in 44 countries polled by the Pew Research Centre.

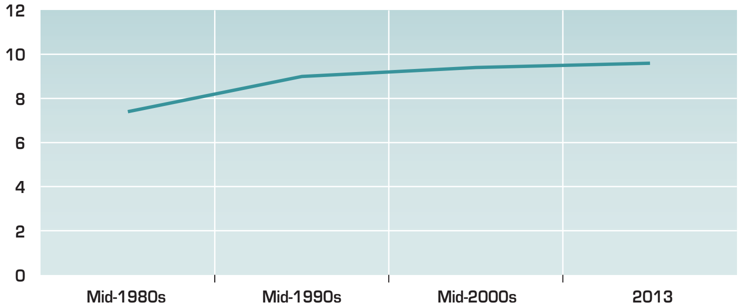
Rising inequality

Income inequality has been rising in many wealthy countries in recent decades. In the 1980s, the average disposable income of the richest 10% in OECD countries was around seven times higher than that of the poorest 10%; today, it's around 9½ times higher.

Income gaps are even more striking when it comes to the highest earners. In the 1980s, the top 1% of earners commanded less than 10% of total pre-tax income in every OECD country bar one. Thirty years later, their share was above 10% in at least nine OECD countries and above 20% in the United States.

Data: The gap between rich and poor is at its highest for 30 years, with the top 10% now earning 9.6 times more than the poorest 10%

Income ratio between top and bottom deciles in OECD countries



Source: OECD (2015), *In It Together: Why Less Inequality Benefits All*, *http://dx.doi.org/10.1787/9789264235120-en*.

Much of the focus of the inequality debate has been on the rising incomes of the 1%. But there is also growing concern about the economic situation of a large swathe of low-earners – perhaps as much as the bottom 40% in some countries – who have been slipping behind. As a 2015 OECD report pointed out, "When such a large group in the population gains so little from economic growth, the social fabric frays and trust in institutions is weakened."

It's not just wealthy countries that are seeing growing gaps between rich and poor. While developing countries have made impressive strides in reducing poverty in recent years, many have also seen a rise in income inequality. In Asia, income inequality has grown in a number of the region's economic powerhouses, including China, India and Indonesia; in China, it rose by about 1.6% a year in the two decades following 1990. It rose, too, in sub-Saharan Africa but declined in many South American countries, although it remains high by global levels.

And in both developed and developing countries, income is only one aspect of broader economic and social inequalities. These are often characterised by inequality of opportunity, especially in areas like access to high-quality education, adequate healthcare and decent employment. Such inequalities can lock in privilege and exclusion and prevent people from poorer families from moving up in society and making the most of their potential.

The causes of these growing income gaps are complex and reflect both economic and social changes. Globalisation, and in particular the impact of technology on the workforce, is one important factor. Social changes, such as shifts in marriage patterns have also played a role. And, when it comes to the rise of top incomes, a number of special factors come into play, including the growing use of performance pay, shifting pay expectations and changes in tax policy.

Why inequality matters

Some might now ask why rising income inequality matters – hasn't there always been a gap between rich and poor? It's true that, with the exception of some nomadic and hunter-gatherer groups, inequality has long been a fixture of human societies. Indeed, some level of inequality is widely seen as essential to create incentives for entrepreneurs to take risks.

But there's growing concern over what happens when the gap between rich and poor grows too wide and when economic growth delivers benefits only to the well off. Evidence increasingly suggests that high inequality slows economic growth and reduces social mobility. Many also fear that widening divisions threaten the stability of our societies and could hold back the development of consensus on meeting common challenges.

In the years since the financial crisis, these concerns have entered the political and economic mainstream. U.S. President Barack Obama has described rising inequality and declining mobility as the "defining challenge of our time". And Angel Gurría, Secretary-General of the Organisation for Economic Co-operation and Development (OECD), has warned that "high levels of inequality generate high costs for society, dampening social mobility, undermining the labour market prospects of vulnerable social groups, and creating social unrest."

Understanding income inequality

Drawing on the research and analysis of the OECD and other sources, this *OECD Insights* introduces and explains some of the key issues in inequality today. It looks at how income inequality has developed over time, explains why the gap is growing, examines the consequences for our societies and economies and, finally, looks at how governments can shape policies to ensure a more even distribution of opportunity in our societies. The discussion is structured around five questions:

1. What are income and wealth?

Getting to grips with the income inequality debate means understanding certain key terms, such as income and wealth. It also means understanding how inequality is measured, a complex task that poses serious data challenges. Of course, income inequality is only one measure of how economic resources are shared across societies. To supplement them, it's essential to draw on measures of poverty.

2. What's happening to income inequality?

Income inequality has risen in many developed countries, but there are striking variations between countries. These reflect two main factors: the size of the gap between the highest and lowest salaries in a country and the extent to which the state redistributes income through taxes and benefits. Income inequality has also risen in developing economies, even during a period that has seen sharp falls in extreme poverty and the emergence of a new, albeit fragile, middle class.

3. Why is income inequality rising?

The causes of rising inequality are complex, but include the growing role of technology in our economies and the impact of globalisation. These factors also help to explain a shift in which groups benefit most from the economy, with the balance shifting from labour to capital. Inequality is also being fuelled by social factors, such as changes in marriage patterns, and shifts in the workplace – more people are now working part-time and on temporary contracts and fewer are in unions. The state's role has evolved, too, with a general tendency towards less redistribution. All these factors can explain much of the overall rise in income inequality, but not necessarily why the incomes of the top 1% have risen so sharply. To understand that, some special factors need to be considered.

4. How does income inequality affect our lives?

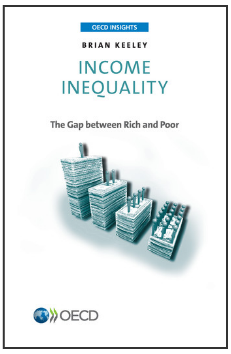
Economists have long theorised over the relationship between growth and inequality, and vice versa. Today, there appears to be increasing evidence that excessive inequality is bad for economic growth. High inequality has other negatives too, such as lowering social mobility and, in education, reducing people's opportunities to learn. And there's much debate over other social ills that may be linked to inequality, such as higher rates of crime and ill health.

5. How can governments respond to income inequality?

If the ill-effects of income inequality are to be tackled, ways will need to be found to promote inclusive growth. Doing that means examining policy goals – should governments be pursuing growth or well-being, or a better balance of both? In using policy to address income inequality, a number of areas stand out. Education and skills are key – policy must ensure that as many people as possible enjoy access to high-quality opportunities to learn, especially early in life, and that people can go on learning throughout their lives. Jobs are also essential, and key to tackling poverty. And the role of taxes and transfers in redistributing income and wealth must also be considered.

Throughout this *OECD Insights*, you can explore income inequality in even greater detail by following three different sorts of links:

- **More from *Insights*** will take you to material aimed at the non-specialist reader, mostly from the OECD Insights Blog and book series.
- **More from the OECD** will take you to material that may be more suitable for the reader with specialist knowledge, mainly from OECD reports and publications.
- **Data** will take you to data from the OECD, including static charts as well as interactive data (online only) from the OECD Data Portal. Users can access the background data to charts and tables, as well as important notes and disclaimers, by using the StatLink.



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