Divided we stand: Why inequality keeps rising [1]

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Excerpts from press release:

The landmark 2008 OECD report *Growing Unequal?* showed that the gap between rich and poor had been growing in most OECD countries. Three years down the road, inequality has become a universal concern, among both policy makers and societies at large. The new OECD study *Divided we Stand: Why Inequality Keeps Rising* reveals that the gap between rich and poor has widened even further in most countries.

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What is driving the increase of income inequality?

The OECD's new report *Divided We Stand: Why Inequality Keeps Rising* is taking a fresh look at these questions. The single most important driver has been greater inequality in wages and salaries. This is not surprising: earnings account for about three-quarters of total household incomes among the working-age population in most OECD countries. The earnings of the richest 10% of employees have taken off rapidly, relative to the poorest 10% in most cases. And those top earners have been moving away from the middle earners faster than the lowest earners, extending the gap between the top and the increasingly squeezed middle-class.

The largest gains were reaped by the top 1% and in some countries by an even smaller group: the top 0.1% of earners. New data for the United States, for example, show that the share of after-tax household income for the top 1% more than doubled, from nearly 8% in 1979 to 17% in 2007. Over the same period, the share of the bottom 20% of the population fell from 7% to 5%.

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What can policy makers do?

The most promising way of tackling inequality is through boosting employment. Fostering more and better jobs, enabling people to escape poverty and offering real career prospects, is the most important challenge for policy makers to address.

Investing in human capital is key. This must include the early childhood period and be sustained through compulsory education. Once the transition from school to work has been accomplished successfully, there must be sufficient incentives for workers and employers to invest in skills throughout the working life.

Even though taxes play a lesser role for redistribution, the growing share of income going to top earners means that they now have a greater capacity to pay taxes. Governments may consider raising marginal tax rates on income as a direct route to achieving this goal, but this might not be the most effective measure to raise tax revenues. Other measures include improving tax compliance, eliminating tax breaks; and reassessing the role of taxes on all forms of property and wealth, including the transfer of assets.

Providing freely accessible and high-quality public services, such as education, health, and family care is also important, especially for emerging economies. On average, OECD governments spend as much - some 13% of GDP - on public social services as they do on all cash benefits taken together, and this spending reduces inequality by about one fifth on average.

Divided We Stand: Why Inequality Keeps Rising shows that there is nothing inevitable about growing inequalities. Globalisation and technological changes offer opportunities but also raise challenges that can be tackled with effective and well-targeted policies. Any policy strategy to reduce the growing divide between rich and poor should rest on three main pillars: more intensive human capital investment; inclusive employment promotion; and well-designed tax/transfer redistribution policies.

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