



# **Rising inequality and the sharing of macroeconomic risk**

**From rising inequalities to shared societies: the  
need to create a sustainable IMS**

Washington DC, 25<sup>th</sup> September 2011

**Jonathan Coppel**

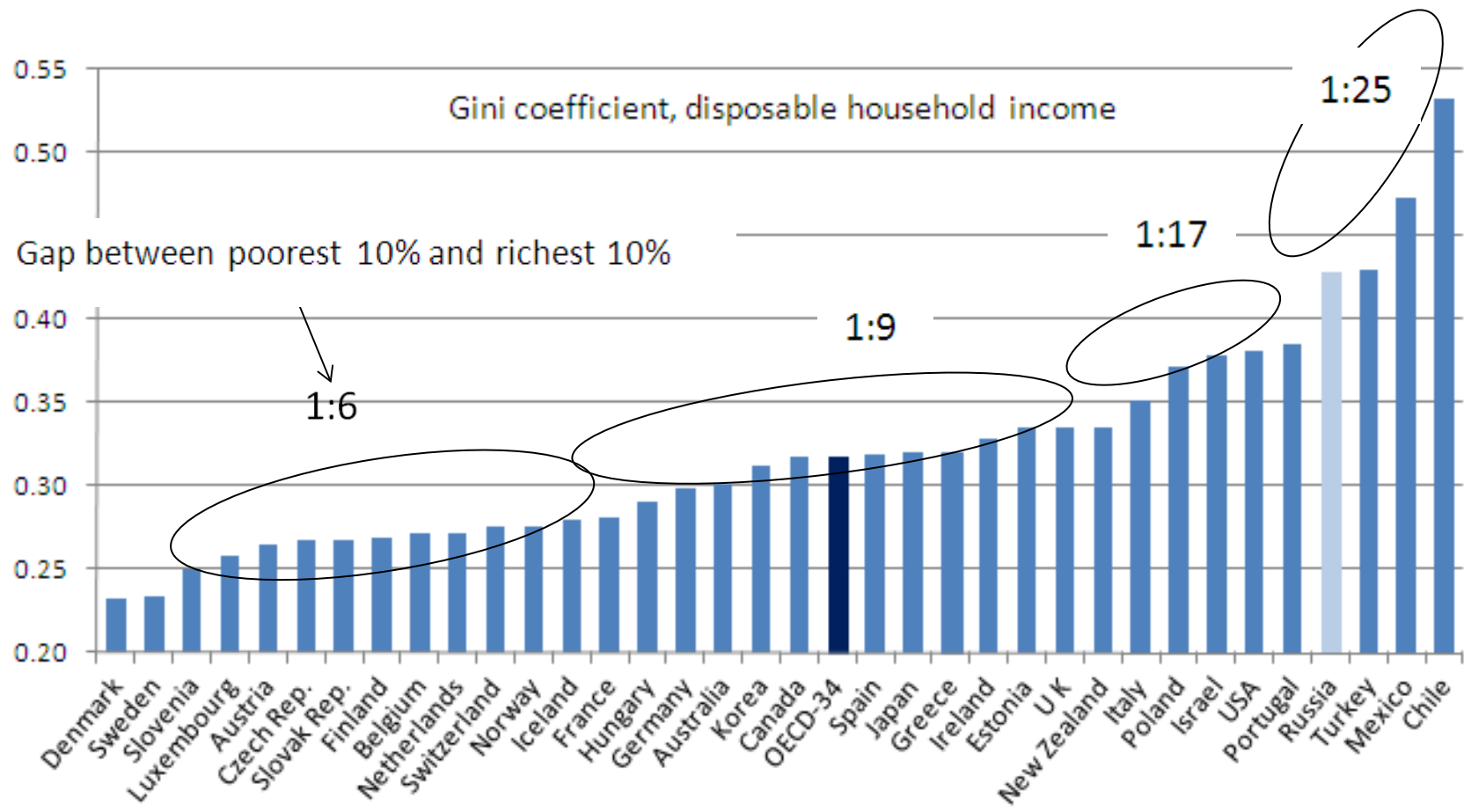
**Economic Counselor to the OECD Secretary-General**

# Overview

- How have inequality and poverty evolved?
- What are the driving forces explaining changes in inequality?
- How is macroeconomic risk shared?
- Policy implications and conclusions.

# Huge differences in levels of income inequality across OECD countries...

Trends in inequality

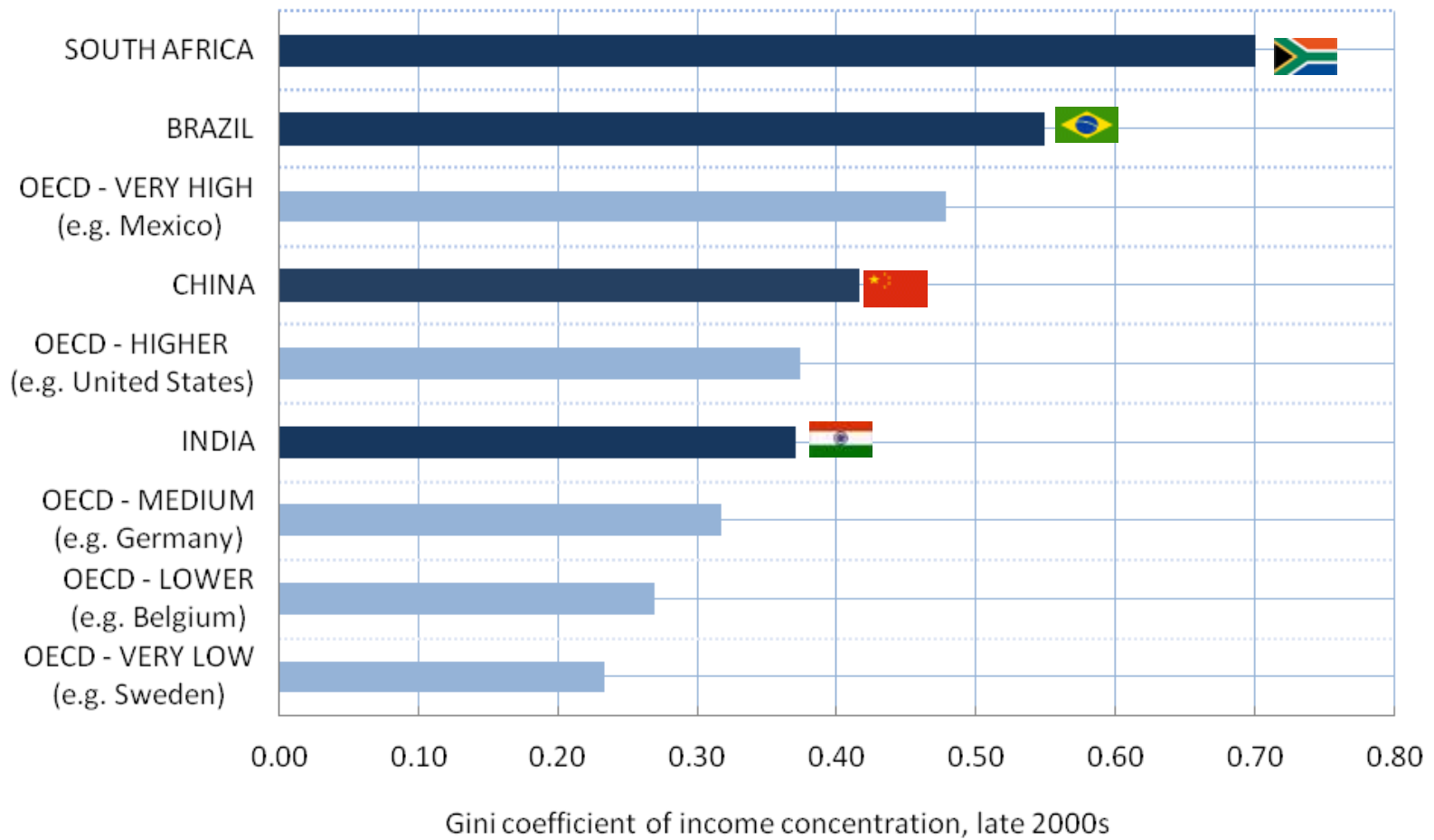


Source: *Growing Unequal?*, OECD 2008; OECD 2010.

# ... and in emerging market economies

Trends in inequality

International levels of income inequality



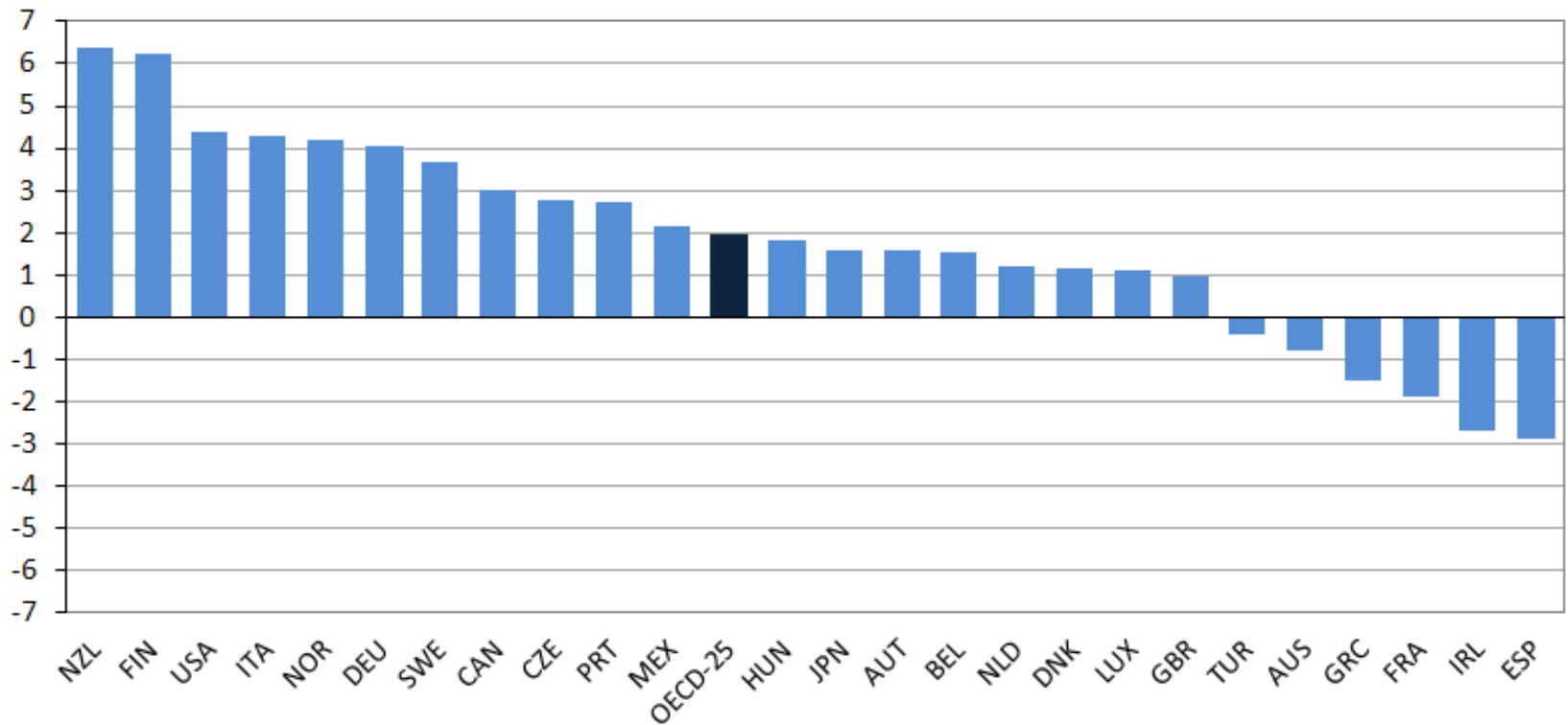
Source: OECD, *Inequalities in emerging economies*, 2010 .

Gini coefficients based on equivalised incomes for OECD countries; per-capita incomes for Brazil, China and South Africa; and per-capita consumption for India.

# Income inequality has increased in most countries

Trends in inequality

Gini coefficient, percentage point changes

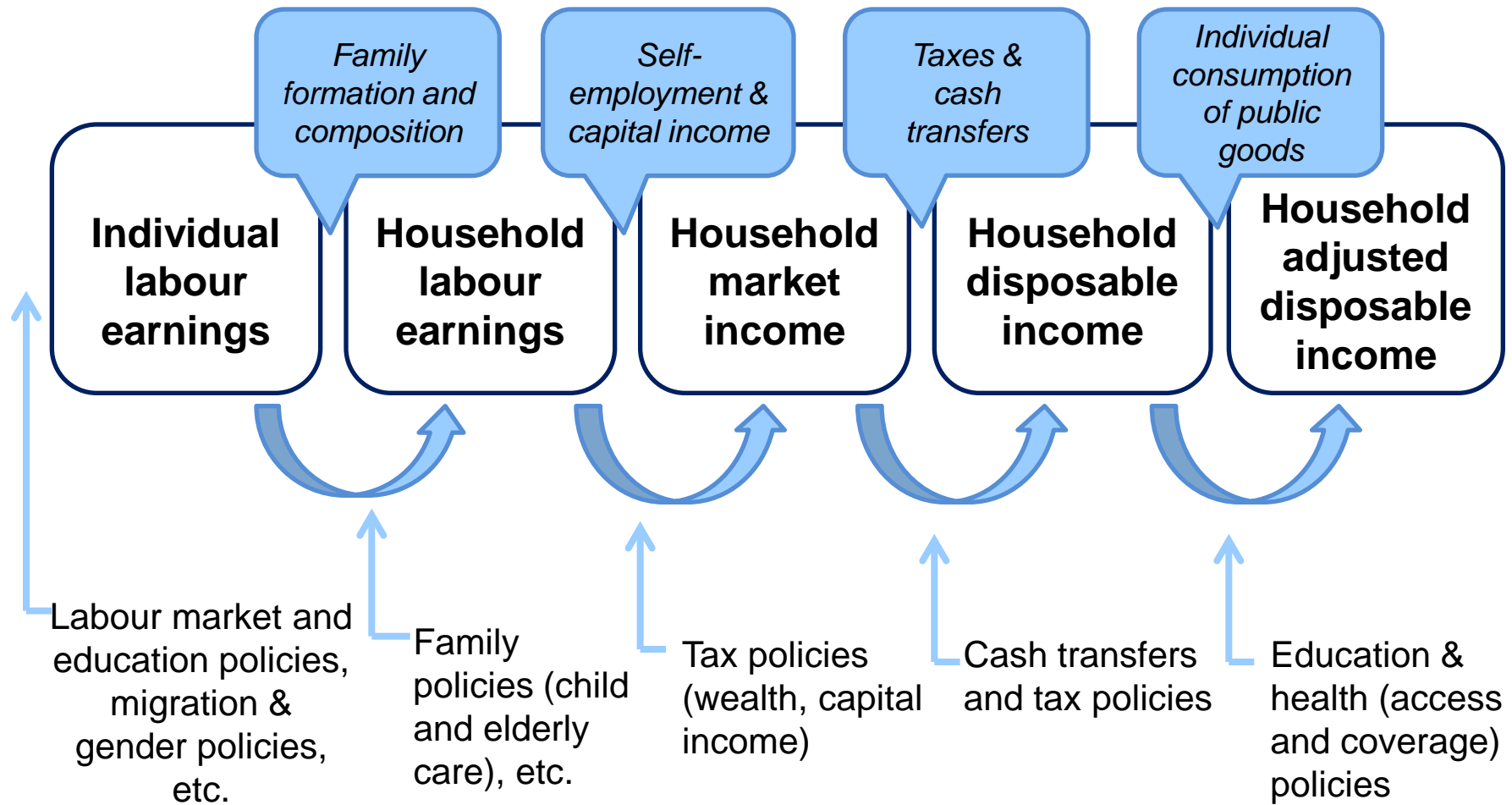


Change between the mid 1980s and the mid 2000s.

Source: *Growing Unequal?*, OECD 2008



# Identifying inequality drivers: accounting framework and policy levers



# Which direct forces shaped the trends in income distribution?

- Changes in the household structure: smaller households, more single parents, more elderly
- Labour market, I: wage effect – increasing dispersion of incomes from labour
- Labour market, II: employment effect – employment growth occurred alongside persisting household joblessness among less-educated persons
- Market incomes other than earnings (capital etc.) are increasingly concentrated, too
- Redistributive effectiveness of tax/transfer systems reduced in a number of countries



# Macroeconomic instability, risk sharing and inequality

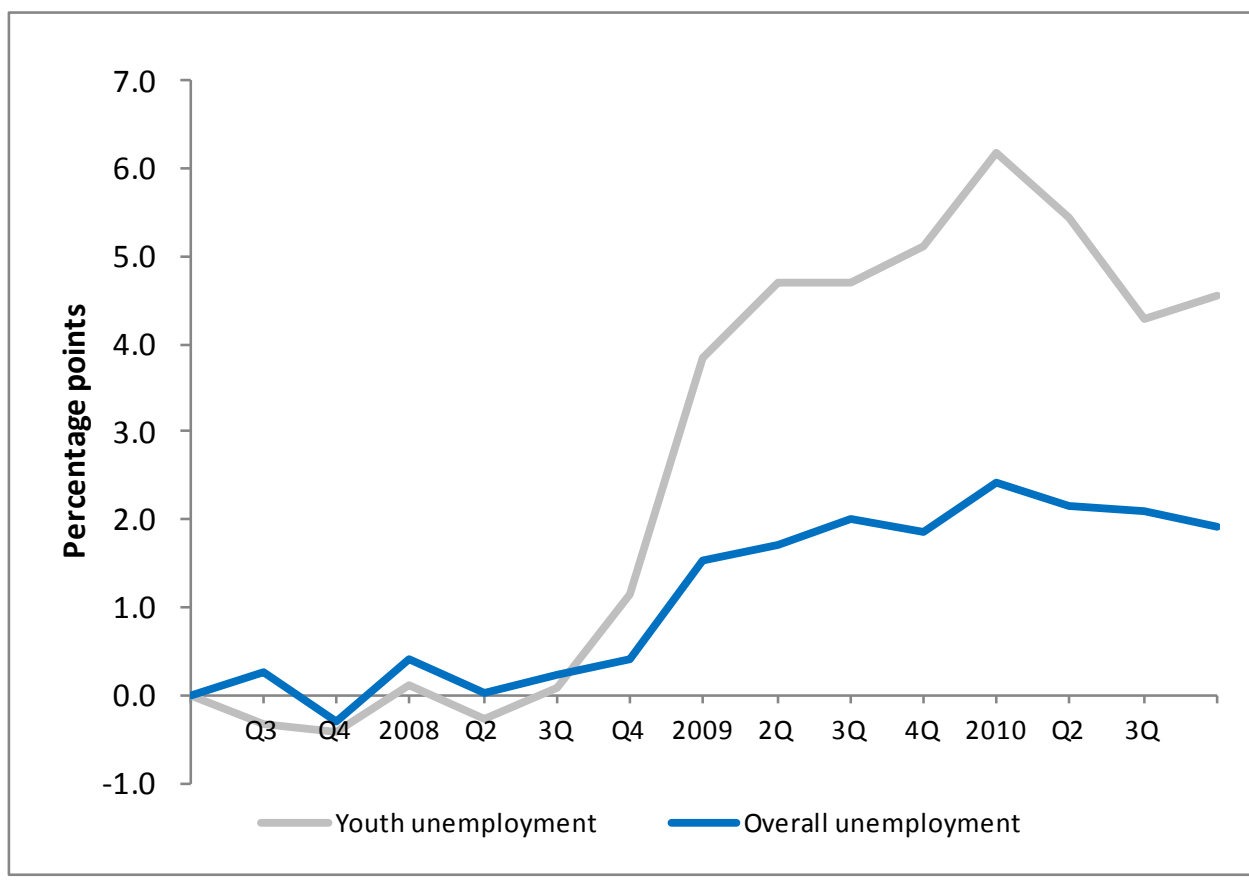
- Income and employment security is a key dimension of individual and social well-being.
- Macroeconomic shocks can cause large and unforeseen losses, typically unevenly spread across the population.
- Resilience to shocks, effective prevention of instability and fair risk-sharing mechanisms therefore play a role in improving social welfare.



# Young people have been particularly badly hurt by the financial crisis...

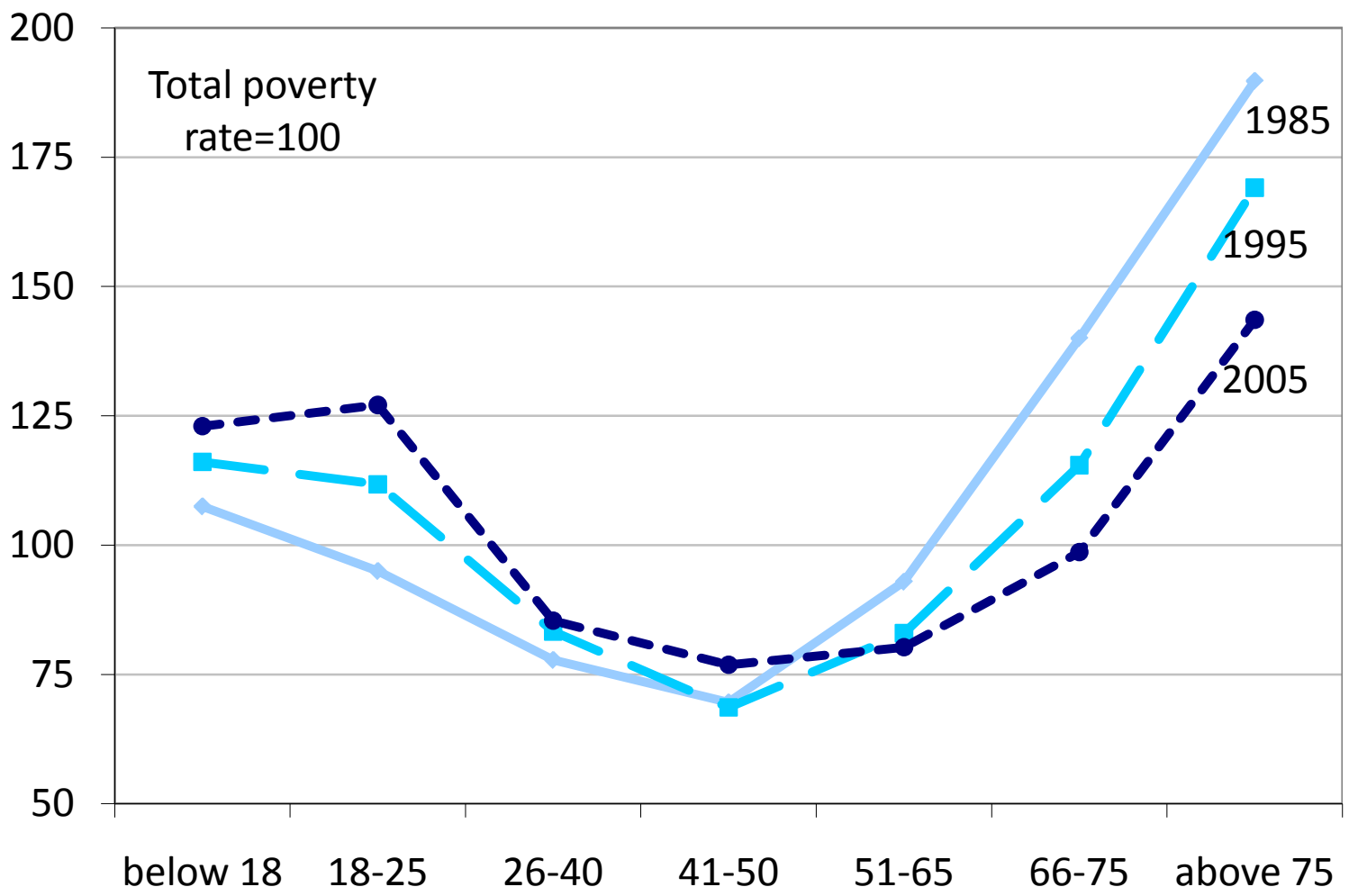
Macroeconomic risk

Increase in unemployment with respect to 2<sup>nd</sup> Quarter 2007



# ...while poverty risks have shifted from older to younger people

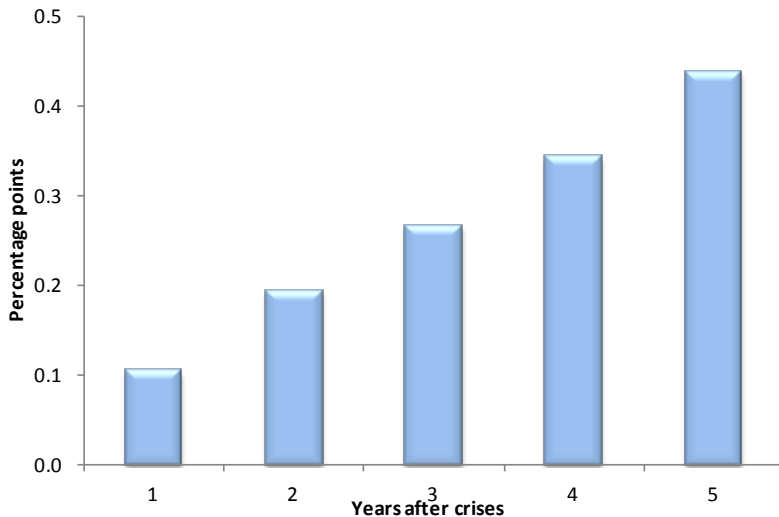
Macroeconomic risk



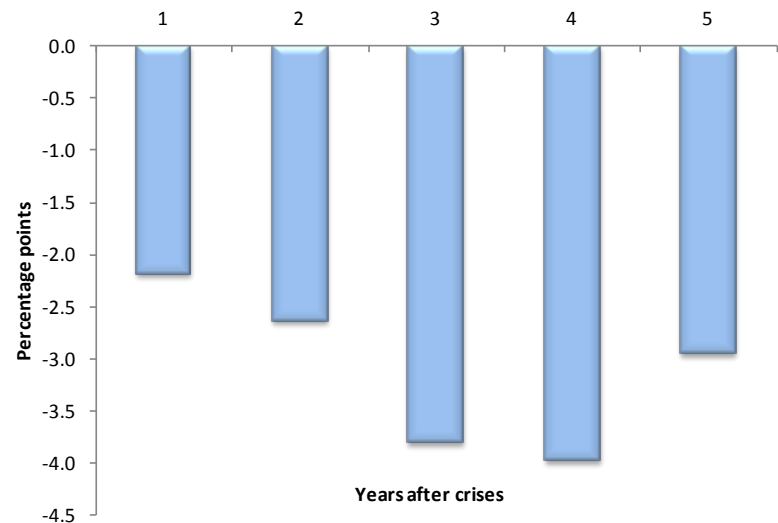
Source: OECD2008, *Growing Unequal?*

# Distributional impact of macroeconomic shocks

**A. Average increase in poverty rates following financial crises**



**B. Decline in youth employment following financial crises (gap with overall change in employment)**



**Financial crises have increased poverty rates and disproportionately affected youth employment**

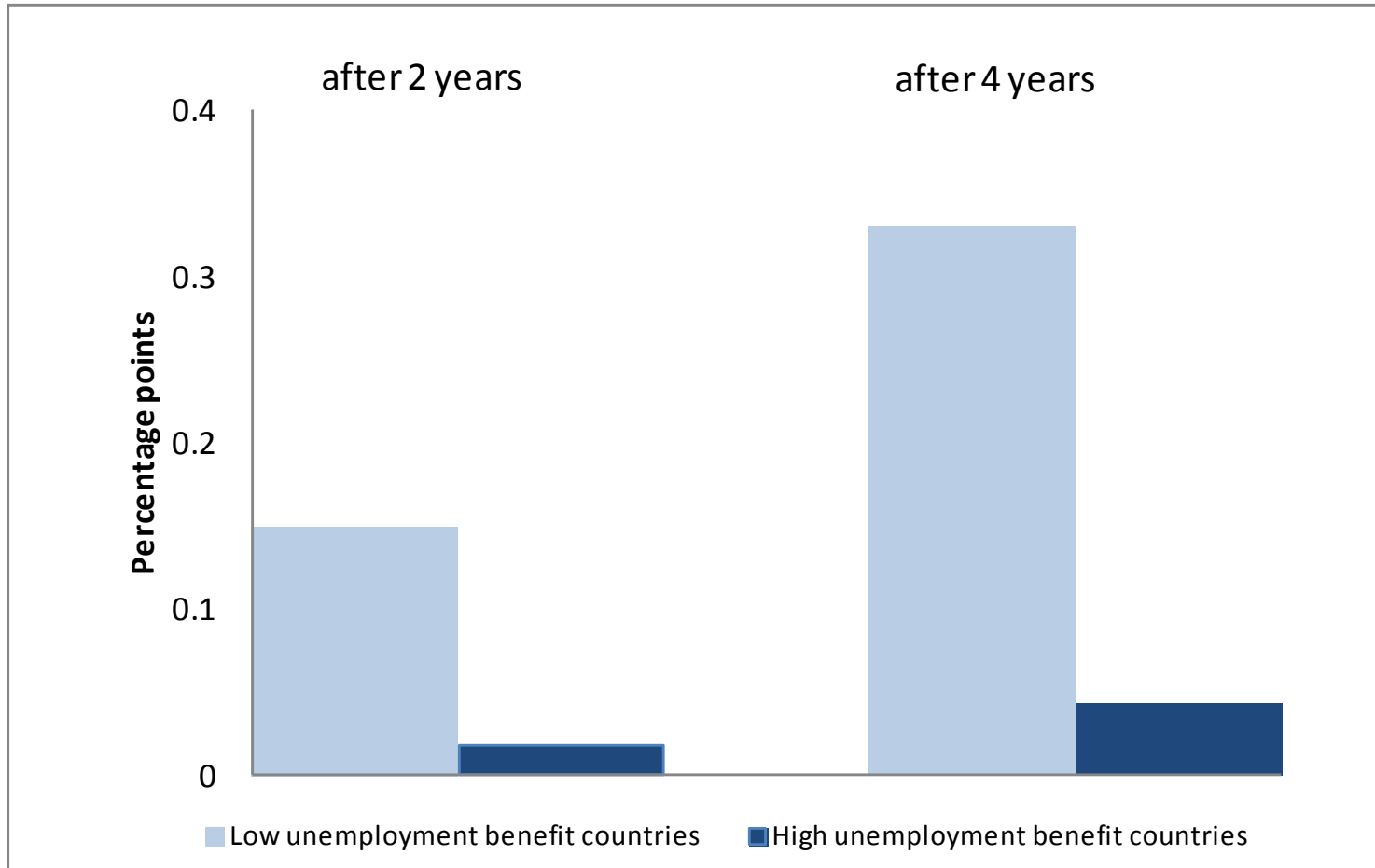
# Distributional impact of macroeconomic shocks

	Income Inequality	Poverty	Relative labour market prospects of “marginal groups”
Financial crises	N	N	N (young, seniors, women)
Fiscal consolidations	N	N	N (young, seniors)
Fiscal expansions	P	P	P (young, seniors)
Exchange-rate devaluations	N		N (young, seniors)
Exchange-rate appreciations	P		
Commodity-price increases		N	N (young)
Commodity-price declines	N		

N – negative impact, P – positive impact

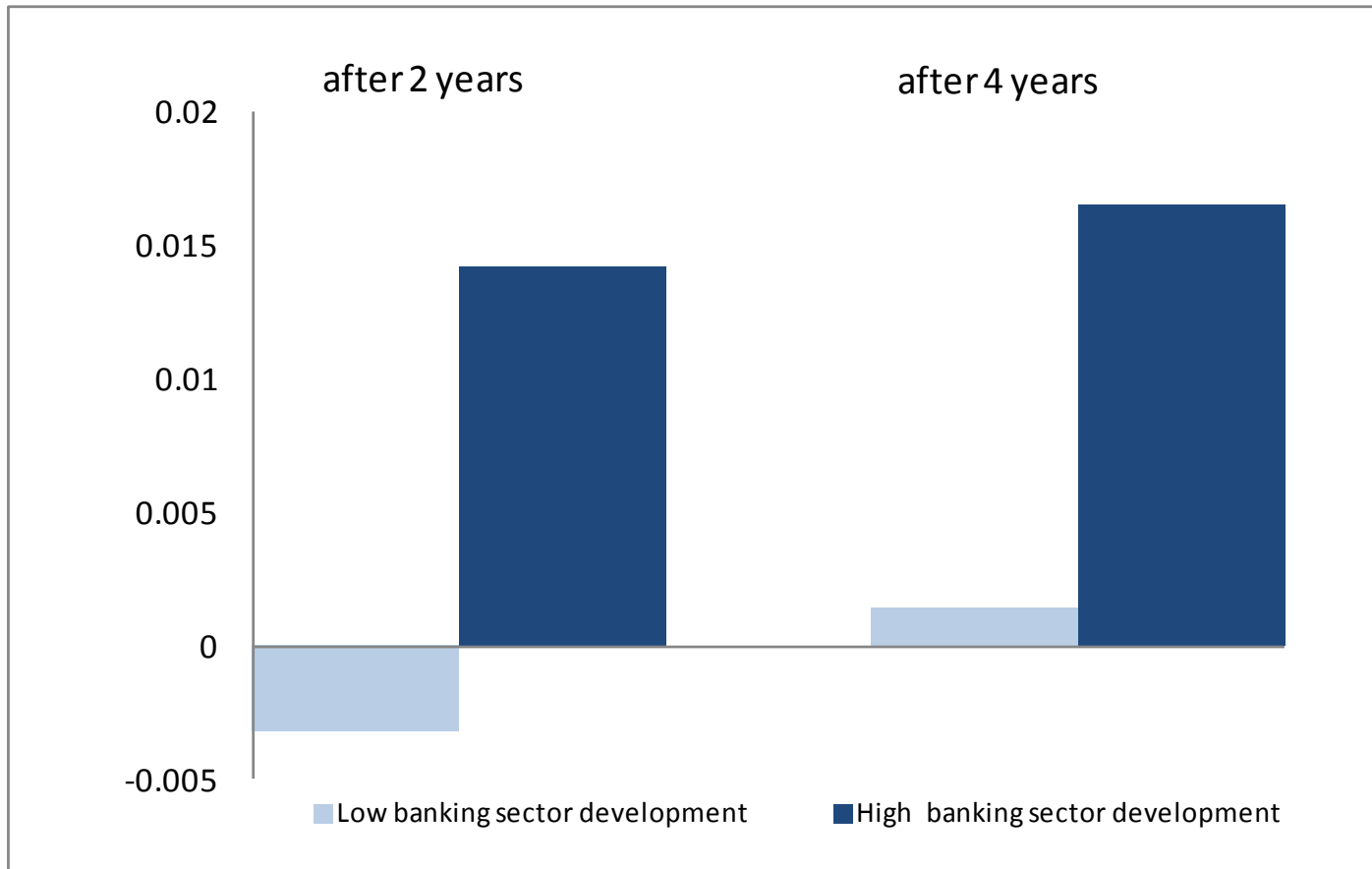
# Generous unemployment benefits mitigate crisis-driven increases in poverty

## Increase in poverty rates following financial crises



# Financial development amplifies the redistributive effects of shocks

## Change in GINI coefficient following devaluation shocks



- Inequality and poverty have increased in many countries over the past 2 decades.
- The financial crisis has exacerbated these trends, hitting youth, unskilled and migrant workers hardest.
- The main drivers of rising inequality are not macroeconomic however.
- Macroeconomic stability and a well functioning IMS will go some way to addressing income inequality.
- Tackling inequality in a significant way requires direct policy measures, focussing on redistribution and inclusive employment policies.



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