DESIGUALDAD DE INGRESOS, MOVILIDAD SOCIAL Y TENDENCIAS DE LA CLASE MEDIA EN CHILE Y EN LA OCDE

INEQUALITY, SOCIAL MOBILITY AND MIDDLE CLASS TRENDS IN CHILE AND OECD COUNTRIES

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Inequality – in the heart of international policy discourse and policy debate

• “Inequality can no longer be treated as an afterthought. We need to focus the debate on how the benefits of growth are distributed” (A. Gurría, OECD)

• “This is the first time that the World Bank Group has set a target for income inequality” (Jim Yong Kim, World Bank)

• “Reducing excessive inequality is not just morally and politically correct, but it is good economics” (C. Lagarde, IMF)
Large differences in levels of income inequality across OECD countries

Source: OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm), as at 1-September-2017
Note: the Gini coefficient ranges from 0 (perfect equality) to 1 (perfect inequality). Income refers to cash disposable income adjusted for household size. Data refer to 2016 or latest year available.
Rather than continuous long-term trends, “episodes” of inequality changes

Long-term trends in inequality of disposable income (Gini coefficient)

Note: Income refers to disposable income adjusted for household size. New income definition from 2011. Trend data have been chain-linked.
Chile ranks among the **lowest in the OECD** in terms of indicators of gender equality:

- Employment and pay gaps between men and women
- Women in management positions
- Share of women on boards of directors

**Gender pay gap in 2010 and 2015**

Source: OECD Employment Database for OECD countries, Colombia and Costa Rica (NENE for Chile); and OECD Secretariat calculations based on the Encuesta Permanente de Hogares (EPH) for Argentina, the Pesquisa Nacional por Amostra de Domicilio (PNAD) for Brazil.
The consequences of high inequality: why do we care?

- Economic concerns
- Social concerns
- Ethical concerns
- Political concerns
1. Higher income inequality **lowers** subsequent economic growth in the long-term

   - Increasing income inequality by 1 Gini point lowers the growth rate of GDP per capita by ~0.12 %-points per year

2. This is **driven** by disparities at the lower end of the distribution, incl. lower middle classes, not just the poor

3. **Redistribution** through taxes and transfers does **not** necessarily lead to bad growth outcomes

4. Prominent **mechanism**: high inequality hinders skills investment by the lower middle class and harms education outcomes, in terms of quantity and quality
Higher inequality hinders skills investment by the lower middle class and lowers social mobility.

**Average years of schooling by parental educational background (PEB) and inequality**

- Low PEB
- Medium PEB
- High PEB

**Average numeracy score by parental educational background (PEB) and inequality**

- Low PEB
- Medium PEB
- High PEB

Increasing inequality by ~5-6 Gini pts. (the current differential between Chile and the US) is associated with less average schooling of low PEB individuals by ~half a year.

Source: OECD (2015), “In It Together”

Note: Low PEB: neither parent has attained upper secondary education; Medium PEB: at least one parent has attained secondary and post-secondary, non-tertiary education; High PEB: at least one parent has attained tertiary education. The bars indicate 95% confidence intervals. [http://oe.cd/cope](http://oe.cd/cope)
The main drivers of rising inequalities

- **Direct drivers**
  - Changes in employment patterns and working conditions
  - Weaker redistribution via the tax/benefit system

- **Indirect effects**
  - Skill-biased technological change
  - Globalisation (trade, FDI)

- **Institutional effects**
  - Changes in product and labour market regulations and institutions

- **Lesser culprit**
  - Changing demography and family structures

- **Off-setting factors**
  - Increase in education
  - Female labour market participation
1a. Increasing non-standard work contributed to job polarisation and higher inequality

- Today, one third of jobs are “non-standard”, and 43% of working households include a non-standard worker
- More than half of all jobs created since 1995 were non-standard jobs

Note: Abstract occupations (ISCO88: 12-34); Routine (ISCO88: 41-42, 52, 71-74, 81-82 and 93); Non-routine manual (ISCO88: 51 83 and 91). The overall sample restricted to workers aged 15-64, excluding employers as well as students working part-time.
1. Measures of job quality suggest that non-standard workers are worse off

- hourly wages are lower (-30% for temporary workers);
- job insecurity (probability to lose one’s job) is higher;
- they provide less training;
- and report a higher level of job strain.
- they do not necessarily improve labour market prospects, e.g. by a higher probability to move to a more stable job
- “stepping-stone” effects do exist, but mostly for prime-age and older workers
1.c Informal work matters, in low-income, but also many middle-income countries

- The level of informality in Chile, although lower for Latin American standards, is high compared to other OECD countries.
- Particular measure: the share of people not contributing to social security

**Incidence of informality in selected low- and middle-income countries**

Note: Informality is defined to include: i) employees who do not pay social contribution, except for Colombia where contract status is used; and ii) self-employed who do not pay social contributions (Brazil, Chile, China, India, Indonesia, Turkey) or whose business is not registered (Argentina, Colombia, Costa Rica, Mexico, South Africa). a) The figures for China are for 2008 and 2009. b) All figures for Indonesia are for 2007.

Source: OECD calculations based on national household and labour force surveys (EPH: Argentina, PNAD: Brazil, CASEN: Chile, UHS: China, GEIH: Colombia, ENHAO: Costa Rica, NSS: India, SAKERNAS: Indonesia, ENIGH: Mexico, NIDS: South Africa), the EU-SILC national files (Turkey) and the European Social Survey (Russia). See OECD Employment Outlook 2015, Chapter 5.
2a. Redistribution through income taxes and cash benefits plays an important role in OECD countries

**Gini coefficient of disposable and market income: impact of taxes and transfers, working-age population, 2015**

- Inequality before transfers and taxes (market income)
- Inequality after transfers and before taxes (gross income)
- Inequality after transfers and taxes (disposable income)

2.b..., but redistribution became weaker in most OECD countries until the onset of the crisis

Trends in market income inequality *reduction*, working-age population

2.c Better targeting is not a panacea ..., but it is a design issue in some countries

Share of social benefits going to the bottom and top 20% of the working-age population

2.d However, very different distributive patterns of pensions versus other cash benefits

Distribution of Cash Transfers by quintile of disposable income, 2015
Working-age population

Source: Ministry of Social Development, Social Observatory, based on Casen 2015.
• TRRSS includes monetary subsidies plus old system pensions, Dipreca and Capredena pensions.
• ** Old system pensions, Dipreca and Capredena Pensions
2.e Trends in the size of the fiscal sector 2000-2015, per cent of GDP

Source: National Accounts at a Glance, OECD Revenue Statistics: Comparative tables
“Under Pressure”:
A squeezed Middle Class?
Middle class self-identification changed greatly in some OECD countries

Percentage of population reporting belonging to the middle class, 2000 - 2017

Source: Latinobarometro for Chile, EKOS for Canada, Gallup for the United States. German General Social Survey (ALLBUS) for Germany, World Values Survey for Australia and Japan.
Most people self-identify with the middle class and live in middle-income households

Share of population in middle-income group (y-axis) and those who self-identify as “middle class” (x-axis), most recent year


Note: Middle income group: those between 75% and 200% of median income
The “global elephant” and the Chilean “hockey stick”

Annual growth incidence curve

Housing prices have increased faster than middle incomes

Average evolution of real incomes and housing prices in OECD countries, 1980-2013 (1980 = 100)

Source: Data from OECD.stat, real median income and real house price.
• **Governments** in OECD countries are increasingly concerned with policies that provide a better deal for the middle class

• OECD middle class experienced **less growth** than the “global middle class” and the “global elite”

• Middle income households are **older** and have **fewer children today than in the past**

• **Middle-skill jobs decline** has been compounded by the spread of non-standard work and fears of job automation

• Middle-income families are **struggling** to maintain their standards of living and make ends meet
ADRESSING SOCIAL MOBILITY
What is mobility?

**Intra-generational**

**Inter-generational**
More and more people believe that social mobility has declined over time.

**Changes in 5 past years: household financial situation**

- **2011**: 20% got worse, 34% stayed the same, 46% improved.
- **2014**: 17% got worse, 38% stayed the same, 45% improved.

**"How important is having well-educated parents to get ahead?"**

- 1987: 31% important, 29% not important, 40% same.
- 1992: 35% important, 29% not important, 36% same.
- 2009: 38% important, 25% not important, 37% same.

OECD report on Social Mobility
the bottom lines

There is **no trade-off between inequality and mobility** – unequal societies are often less mobile.

Societies lack of mobility because there is **more rigidity at the bottom and especially at the top.**

There is **no sign of greater income and social mobility today** than two decades ago.

Prospects of upward mobility matter for people’s **well-being**, in particular **life satisfaction**, their **trust in societies** and future prospects.

A lack of social mobility – or its perception - can have **social, political and economic** consequences.

Policies should aim at ensuring fair and equal **opportunities** for all. Social mobility is about incomes, but also about the transmission of health, education and social class over generations.
Greater inequality is not associated with larger mobility

Average income inequality and inequality of averaged incomes (4 years)

Data refer to the working-age population (18-65). Data refer to 2011-2014 for all countries except Switzerland (2009-2012), Japan, Germany, the United Kingdom and Ireland (2010-2013) Turkey (2008-2011) and Chile (2006-2009). For the United States, as data is collected on a biannual basis, the result is based on the average between results for a 3 year- and a 5 year-panels. Source: Cross-National Equivalent File (CNEF), Ohio State University, European Survey on incomes and living conditions (EU-SILC), Eurostat, National Statistics on Incomes and Living conditions (SRCV) for France, Income and Living Conditions Survey, Panel Casen Survey, Chan et al. (2017) for China. OECD Secretariat calculation.
Relative income changes at the bottom and the top of the distribution

Sticky floors at the bottom

Glass floors at the top

Sources: EU-SILC, CNEF, SRCV, KHPS, CASEN, NIDS
Possible drivers of low-income persistence

Unemployment rate

Temporary employment

Early school leaving

Drivers of income mobility

- **Labour market** and household events
- **Asymmetry** in the magnitude of the impact of labour market events
  - positive labour market events have a direct impact on income
    - the quality of job matter
  - negative shocks - cushioned by safety nets
- **Divorce and child birth** can have a negative impact

**Large income losses when losing a job**

**Large income losses when getting divorced**

Sources: EU-SILC and CNEF
Income dynamics and mobility over the life course: Key findings

• The **rank order** of countries with regard to inequality **remains** even when incomes are considered over a longer time period.

• There is **less mobility today** than in the 1990s.

• There are **sticky floors** at the bottom and **glass floors** at the top.

• Positional income mobility in **emerging economies** is not higher than in a typical OECD country – but there is more of a sticky floor.

• Individual income trajectories are heterogeneous. There is a lot of **unpredictability for incomes at the bottom** of the distribution.
What is mobility?

**Intra-generational**

**Inter-generational**

Diagram showing family relationships across generations.
Considerable amount of upward mobility in education, though declining

Percentage of people (non-students) whose educational attainment is higher than that of their parents (upward mobility)

Source: OECD PIAAC 2012 and 2015.
There are sticky floors in education in some countries

Likelihood of educational attainment if neither parents have upper secondary schooling

Source: OECD calculations from PIAAC, 2012 and 2015; NIDS for South, IFLS for Indonesia and LS for China
Parental health is associated with offspring health in all countries but only moderately.
Intergenerational persistence in earnings is strong in the OECD

Earnings elasticities between fathers’ and sons’, OECD and key partner countries

Source: OECD calculations based on the GSOEP for Germany, the PSID for the US. Based on the ECHP and EUSILC 2011 module using the two-sample two-stage least squares estimator for Austria, Belgium, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Greece, Italy, and the UK, based on the MHP and the EU-SILC 2011 module for Hungary, on CASEN for Chile. For other countries, estimates from Mendolia & Siminski (2015) for Australia, Chen et al. (2016) for Canada, Bratberg et al. (2007) for Denmark and Finland, Lefranc (2011) for France, Kim (2013) for Korea, Lefranc et al. (2012) for Japan, Jantti et al. (2006) for Norway and Sweden, Gibbons (2010) for New Zealand, Bauer (2006) for Switzerland, Mercan (2016) for Turkey, Chyi et al. (2014) for China, Ramirez-Zuloaga (2016) for Colombia, Hnatkovska et al. (2012) for India, Piraino (2014) for South Africa, Guimaraes Ferreira and Veloso (2006) for Brazil. All estimates except for Canada, Denmark, Finland, Norway and Sweden are based on two-sample two-stage least squares estimator.
Higher inequality may fuel lower social mobility

Far from perfect social mobility
Children's earnings depend on parents' earnings

Mobility negatively correlated with income inequality
But the association is weak, esp. across European countries

Intergenerational earnings mobility

Source: OECD 2017, forthcoming. Note: Data refer to mid to late-2000s up to 2012. Intergenerational earnings mobility is proxied by the degree to which sons' earnings are correlated with that of their fathers.
Income inequality reflects inequality of opportunity

Intergenerational elasticity between father and son earnings across regions in Chile

Gini after taxes and transfers vs. intergenerational earnings mobility
Bringing the different dimensions of intergenerational mobility together

- Some countries / country groups fare better with regard to social mobility in all dimensions while the ranking of others depends on the particular dimension

<table>
<thead>
<tr>
<th>Dimension of relative mobility</th>
<th>Earnings</th>
<th>Occupation</th>
<th>Education</th>
<th>Health</th>
</tr>
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<tbody>
<tr>
<td>Nordics</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>high</td>
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<tr>
<td>LACs/EEs</td>
<td>low</td>
<td>-</td>
<td>low</td>
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<tr>
<td>Central European</td>
<td>low</td>
<td>low to avg</td>
<td>low</td>
<td>varies</td>
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<tr>
<td>Southern European</td>
<td>high (exc. IT)</td>
<td>low</td>
<td>low</td>
<td>avg</td>
</tr>
<tr>
<td>France</td>
<td>low</td>
<td>low to avg</td>
<td>avg</td>
<td>avg</td>
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<tr>
<td>USA</td>
<td>avg</td>
<td>high</td>
<td>high</td>
<td>low</td>
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<tr>
<td>Korea, Australia</td>
<td>avg</td>
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<td>varies</td>
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<tr>
<td>Canada</td>
<td>high to avg.</td>
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<td>UK</td>
<td>avg</td>
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<td>low</td>
<td>average</td>
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Key findings

- Absolute *educational mobility has declined* for the most recent generation

- High chances of upward mobility for those with lower educated parents, but with only *limited chances of achieving tertiary education*

- Parental *health* is associated with offspring health but only moderately

- *Earnings mobility* from one generation to the next is *low in Chile* and Central Continental European countries, and highest in the Nordic countries. It is very low in the Emerging Economies.

- There is *high persistence in the top* of the earnings distribution with 40% or more of the sons of rich fathers remaining in the top quantile.
Policy conclusions
Reform social protection (cash and in-kind) to adapt to changing labour markets

Review taxation, e.g. forms of wealth taxes such as inheritance taxes

Consider tax credits for low-income households

Current challenges for Chile

- Strengthen social spending
- Broadening the tax base for PIT
- Take income volatility into account (esp. at the bottom)

Examples

- **The United States** Earned Income Tax Credit (EITC) has been credited with reductions in poverty and is also related to better health of children in recipient families through three channels: family income, maternal employment, and health insurance coverage.

- **Finland** and other countries started reflexions and public debate about feasibility and effectiveness of a universal basic income.
Improving equity in education

- Invest in (affordable) early high-quality education and care and support to parenting skills
- Promote equal opportunities at school by supporting disadvantaged schools
- Encourage more equal access to higher education, especially to top schools

Challenges for Chile

- Develop high-quality childcare services
- Improve inclusiveness of education and maintain efforts to improve the performance of students

Examples:

- Support of mobility of school teachers and principals across school in Japan and Korea
- Specially-trained teachers to support struggling students in Finland
- Equal or greater educational resources in Canada provided to immigrant students
Closing the **gender** gap

- Removing obstacles that limit women’s paid work and participation in the labour market
- Promote work-life balance, including smart workplace flexibility measures both for fathers and mothers
- Ensure equal pay

**Current challenges for Chile**

- **Fight discrimination**, for example by empowering well-resourced specialized bodies to investigate compliance with regulations
- Develop high-quality childcare services
- Promote women in leadership positions in parliament and private companies

**Examples**

- Campaign “Equilibrium Man Challenge” in **Australia**: web campaign about the work life balance of men who took up flexible work arrangement for care reasons.
- **Australia** and **Chile** started to include disclosure requirements in their corporate governance codes and regulations compelling corporations to reveal the gender balance on their boards.
- In **Austria**, pay transparency rules have been implemented in 2011 and evaluated in 2015. Companies are required to report pay and indicate the minimum wage in job vacancies at the time of hiring.
Improving job quality and career mobility

- Strengthen active labour market policies to support returns to employment
- Ensure access to lifelong learning for the low-skilled
- Find the right balance between labour market flexibility and career mobility

Current challenges for Chile

- Reduce informality
- Strengthen and streamline collective bargaining
- Improve workers training and lifelong learning system
- Increase spending in ALMPs

Examples

- Single standard contract applying only to new employment contracts, with employment protection increasing with tenure (Italy)
- Work experience phase, Australia: measures to help long term unemployed based on skills acquisition and work experience
- Intensive and specific case management and interventions, such as the individualised action plans and employment service centres in Japan.
- France introduced a compte personnel d’activité in 2017 (Individual training account) which regroups the individual learning account, and gives entitlements for training.
¡Muchas gracias!

New release on February 26th, by the Secretary General in Santiago