UNIVERSITY OF OXFORD

Institute for
New Economic Thinking
AT THE OXFORD MARTIN SCHOOL

LIVING STANDARDS, INEQUALITY, AND GROWTH

GLOBAL ECONOMIC SYMPOSIUM 2015

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Introduction (1)

Monitoring how "ordinary" households are faring

- Inequality is on the rise while transmission of growth is said to be poor (Stiglitz, 2012)
- GDP per capita is (1) an average that (2) might not fully transmit
- Yet, inequality scalars and top shares (1) only map the distribution, (2) top share information is pre-tax, and (3) do not reveal where inequality change took place

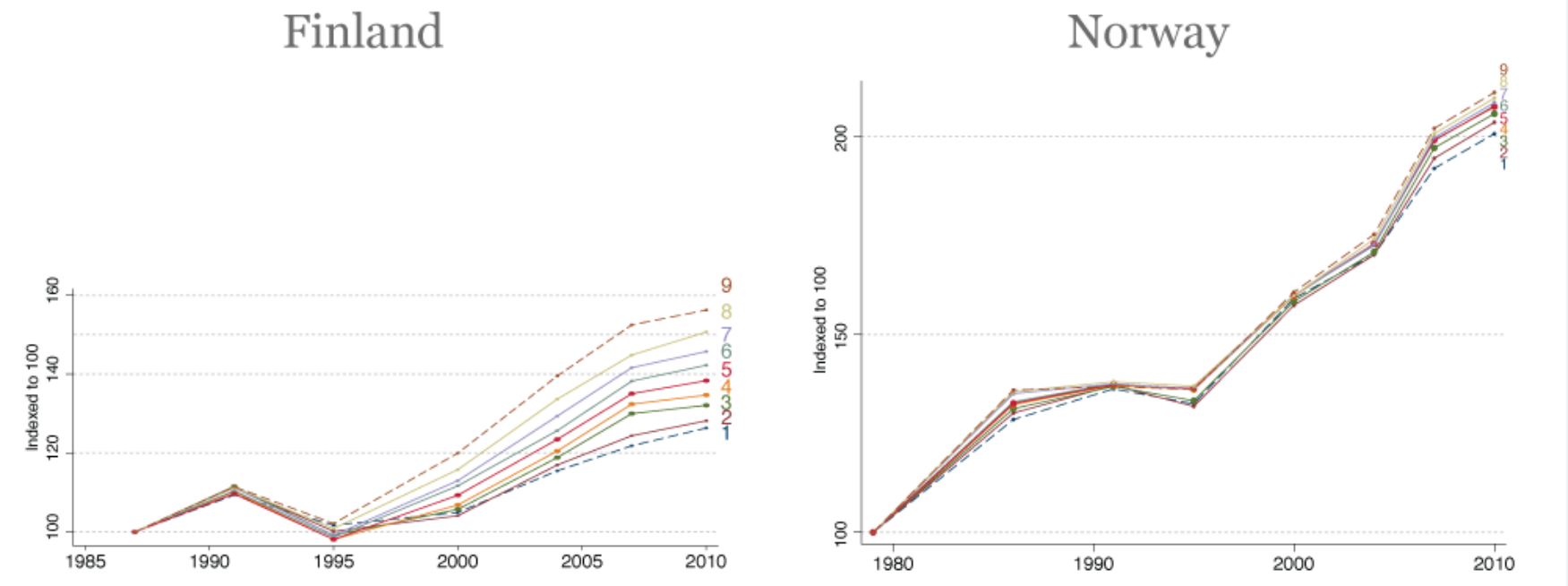
Introduction (2)

Contributions or "solution proposal"

- Moving beyond inequality and economic growth, by bringing in living standards
- Related to discussions on "inclusive growth" (OECD) and "shared prosperity" (World Bank)
- Substantial variation in levels and growth rates of living standards across countries and periods
- 32 countries, 1975-2013, LIS and OECD

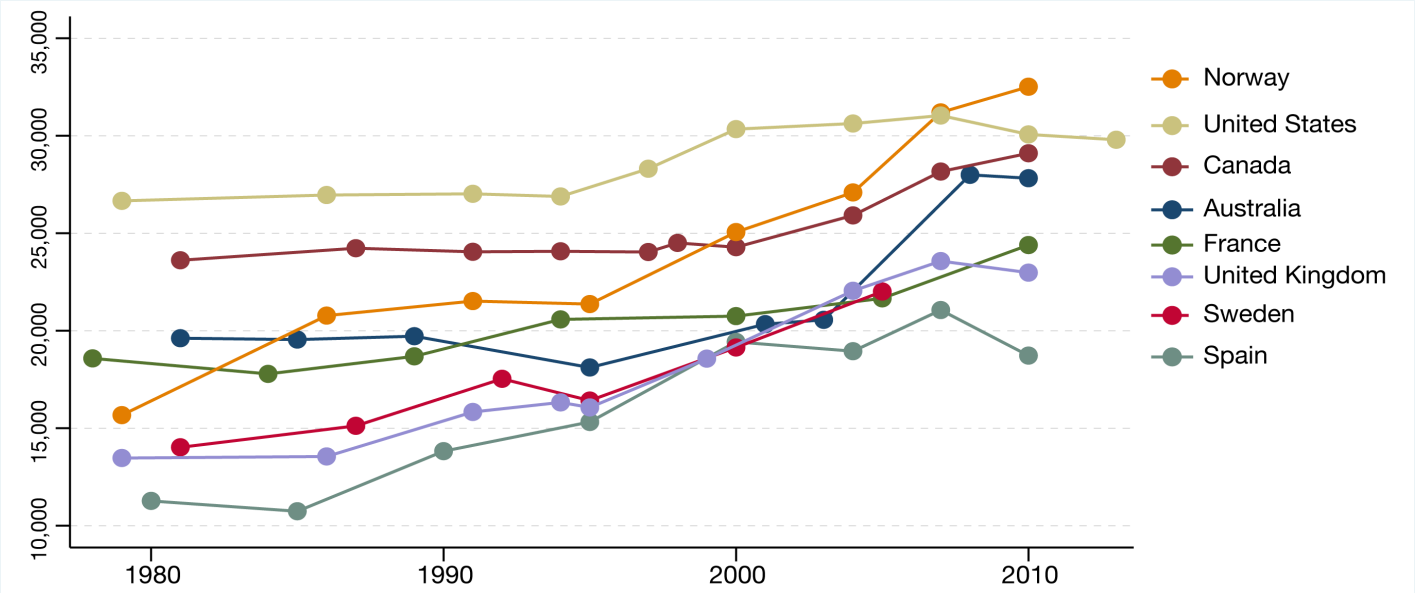
Growth rates vary significantly

- On average 1.2% (p10), 1.5% (median), to 1.7% (p90)
- Variation across deciles, countries, and periods

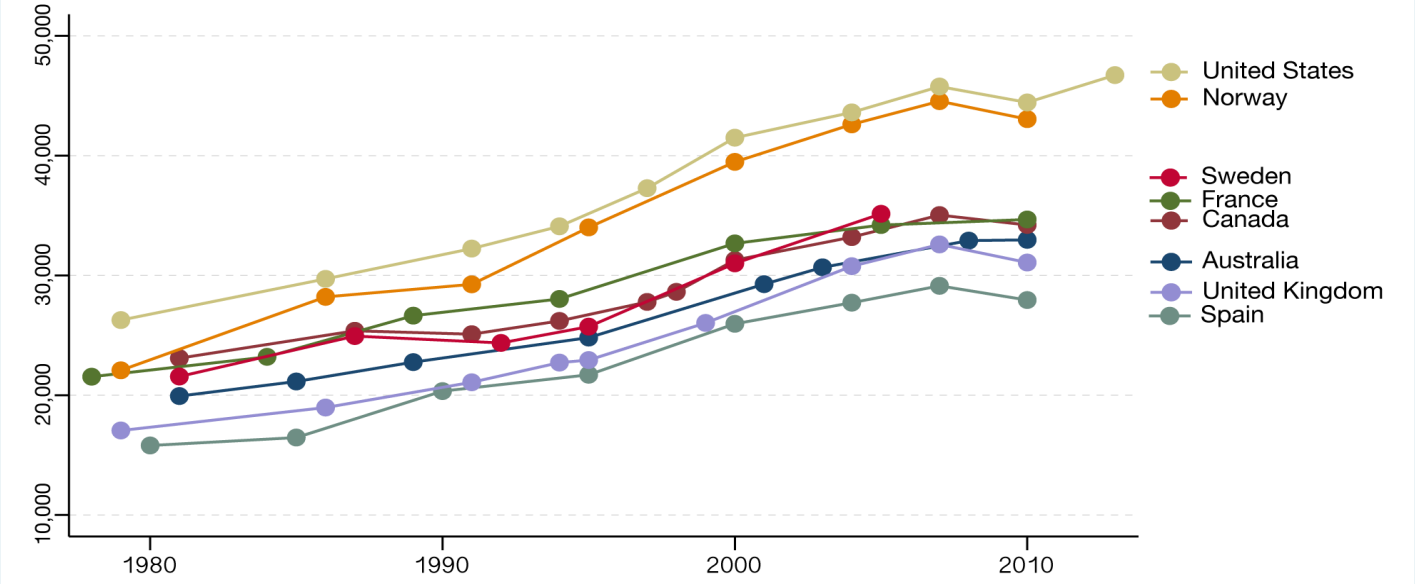


Economic growth

Median



GNI per capita



Inequality

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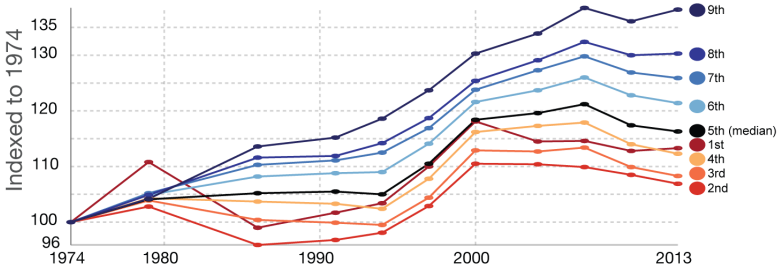
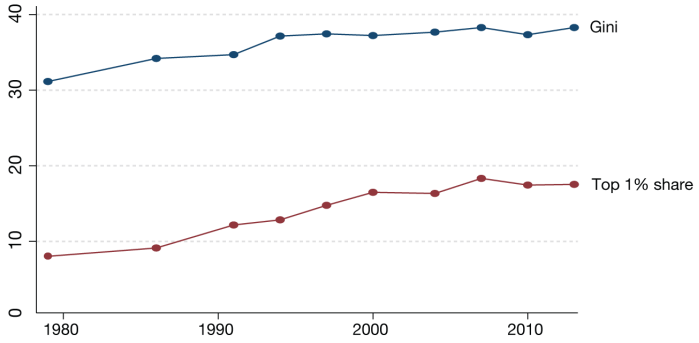
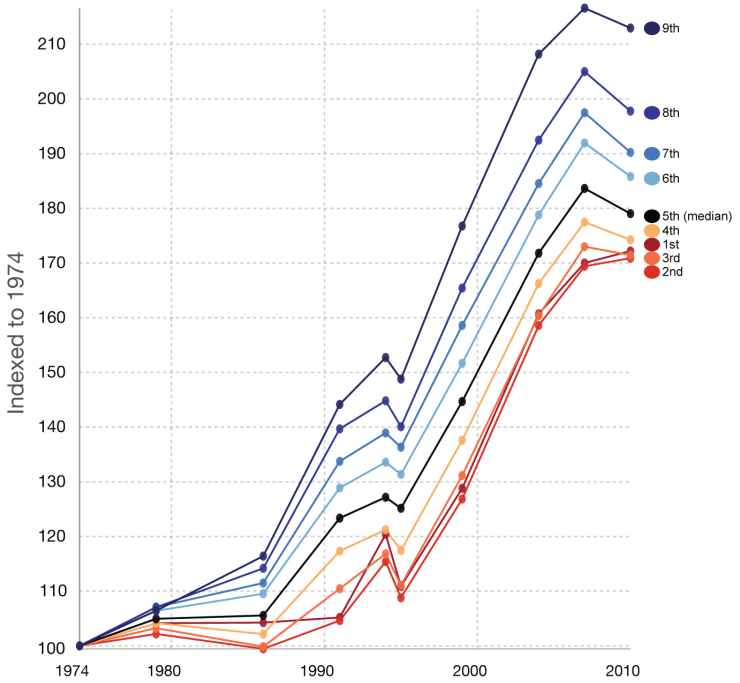
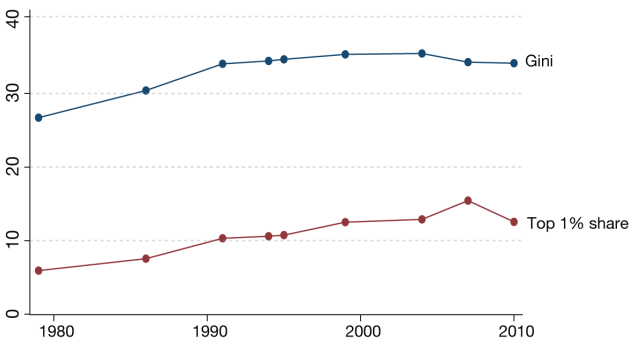
USA





United Kingdom





Inclusive-exclusive growth (1)

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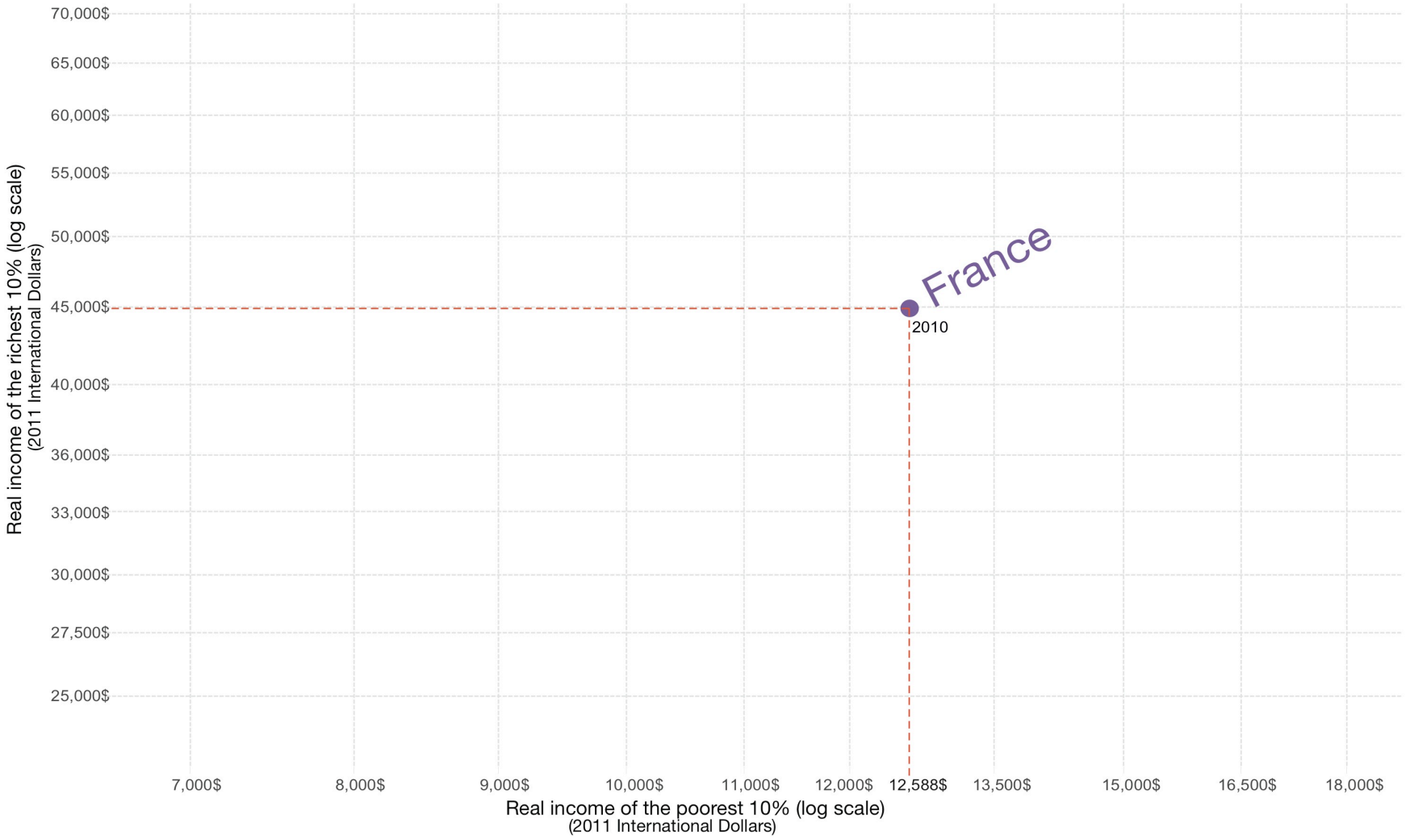
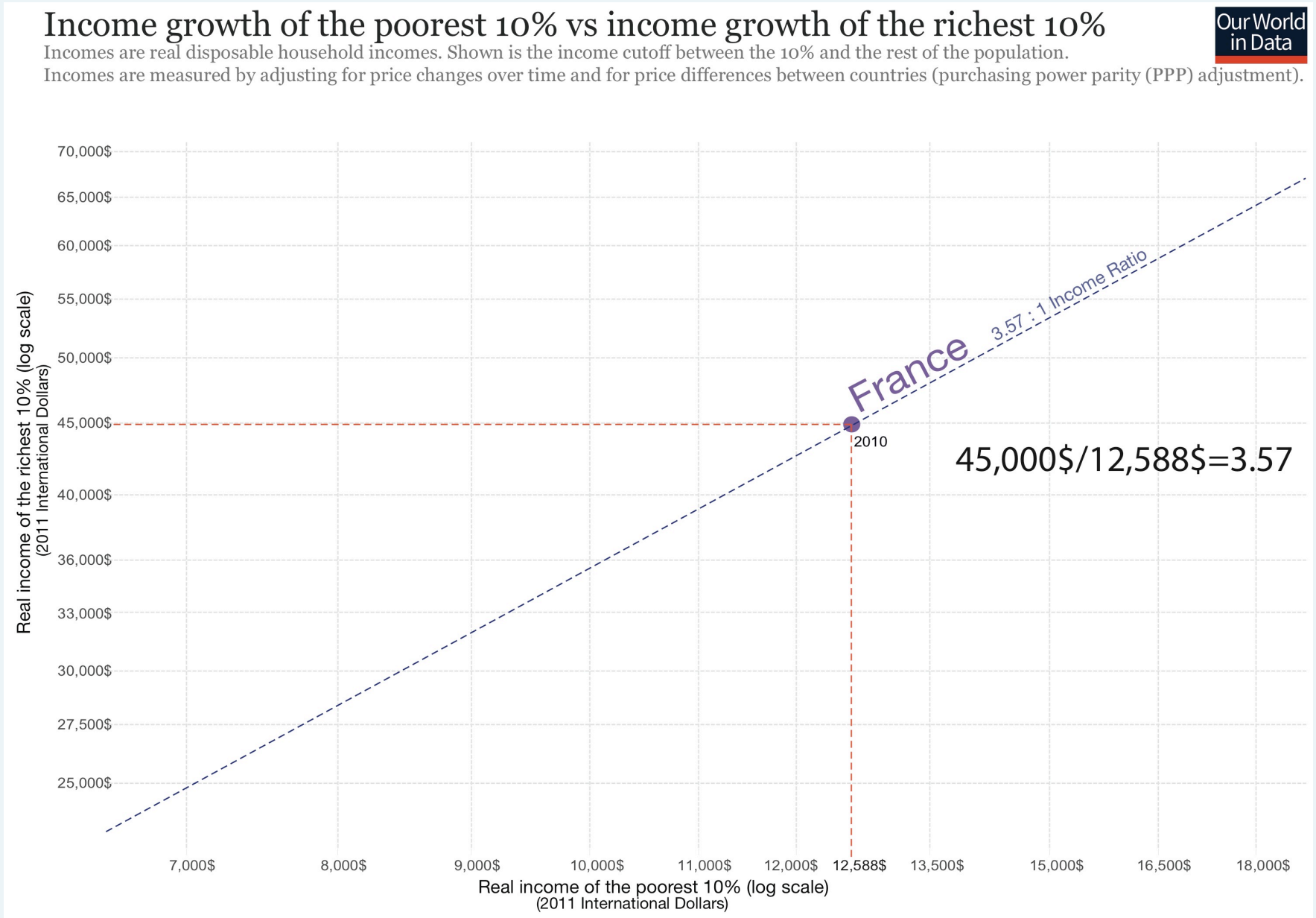
Income growth of the poorest 10% vs income growth of the richest 10%

Incomes are real disposable household incomes. Shown is the income cutoff between the 10% and the rest of the population.
Incomes are measured by adjusting for price changes over time and for price differences between countries (purchasing power parity (PPP) adjustment).

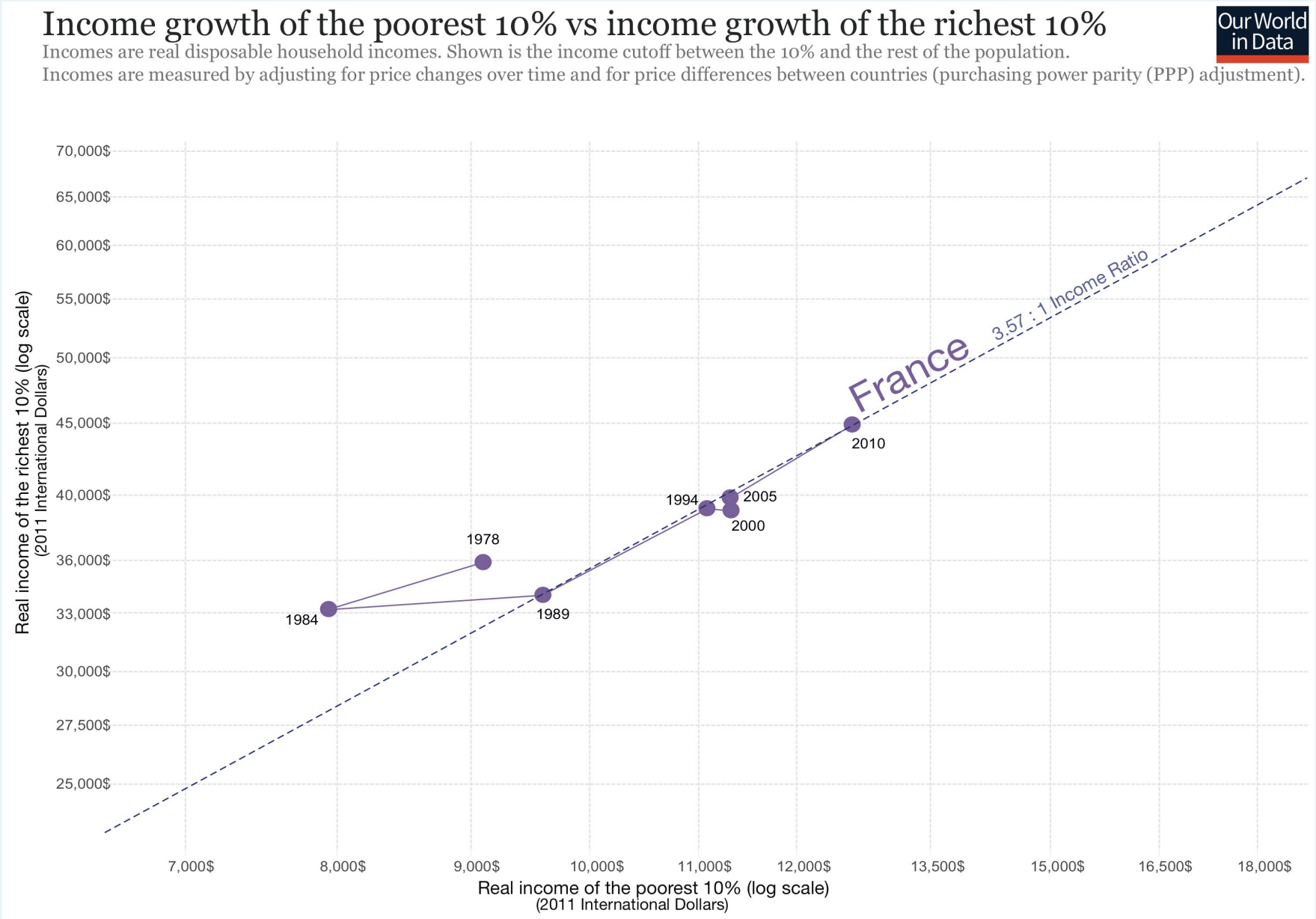
Our World in Data



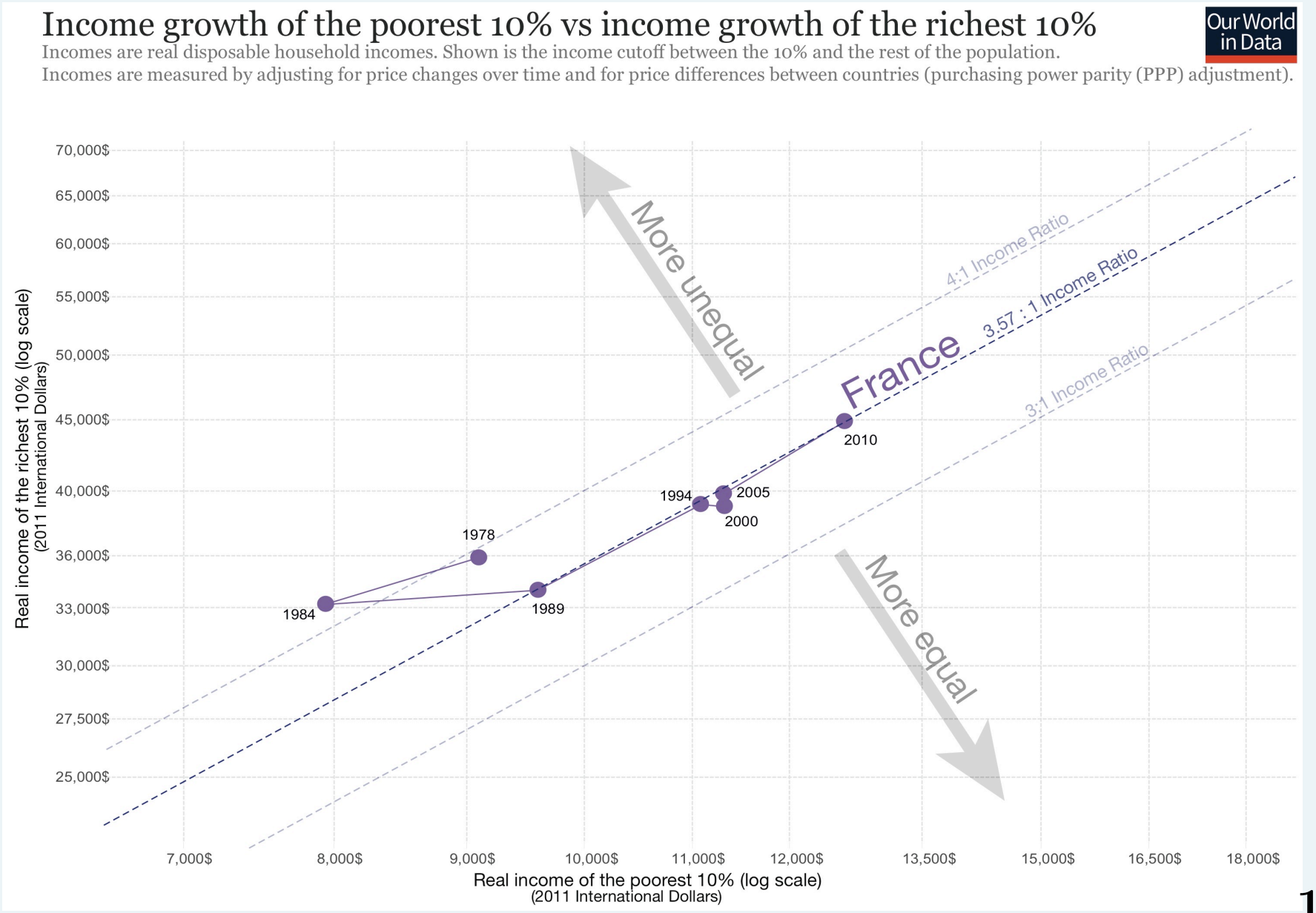
Inclusive-exclusive growth (2)



Inclusive-exclusive growth (3)

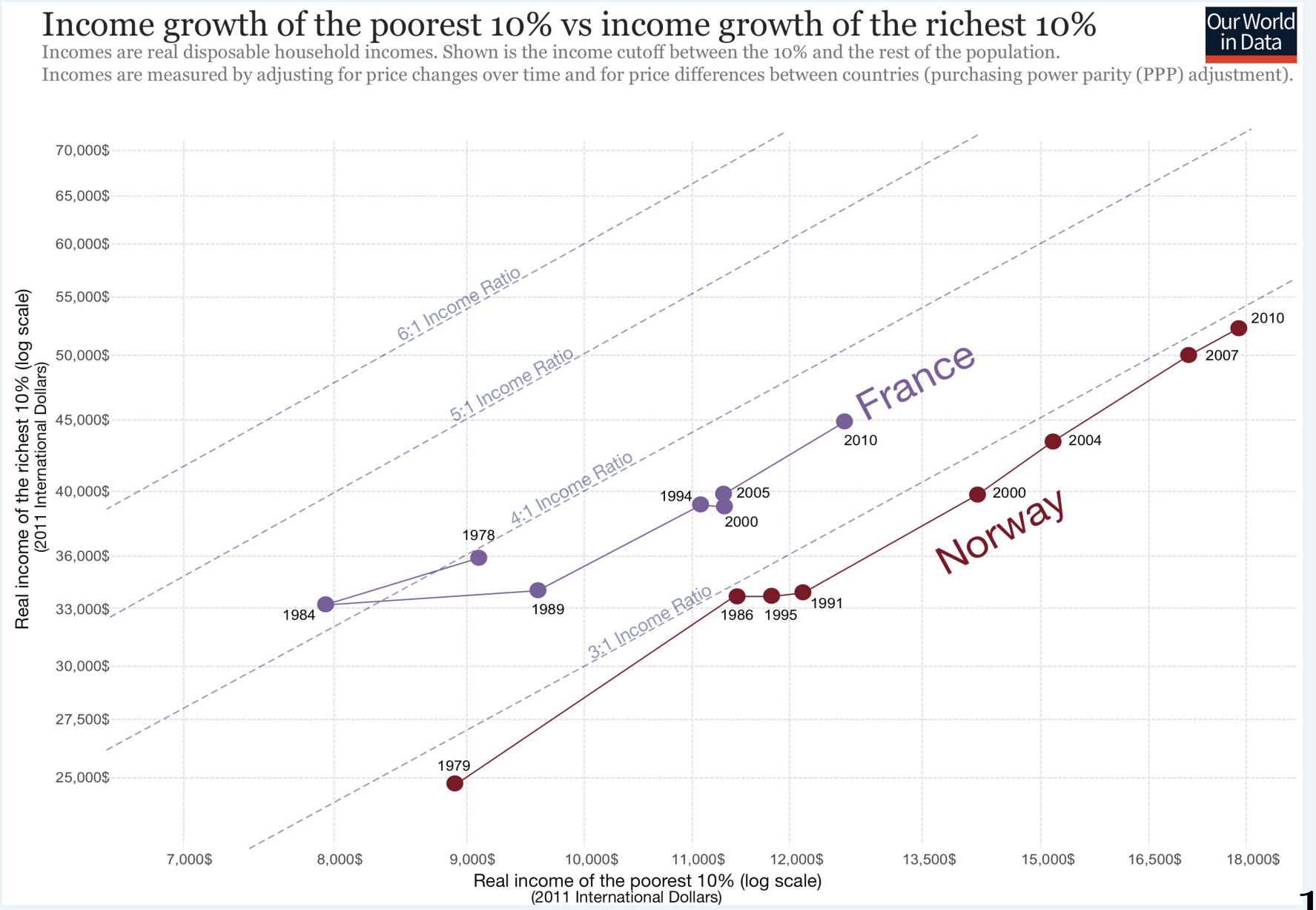


Inclusive-exclusive growth (4)

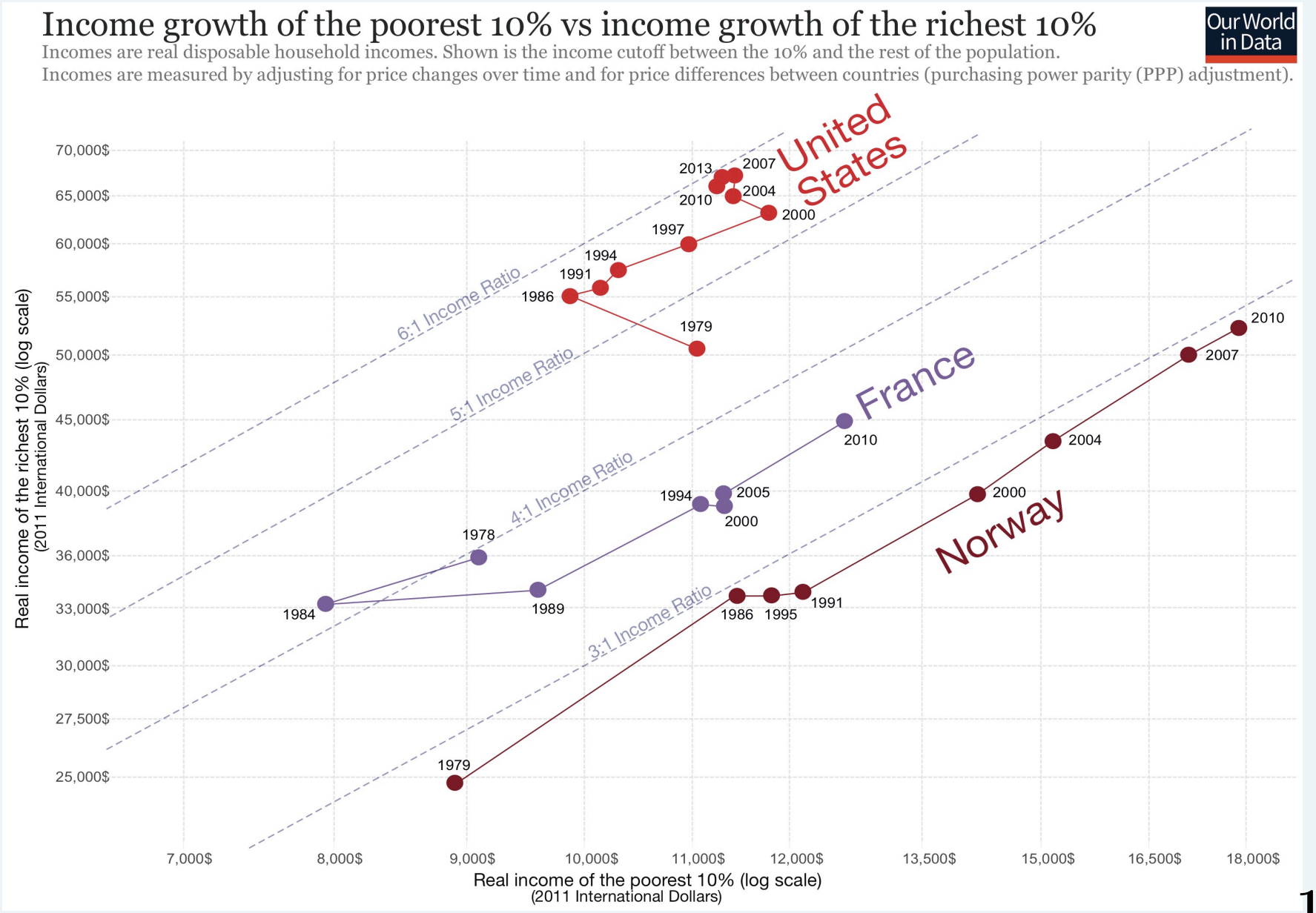


Inclusive-exclusive growth (5)

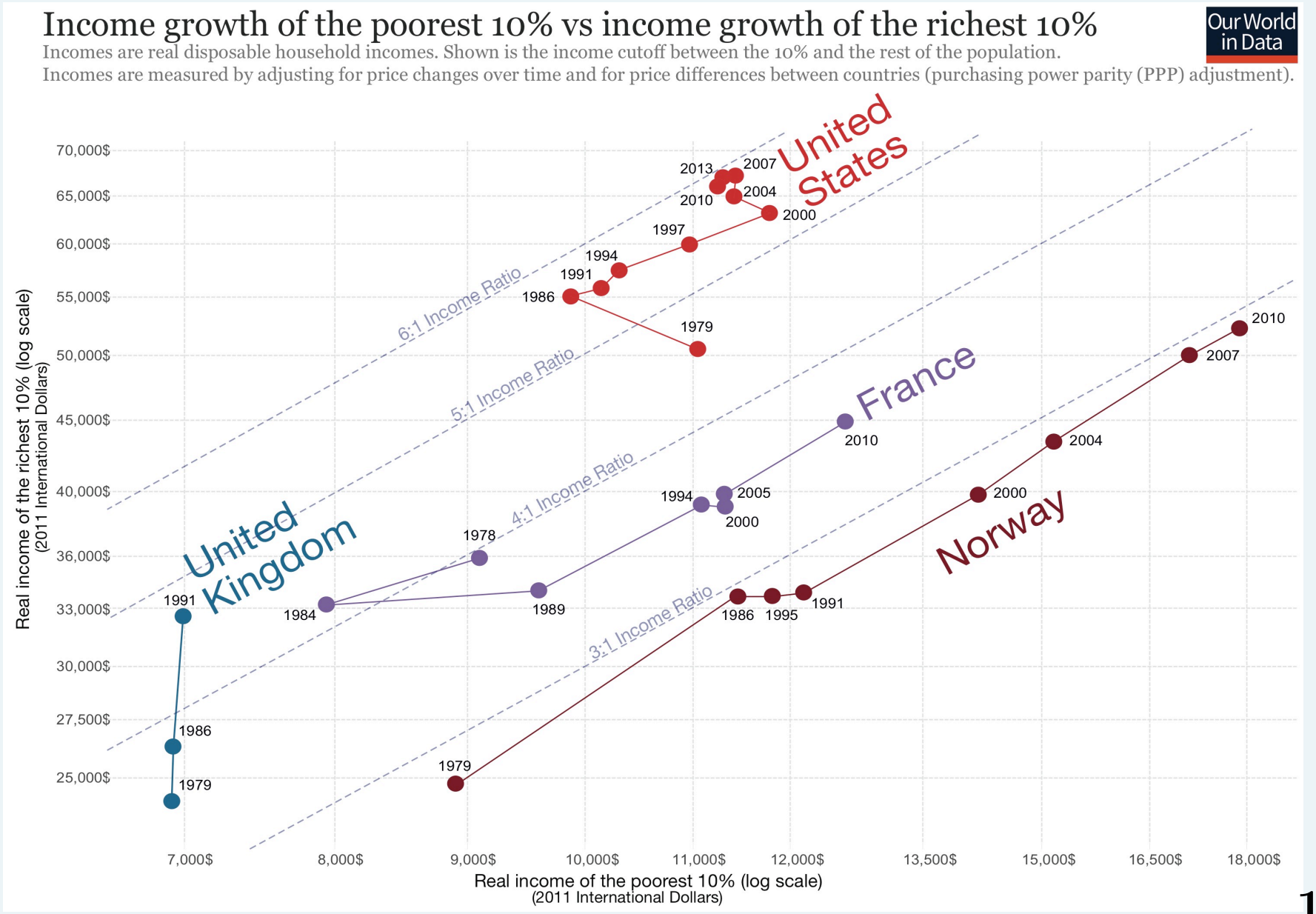
Inclusive-exclusive growth (6)



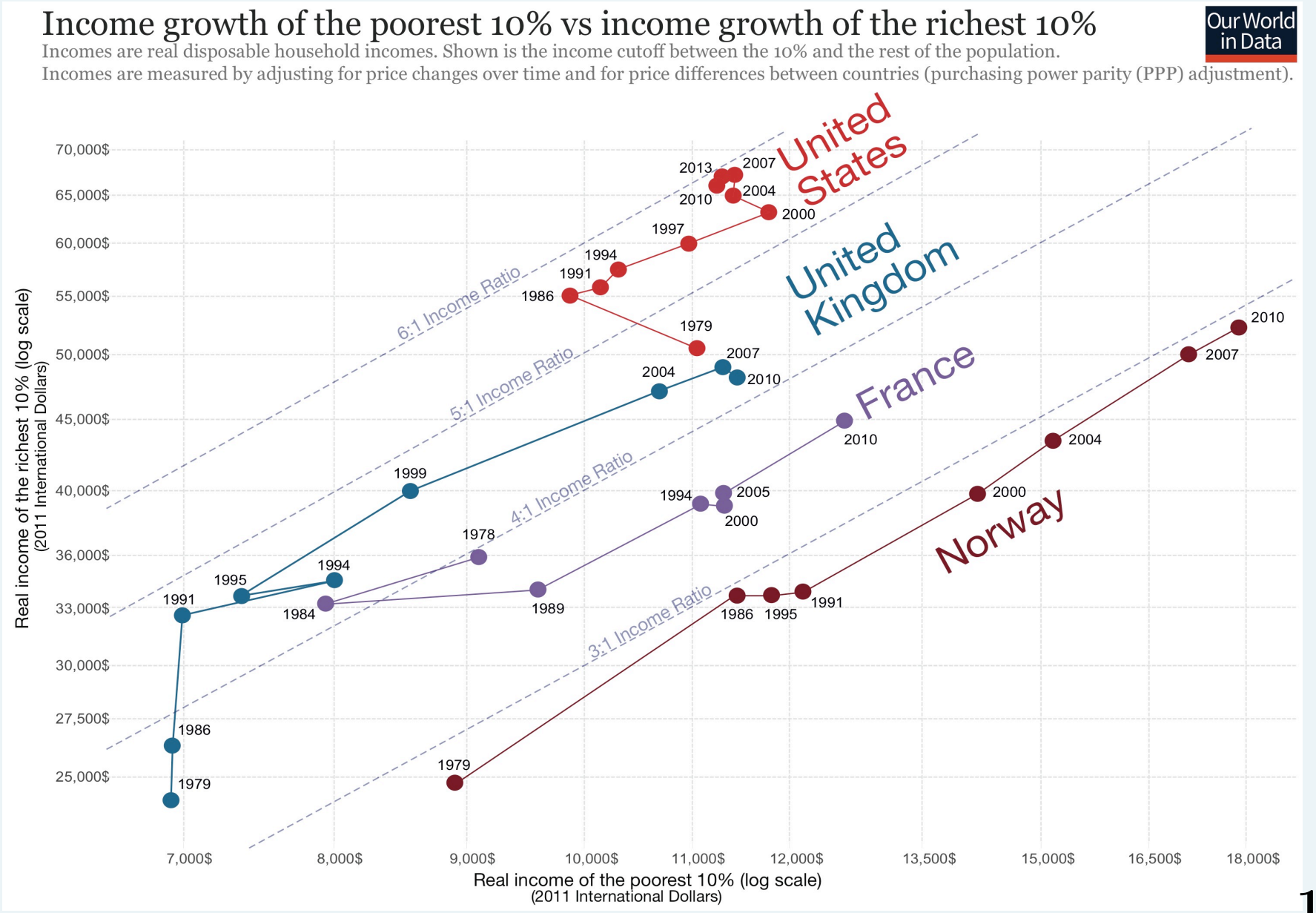
Inclusive-exclusive growth (7)



Inclusive-exclusive growth (8)



Inclusive-exclusive growth (9)



Simple OLS regressions in differences

- Negative association with inequality
- GNI positively associated but elasticity is < 1
- Variation left unexplained

	(1)	(2)	(3)	(4)
Δ Growth	0.714***	0.708***	0.838***	0.812***
Δ Gini		-1.121*		-0.404**
Δ Top 1%			-1.793**	-1.557**
Constant	0.069	0.213	0.000	0.053
N	153	153	99	99
Adjusted R2	0.367	0.422	0.395	0.400

Conclusions

- Significant variation in trends in living standards at different deciles across countries and periods
- Inequality and growth separately do not provide information how middle and below households are faring
- Together they do – but variation is left unexplained
- Tracking living standards does a better job
- Requires better connection household data (income and inequality) and national accounts (growth)